



**Effects of outsourcing on the logistics performance of selected small and
medium manufacturing enterprises in Cape Town, South Africa**

By

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Declaration

I **Muela Arthur Claude Kulondi**, declare that the contents of this dissertation represent my own unaided work, and that the dissertation has not previously been submitted for academic examination towards any qualification. Furthermore, it represents my own opinions and not necessarily those of the Cape Peninsula University of Technology.

Signed

Date

Abstract

South Africa for more than three decades has been described as the economic capital of Africa because of its level of industrialization, production, interactions and business transactions with other companies locally, nationally, regionally and globally. This situation goes hand in hand with the continual emergence in South Africa of business organizations, notably major international groups or their subsidiaries, other foreign or national large corporations, as well as small and medium enterprises (SMEs).

The SME sector has significantly emerged in industries such as retail and manufacturing that produce a wide variety of consumer goods and related services. They produce services and goods that are destined for both local and international consumption. Similarly, they are also sourcing goods and services from local or international suppliers. Consequently, SMEs are involved in a complex supply chain management challenges and are exposed to the chain's intense logistics activities.

The main objective of this study was to determine how outsourcing can improve effectively the logistics performance of wine producing SMEs in the manufacturing sector. The findings from the interviews conducted with 16 personnel responsible for logistics performance from selected small and medium wine producers in Constantia, Stellenbosch, and Paarl, offer support for the assumption that outsourcing is a key to logistics performance in SMEs. The general outcome of the study suggests that logistics performance of SMEs is dependent on their ability to manage outsourcing of logistics services.

Thus, knowing beforehand the “what for” of outsourcing is very important determinant for driving logistics performance, especially defining, assessing and measuring the performance objectives the SMEs expect from outsourcing and choosing logistics partners that can meet these objectives.

Key Words: Small and Medium Enterprises, logistics performance, outsourcing, logistics outsourcing

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- My family and friends, with a special mention to Donald Keeling Shelton.

Dedication

“Le mérite modeste vient du savoir, et le savoir de l'étude” **Pierre-Jules Stahl (1841).**

“But You, O LORD, *are* a shield for me,
My glory and the One who lifts up my head.” (**Psalm 3:3**)

I dedicate this thesis to:

- My Almighty God, Jesus Christ of Nazareth,
- All my Children, daughters and sons KULONDI,
- And all my Dears.

KULONDI MUELA Arthur Claude.

Table of Contents

Declaration	i
Abstract	ii
Acknowledgements	i
Dedication	ii
Table of Contents	i
List of figures	i
List of tables	i
Clarification of basic terms and concepts.....	ii
List of acronyms and abbreviations	iv
CHAPTER ONE: GENERAL INTRODUCTION.....	2
1.1 Introduction	2
1.2 Background to the research	4
1.3 Statement of research problem	7
1.4 Research objectives	8
1.5 Research questions	8
1.6 Significance of research	10
1.7 Delineation of research.....	10
1.8 Overview of research design and methods.....	11
1.8.1 Population under study.....	11
1.8.2 Sample: size, frame and sampling method.....	11
1.8.3 Research instrument and data analysis.....	11
1.9 Ethical considerations	12
1.10 Summary.....	12
CHAPTER TWO: LITERATURE REVIEW	14
2.1 Introduction	14
2.2 An overview on SMEs	14
2.2.1 Definition and Nature of SMEs	15
2.2.2 SME Sector in South Africa	17
2.3 SMEs and logistics management	19
2.3.1 Logistics and its importance in SMEs	19
2.3.2 Managerial logistics in SMEs.....	21
2.3.3 Logistics performance in SMEs	23

2.4	Logistics outsourcing	26
2.4.1	An overview on outsourcing and outsourcing in logistics	27
2.4.2	Determinants of logistics outsourcing	30
2.4.3	Logistics outsourcing management	32
2.5	Improving logistics performance through outsourcing	38
2.5.1	Logistics performance metrics	38
2.5.2	Implications of outsourcing in logistics performance process.....	39
2.6	Summary.....	44
CHAPTER THREE: RESEARCH METHODOLOGY		47
3.1	Introduction	47
3.2	Research design	47
3.2.1	Choosing the qualitative design.....	48
3.2.2	Research approach.....	48
3.2.3	Research paradigm.....	49
3.3	Research strategy	49
3.3.1	Choosing case study as research strategy	49
3.3.2	Brief view on case studied.....	50
3.3.3	Selected wine regions for study interest	52
3.4	Population and Sample	53
3.4.1	Defining the population.....	53
3.4.2	Sampling: Frame, method and size	54
3.4.3	Sample unit and unit of analysis	55
3.5	Research methods	56
3.5.1	Data source.....	56
3.5.2	Data collection technics.....	57
3.5.3	Data collection process	57
3.5.4	Data analysis.....	58
3.6	Ethical consideration	59
3.7	Summary.....	60
CHAPTER FOUR: ANALYSIS AND DISCUSSION OF FINDINGS.....		62
4.1	Introduction	62
4.2	Empirical Findings on the outsourcing of logistics in wine industry	62
4.3	Key notes on findings	78

4.4	Summary.....	79
CHAPTER FIVE: GENERAL CONCLUSION AND RECOMMENDATIONS		81
5.1	Introduction	81
5.2	Research Objectives revisited	81
5.2.1	Logistics Outsourcing Process in SMEs	81
5.2.2	Drivers and Determinants of Logistics outsourcing decisions in SMEs	82
5.2.3	Implications of outsourcing on the logistics systems of SMEs.....	82
5.3	Conclusion and recommendations	83
5.3.1	Conclusion on findings	83
5.3.2	Recommendations	84
5.4	Research contribution	85
5.5	Limitations and suggestions for further research.	86
5.6	Summary.....	86
LIST OF REFERENCES.....		88
APPENDIX A: CPUT ETHICS APPROVAL CERTIFICATE		98
APPENDIX B: SAMPLE OF CONSENT LETTER.....		99
Appendix C: INTERVIEW COVERING LETTER.....		100
APPENDIX D: IINTERVIEW GUIDE		101
APPENDIX E: LETTER FROM GRAMMARIAN (EDITING & PROOFREADING		103

List of figures

Figure 1. 1: Graphical representation of Chapter 1	1
Figure 2. 1: Graphical representation of Chapter 2	13
Figure 2. 2: Porte's generic value chain.....	20
Figure 2. 3: Pyramid of logistics outsourcing evolution	29
Figure 2. 4: Logistics outsourcing process management model.....	33
Figure 2. 5: Logistics outsourcing process management model.....	34
Figure 2. 6: The 3C Logistics outsourcing relationship management model	36
Figure 2. 7: Model of implications of outsourcing logistics on logistics performance	42
Figure 3. 1: Graphical representation of Chapter 3	46
Figure 3. 2: Image of a wine farm in Stellenbosch	51
Figure 3. 3: Map of wine regions in the Western Cape Province.....	53
Figure 3. 4: image of sampling	54
Figure 4.1: Graphical representation of Chapter 4	61
Figure 5.1: Graphical representation of Chapter 5	80

List of tables

Table 1. 1: South Africa trade Statistic, 2012 - 2016	5
Table 1. 2: South Africa global ranking logistics performance index	6
Table 1. 3: South Africa logistics Statistic, 2013 - 2016	6
Table 1. 4: Summary of research question, sub-questions and objectives.....	9
Table 2. 1: Comparison of SME definition factors as on 1st of June 2017	16
Table 2. 2: Currency parity on the 1st of June 2017.....	16
Table 2. 3: Summary of criteria for SMEs definition in south Africa.....	17
Table 2. 4: Logistics performance equation	24
Table 2. 5: Logistics performance metrics	39

Clarification of basic terms and concepts

Logistics

“Logistics is the function responsible for the flow of materials from suppliers into an organization, through operations within the organization, and then out to customers”(Walters, 2003:5).

Logistics Management

“Logistics management is the process of planning, implementing, and controlling procedures for the efficient and effective flow of material including services, and related information from supplier to customers”(Harrison & Hoek, 2005:7).

Logistics outsourcing

Logistics outsourcing is the use of external logistics services providers (LSPs) to perform all or some of internal logistics activities.

Logistics partnership

Logistics partnership is long term relationship build on outsourcing agreement between 3PLs and logistics services buyers (Rushton *et al.*, 2012:560).

Logistics performance

Logistic performance is the fact of achieving required level of logistic services at a reasonable total cost of all involved elements in the logistic chain (Vrlíková & Tkáč, 2014).

Manufacturing organization

Manufacturing organizations are often Business oriented. They convert raw material or components into finished products through processes.

Small and Medium Enterprises (SMEs)

SMEs are not large operators. In South Africa, the National Small Business Amendment Act 26 of 2003 defines business according to five approaches. Further, the more operational approach is the **total gross value** (fixed property excluded). Based on this approach, SMEs in manufacturing sector are those with the total gross value ranking between R 0, 1 million to R200millions.

Third party logistics

Third Party Logistics (3PLS) is common terminology used to refer logistics service providers, providing multiple logistics services, often integrated. It refers to Third Party because of its position between suppliers and customers (Mangan *et al.*, 2012).

List of acronyms and abbreviations

Acronym/Abbreviation	Definition/Explanation
3PLs	Third Party Logistics
CPUT	Cape Peninsula University of Technology
CSCMP	Council of Supply Chain Management Professionals
EDI	Electronic Data interchange
EU	European Union
FMCG	Fast Moving Consumer Goods
GDP	Gross Domestic Product
KPIs	Key Performance Indicators
LPI	Logistics Performance Index
LSPs	Logistics Services Providers
SA	South Africa
SARS	South Africa Revenues Service
SCOR	Supply-chain operations reference
SEDA	Small Enterprise Development Agency
SMES	Small and Medium Enterprises
USA	United States of America
US\$	United States Dollars
WOT	World Organization Trade

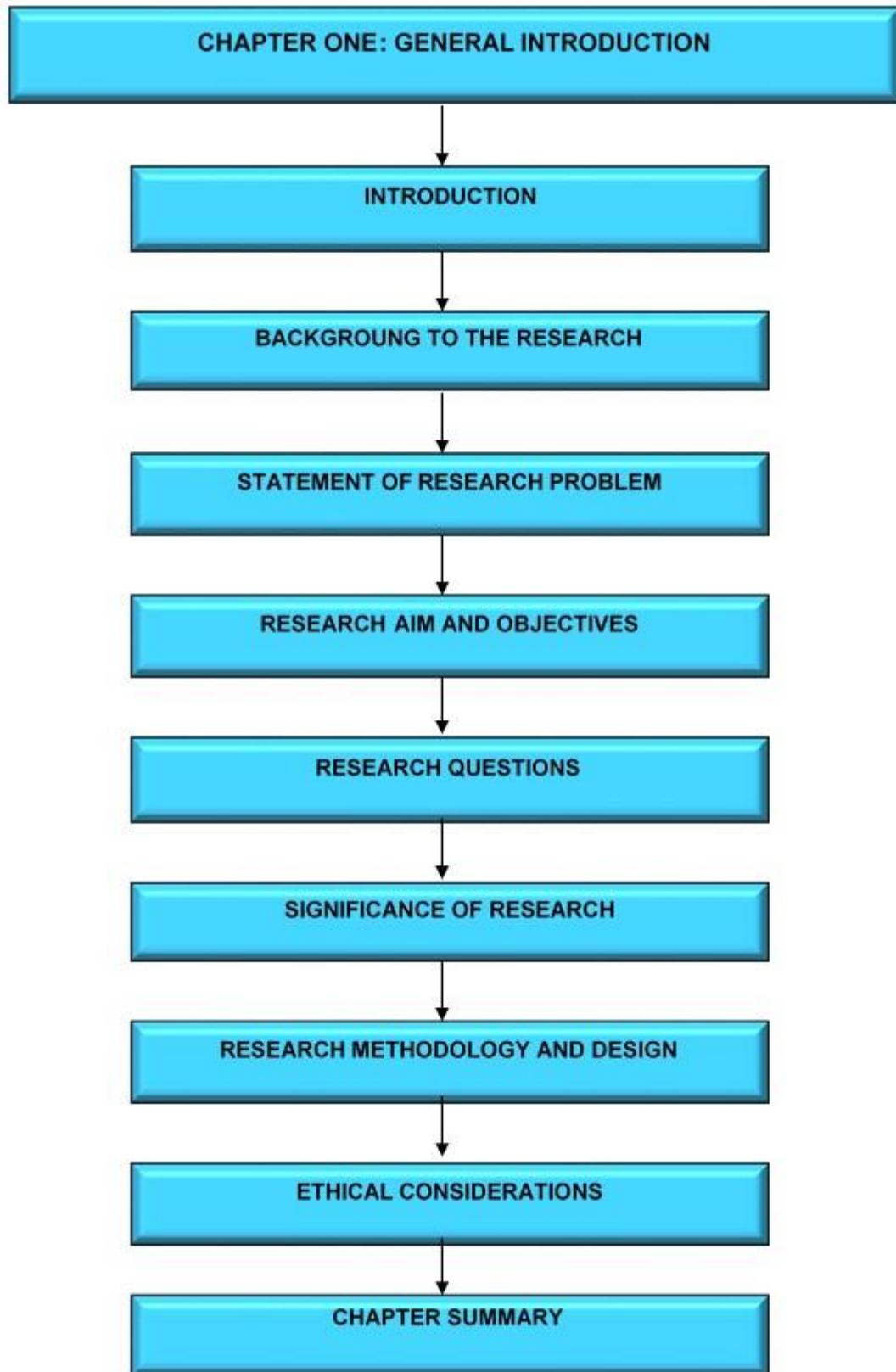


Figure 1.1: Graphical representation of Chapter 1

CHAPTER ONE: GENERAL INTRODUCTION

1.1 Introduction

At this time of paradigm change during which national and international exchanges and transactions continuously develop and global trends regularly evolve, logistics have become an undisputed 'battle horse' for countries, institutions and organizations. According to Massindao and Coelho (2014:2) "logistics in intra-organizational and inter-organizational functions is a prominent activity in companies, since this [logistics] plays an important role in supply management, both internally and externally". Thus, business and non-business organizations have integrated large supply chains, built basically on logistics.

As institutions and organizations continue to integrate, supply chains become more complex, and their function is ever more concerned with optimization. These supply chains are fundamentally concerned with the performance of logistics as the core of the supply chain. The optimization in logistics, also called 'performance', becomes a concern to many scholars, organizations. Researchers such as Vrlíková and Tkáč (2014), Cano-Olivos and Orue-Carrasco (2014:61) are concerned with Logistics performance at business organizations level. Whereas, international institutions such the World Bank are concerned with logistics performance at countries level (Arvis *et al.*, 2016).

The Logistics performance at the business organization's level (micro perspective) that is the focus of this study, is managerial based and regards the ability [of organizations] to operate efficiently and effectively as the primary logistics objectives (Mentzer *et al.*, 2007:32). Whereas, the logistics performance at the countries' level (macro perspective) is more an economic approach and is mostly concerned with countries' logistical infrastructures and how well these allow them to import and export goods efficiently (Arvis *et al.*, 2016:1).

Furthermore, based on the relationship between import-export and logistics operations, the Logistics Performance Index of countries can sufficiently reflect how efficient organizations in this country operate their logistics activities). In the other words, the logistic performance at the macro level and micro level are inter-related. For instance, the total logistics cost associated with the country's GDP (macro level) is based on the logistics cost of several companies, organizations and institutions (micro level).

According to Mentzer *et al.* (2007:32), logistics performance at micro level lies in the achievement of logistics objectives. Although companies can set their logistics objectives differently, they all strive to achieve good results as a general perception of performance. For the purpose of this study the author has considered the most common sense of logistic performance which states that:

. “logistics performance is fundamentally achieved through a balance of required level of logistics services and reasonable total cost of all involved elements in the logistics chain”, (Vrlíková & Tkáč, 2014).

Currently, quality logistics performance is becoming the major objective to be achieved by all organizations. Especially from a business perspective, elements of performance, such as costs reduction and service quality improvement in operations, are the main goal for business organizations. Therefore, the relevant literature reveals that organizations are more than ever engaged in improving their logistics performance. They are looking for the best opportunities to eliminate logistics bottlenecks (Ross, 2003:300), and are increasingly involving outsourcing for this purpose. This view is supported by Langley and Capgemini (2016:11) who assert that, “to [achieve due] diligence relating to costs, investments and service levels ,companies are now looking for the specialized external Logistics Services Providers (LSPs) because they are also concerned with the prevailing shortages of asset-based services”.

Thus, the outsourcing of the logistics function offers to business organizations several benefits that can lead to improved logistics performance. For instance, in a strategic approach, logistics outsourcing allows business organizations to integrate the global logistics system, but also to benefit from LSPs’ expertise (Ross, 2003:300). More than a decade ago, Walters (2003:216) spoke of outsourcing as a way to improve logistics performance. Therefore, by outsourcing, logistics companies intend to benefit from the LSPs’ expertise, experience, assets capability and ability to achieve economies of scale, so that they can improve the service level and reduce the costs of logistics which will result in enhanced logistics performance.

Furthermore, in this age of global economy, characterized by increasing competition and customers’ requirements, reducing cost and improving service quality is not of interest only to large organizations, but also to SMEs, given their significant involvement and

interaction in the global arena. Therefore, outsourcing logistics becomes of high concern to SMEs because it is both a source of competitive advantage and a means of ensuring SMEs' sustainability. This fact is supported by the study of Khuyen (2009) on logistics outsourcing as a solution for SMEs in Vietnam, that explains the outsourcing function as the logistics backbone of SMEs. In addition, Foltys (2012), quoted by Vrlíková and Tkáč (2014), asserts that outsourcing is one of the concepts that develop the SME sector and stabilize its functioning. Likewise, Murphy *et al.* (2012:269) adds that, "outsourcing is a promising area of research with respect to small business growth".

Thus, on the basis of all of the above assertions, the aim of this study was to explore the effects of outsourcing on the performance of the logistics function by studying the case of selected SMEs in Cape Town, one of main cities in South Africa. Although outsourcing can have other effects on the logistics performance of companies, this study was concerned only with the effects of outsourcing, namely logistic cost reduction and improvement of service quality of SMEs as indicated by Vrlíková and Tkáč (2014). Finally, based on the findings of this study, the Author has proposed an outsourcing framework to guide logistics outsourcing that can drive logistics costs minimization and service quality improvement in SMEs as a fundamental requirement for logistics performance.

As an introduction to this dissertation, Chapter 1 presents the background to the research, the research problem, the main objective of the study as well as the main questions leading to the implementation of the objective and the attempt to address the problem. Further this chapter announces the metrology used to conduct the research.

1.2 Background to the research

According to Arvis *et al.* (2016:11) logistics performance is an important economic parameter, given that it impacts on economic growth through facilitation of international and domestic trade. He adds that, logistics performance is relevant for competitiveness in global ranking. Similarly, Havenga *et al.* (2016) support that logistics performance is the key enabler to compete in global markets. In the last two decades, the relevance of logistics performance may be demonstrated through the positioning of emerging

countries as revealed in different reports such as the global ranking Logistics Performance Index (LPI) published by the World Bank.

South Africa is one of the top emerging countries that is significantly involved in international trade and, consequently, is exposed to massive logistics activities in the local and global environments. The study of Havenga (2011) on trade facilitation through logistics performance demonstrates the extent to which South Africa is involved in international, regional and domestic trade, and highlights the relevance of logistics performance as the key to facilitate these trade transactions.

Up-to-date, the trade statistics from different sources indicate that the trend for South Africa's trade keeps increasing, which requires efficient and effective logistics for economic growth and competitiveness in global ranking. For instance, the trade statistics published by the South Africa Revenues Service (SARS) over the last five years as presented below in the Table 1.1, show the continual increase in trade values whether for import or export. In the same context, the South Africa's Imports' volume is projected to trend around 91674.30 ZAR Millions in 2020, and the Exports' volume to trend around 91893.77 ZAR Millions. ⁽¹⁾

Table 1.1: South Africa trade Statistic, 2012 - 2016

Years	Import Value per year	Export Value per year	Total value per year
2012	R 835,610,672,529	R 717,935,614,785	R 1,253,046,287,314
2013	R 995,868,489,850	R 925,961,402,693	R 1,925,829,892,543
2014	R 1,083,508,723,890	R 988,209,074,632	R 2,071,710,798,522
2015	R 1,087,686,676,286	R 1,039,053,145,850	R 2,126,739,822,136
2016	R 1,098,856,285,824	R 1,095,935,627,724	R 2,194,791,913,008

Source: SARS preliminary trade statistics (2012-2016)

Despite this trend, the performance indicators for logistics at the national level do not evolve coherently in South Africa. The extract of the Logistics Performance Index (LPI) published by the World Bank as summarized in Table 1.2, show a good ranking of South Africa essentially based on the effectiveness of logistics service quality (Arvis *et al.*,

⁽¹⁾ *South Africa Economic Overview & Trade Analysis (2016)*

2016:51). However, some evidence such as the study of Walt (2007:18) shows a decline during the recent years. The Author, demonstrated that, for more than a decade, South Africa has not traded efficiently from a logistical point of view due to the significant logistics costs incurred

Table 1.2: South Africa global ranking logistics performance index

Year	2010	2012	2014	2016
Ranking	28 th /160	20 th /160	34 th /160	20 th /160

Source: World Bank Logistics Performance Index (2010-2016)

Although several factors can be combined in this type of evaluation, Ghiani *et al.* (2013:12) indicate that, the logistics cost remains the culminating point in the logistics performance appraisal. However, many studies conducted on logistics performance in South Africa conclude negatively with regard to logistics cost. Havenga *et al.*,(2014) have predicted an uncertain future of logistics performance in South Africa due to rising costs. In the same context, Havenga *et al.* (2016:9) show the increase in logistics costs, and its effect on the national economy.

Table 1.3: South Africa logistics Statistic, 2013 - 2016

Parameter per year	2013	2014	2015	2016
Logistics costs volume (ZAR Billions)	393	429	470	499
Ratio of logistics costs on GDP (%)	11.1	11.2	11.7	11.8
Ratio of logistics costs on transportable GDP (%)	50,5	51,5	53,6	53,6

Source: Stellenbosch University, 2016 logistics barometer

In the table above, the extract of logistics barometer in South Africa, published by Havenga *et al.* (2016:9) and the University of Stellenbosch, show that for more than five years, the ratio of logistics costs on the GDP turns around 10% while this rate is estimated higher than developed countries. This estimation confirms that, in South Africa, the absolute logistics costs, and the logistics costs as a percentage of transportable GDP, keep rising (Havenga *et al.*, 2016:5), while it is slowing down in other countries. For instance, in USA , the 2016 report on the state of logistics published by

the US Council of Supply Chain Management Professionals (CSCMP), US business logistics costs slowed considerably to a 2.6% growth only.⁽²⁾

Given the strong correlation between the logistics performance at macro and micro level, the indicators of the logistics as reported in the logistics barometer by the Stellenbosch University, express the challenges faced by South African enterprises to operate efficiently from a logistical point of view. Further, this situation is more striking for SMEs due to their limited logistical capabilities. The operations of SMEs are often triggered by pressure from large enterprises (Mafini & Omoruyi, 2013:149).

SMEs face high logistics costs because they cannot control the costs structures due to their limited trade quantity which does not allow them to benefit from economies of scale (Olawale & Garwe, 2010:736). In addition, SMEs are also vulnerable to this situation due to the lack of infrastructures and tools that can enable them to yield quality performance in their operations (Anon, 2016b: 7-8).

1.3 Statement of research problem

Achieving logistics performance is often difficult for a significant proportion of SMEs (Mafini & Omoruyi, 2013:149; Sittinger 2013:9; Kuswanto & Rosli 2012:102; Campos-Garcia, 2012:11819; Dubihlela & Omoruyi 2014:1020). Such a difficulty has been observed in most SMEs due to inadequate logistics process management (Kirby & Brosa, 2011:17), and the implementation of inappropriate supply chain practices (Massindao & Coelho, 2014).

In many cases, SMEs are trying to adapt the models of large enterprises to their size while they have different organisational settings which are not necessarily miniature-versions of large enterprises (Papayaro and Papa, n.d). Similarly, Wang *et al.* (2006: 390-391), cited by Chao and Shah (2010), revealed that, as the implementation of logistics in the whole, supply chain requires considerable effort, SMEs prefer simple methods, some of which are not suitable for the task at hand. Consequently, the use of these methods result in performance challenges, such as control of logistics cost, the

⁽²⁾https://www.logisticsmgmt.com/article/state_of_logistics_2016_us_business_logistics_costs_slow_considerably_with [April 2017]

improvement of service quality, and difficulties in yielding performance, as logistics objectives.

According to Mafini and Omoroyi (2013:149), an efficient and effective logistics performance is the source of competitive advantage to South African SMEs. In addition, logistics performance enhances SMEs' growing capability (Kirby & Brosa, 2011:10). Paying more attention to the logistics performance might enhance the performance of SMEs. Although many research studies have addressed the logistics performance of SMEs in South Africa, logistics performance still has to be studied impeding the survival and growth of SMEs (Mansiddo & Coelho, 2014:4).

1.4 Research objectives

To address the problem statement alluded to above, the main objective of study was: ***To determine how outsourcing effectively improves the logistics performance of selected SMEs in and around Cape Town.***

Furthermore, in order to implement the stated objective in an attempt to address the problem, the following subordinated objectives were developed:

- ❖ To examine the logistics outsourcing process in SMEs;
- ❖ To determine the factors influencing logistics outsourcing decisions in SMEs;
- ❖ To determine how outsourcing affects, the logistics performance of selected SMEs in and around Cape Town.

1.5 Research questions

In an attempt to address the stated problem in accordance with the above outlined objectives, the main research question asked was:

How can outsourcing effectively improve the logistics performance of SMEs in and around Cape Town?

The following sub-questions were designed to help address the main question:

- ❖ How do SMEs outsource their logistics services?
- ❖ What are the drivers and determinants of logistics outsourcing decisions in SMEs?

- ❖ What are the implications of outsourcing on the logistics systems of selected SMEs in and around Cape Town?

Thus, the research problem, research questions and objectives, as well as the relevant methods to meet these objectives are summarized in Table 1.4 below.

Table 1.4: Summary of research question, sub-questions and objectives

Research problem	Achieving logistics performance is often difficult for significant proportion of SMEs.	
Research question	How can outsourcing improves effectively the logistics performance of selected SMEs in and around Cape Town?	
Research sub-questions	Research methods	Objectives
Sub-question 1 How do SMEs outsource their logistics services?	Literature analysis, Semi-structured interview	To examine the logistics outsourcing process in SMEs.
Sub-question 2 What are the drivers and determinants of logistics outsourcing decisions in SMEs?	Literature analysis, Semi-structured interview	To determine the influencing factors of logistics outsourcing in SMEs.
Sub-question 3 What are the implications of outsourcing on the logistics systems of SMEs in Cape Town?	Literature analysis, Semi-structured interview	To determine how outsourcing effects logistics performance in selected SMES in and around Cape Town.

1.6 Significance of research

The review of literature shows that there are several studies conducted in South Africa, or elsewhere in the world, regarding the operational success of SMEs in general, and also on their performance in particular. However, the extent of research on this latter issue is not yet saturated given the significance of the performance achievement in the sustainability of SMEs. Therefore, the result of this study has proposed an outsourcing framework to guide logistics outsourcing that can drive logistics performance, taking into consideration the characteristics of SMEs in this region. Furthermore, the proposed framework can allow logistics practitioners in SMEs to understand the various outsourcing processes and key determinants that lead to the logistics performance as their major objective.

In addition, Mansiddo and Coelho (2014:4) reveal that, logistics performance still has to be studied as an impediment to the survival and growth of SMEs. The outcome of this research is important to South African SMEs, since logistics has emerged as a powerful source of competitive advantage to South African SMEs (Mafini & Omoroyi, 2013:149). Furthermore, the SME sector has become one of the major agents in the process of economic growth in South Africa. This sector contributes between 40 to 45% to the GDP (Anon, 2016b). Therefore, the researcher believes that the outcome of this research project could become a source for the SMEs' sustainability and growth and consequently, a contribution to the efforts to grow the South Africa economy.

1.7 Delineation of research

As stated in the introduction, the aim of this study was to explore the effects of outsourcing on the logistics performance of SMEs in Cape Town. The research was narrowed to SMEs in manufacturing sector, as defined in the South African SMEs Act of 2003. Furthermore, only selected small and medium wine producers in specific regions in the Cape were explored. In addition, for technical and practical reasons, the research did not cover the entire wine-manufacturing sector in and around Cape Town, but was limited to some wine manufacturers in the Constantia, Stellenbosch and Paarl areas.

1.8 Overview of research design and methods

1.8.1 Population under study

According to Burns and Grove (1997:236), cited by Coetzee (2005), the target population is the entire aggregation of respondents that meet the designated set of criteria. In other words, the population comprises the ensemble of sources of information that meet the designated set of criteria. For the purpose of this study, the population comprised small and medium wine producing enterprises in selected areas in and around Cape Town. Therefore, the aggregation of respondents of this study was made up of wine producers in Constantia, Stellenbosch, and Paarl. In addition, these three locations were chosen because they are nationally and internationally reputed wine lands.

1.8.2 Sample: size, frame and sampling method

A sample is a small part selected from the population under study, in order to escape the technical difficulties involved when studying the entire population (Burns & Burns, 2008:181). Initially, the planned sample size for this case study was 20 Small and Medium Wine Manufacturers. However, data was collected from only 16 such enterprises – 4 in Constantia, 7 in Stellenbosch and 5 Paarl – due to the anticipated saturation in the collected information, given the homogeneity in wine manufacturing and the similarity in the operating mode of SMEs in this sector as demonstrated by Hamann *et al.* (2017:10).

1.8.3 Research instrument and data analysis

The semi-structured interview technique was used in this study as a data collection tool. The researcher used this technique since the interview is a commonly used method of collecting information from people, mostly in qualitative studies such this particular study (Kumar, 2011:144). Furthermore, the collected data was also analyzed qualitatively. This method consisted of transforming raw data into filtrated and meaningful information (Zikmund *et al.*, 2013:459).

Thus, opinions, experiences, beliefs and attitudes collected from logistics practitioners in wine manufacturing SMEs, for the purpose of the study, were treated and arranged into useful information, using the constant comparative method to draw conclusions.

1.9 Ethical considerations

According to Cooper and Schindler (2014), ethics refers to norms and principles guiding the moral choices of human inter-relationships. Nowadays, ethics has become a very sensitive issue, to which everyone must comply in all areas of life. In the context of scientific research, Blanche *et al.* (2006:61) indicate that ethical consideration consists firstly in protecting research participants. Secondly, it consists of paying attention to other issues, such as scientific conduct and plagiarism. Given the significant involvement of human beings in this study, and its scientific character, the author has strived to comply with the key ethical considerations detailed in Point 3.6 of this study.

1.10 Summary

Logistics has emerged as a powerful source of competitive advantage to South African SMEs. However, achieving logistics performance is often difficult for a significant proportion of SMEs (Mafini & Omoruyi, 2013:149). Although much research has been conducted in an attempt to solve this problem, logistics performance still has to be studied in terms of how it continues to impede the survival and growth of SMEs (Mansiddo & Coelho, 2014:4).

In attempt to address the above stated problem, the research objectives and questions were presented in this chapter as set out in Figure 1.1 above. The main objective of this research study was to determine how outsourcing can effectively improve the logistics performance of wine producing SMEs in Constantia, Stellenbosch and Paarl, and the main question asked was: How can outsourcing effectively improve the logistics performance of these SMEs? The relevant literature necessary to answer the research questions is reviewed in Chapter Two. The research study's objective was achieved through direct semi-structured interviews from which collected data was qualitatively analyzed, based on the findings of literature review. This chapter has also presented the methodology of the research used which will be further discussed in Chapter Three of this thesis.

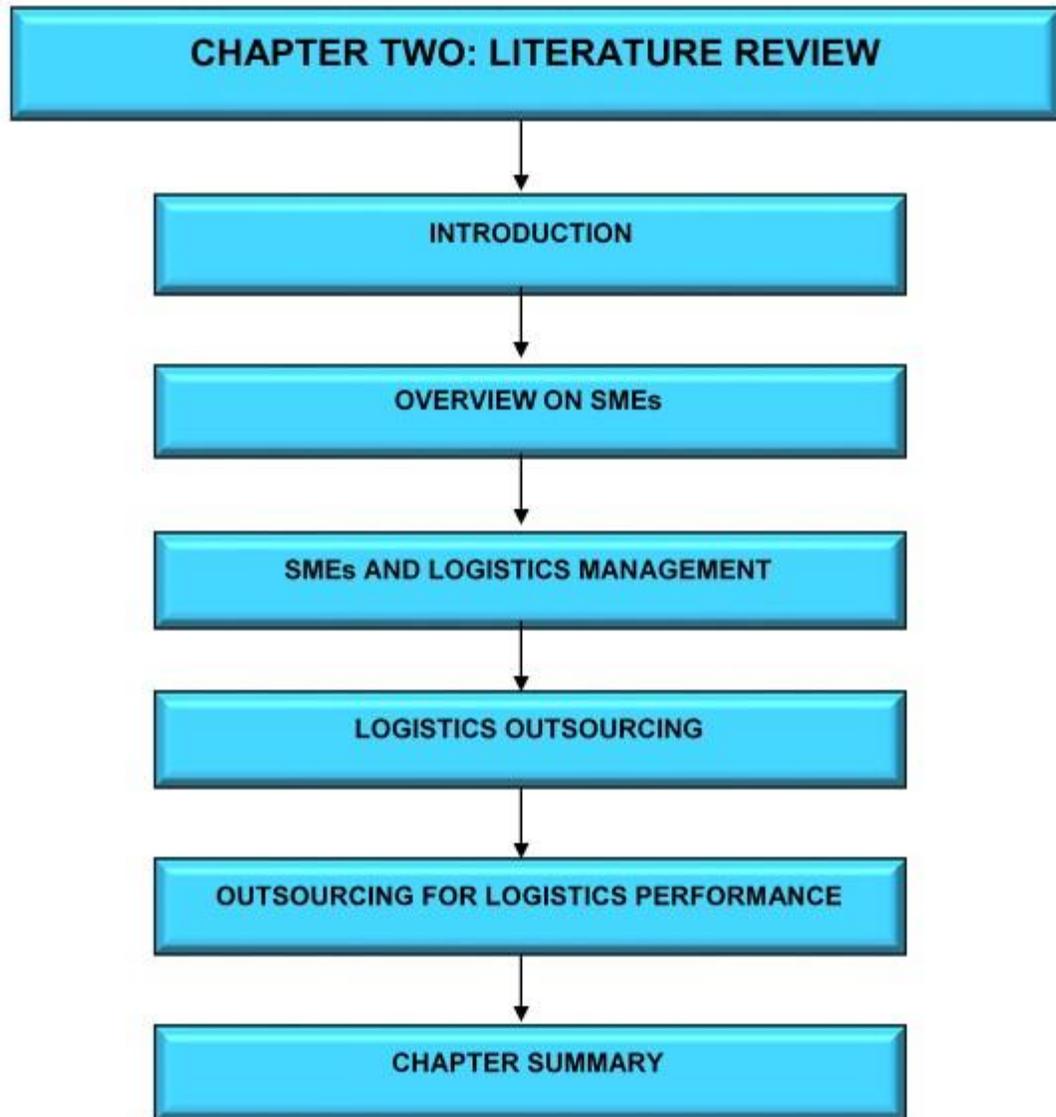


Figure 2.1: Graphical representation of Chapter 2

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The previous chapter introduced this research study, and presented the problem to be investigated, as well as its objective together with the methodology used to achieve this objective. The present chapter focuses on the review of relevant literature as part of the methodology employed in this research project. The purpose of the Literature Review is to legitimize the analysis of the research findings, and to provide useful information and knowledge for answering the research questions, thus enabling the author to achieve the research objectives.

Thus, the Literature Review is articulated around the following key words: Small and Medium Enterprises, logistics performance, and logistics outsourcing. The preliminary review of literature indicates that outsourcing is a way to improve logistics performance which is the focus of this study. In addition, Foltys (2012), quoted by Vrlíková and Tkáč (2014), argues that, outsourcing is one of the major concepts for developing the SME sector and stabilizing its functioning.

Therefore, this chapter will be devoted to the analysis of the existing literature on the topic. At the same time, making a convergence between logistics outsourcing and logistics performance, in an attempt to discover how the outsourcing function can drive the logistics performance in SMEs. As represented above, this chapter essentially develops the following sections:

- Overview on SMEs,
- SMEs and logistics performance,
- Logistics outsourcing,
- Outsourcing for logistics performance.

2.2 An overview on SMEs

Before carrying out any study on SMEs, it is relevant to engage in a discussion on the meaning of this term because this type of enterprise has specific characteristics. In addition, the management and operations models in SMEs are not necessary similar to

large organizations. Thus, this section will first discuss the definition and nature of SMEs before giving an overview of SMEs.

2.2.1 Definition and Nature of SMEs

Generally speaking, the definition of SMEs would be the scientific definition of Small Business in the entrepreneurial perspective. In this perspective, to be classified as “small”, a business organization must possess essential features such as: the capital is directly supplied by one or a few owners who are involved in management, and the area of operation is primarily local (Byrd & Meggison, 2013:9). Despite the classification of business as ‘small’ based on specific features, exactly defining the term ‘small business’ is a challenge because, among the businesses classified as SMEs, there is also diversity in size (Byrd & Meggison, 2013:4). Thus, the author of this research project concludes that there is no generally accepted or universally agreed definition of a small business.

However, because of this limitation of not having a universally agreed definition of small business, SMEs are differently defined in regulatory frameworks from one region to another or from one country to another. For instance, in Europe, the definition and classification of SMEs are regulated in the framework of the European Union Commission (EU). According to the Extract of Article 2 of the Annex of Recommendation 2003/361/EC, “the SME sector is made up of enterprises which employ fewer than 250 persons, and which have an annual turnover not exceeding 50 million Euros, and/or an annual balance sheet total not exceeding 43 million Euros. ⁽³⁾

In Africa, for instance in South Africa, the SME sector is regulated by the 1996 National Small Business Act as modified in 2003, that states that a maximum number of 200 employees is required to be classified in the SME sector, with a maximum annual turnover not exceeding 64 million ZAR, and/or an annual balance sheet total not exceeding 23 million ZAR.⁽⁴⁾ In the Democratic Republic of Congo (DRC) for example, “the SME sector is made up of enterprises which employ fewer than 200 persons and

⁽³⁾ *European Commission, The new SMEs definition (2005)*

⁽⁴⁾ *South African Presidential Office, National Small Business Act (1996)*

which have an annual turnover not exceeding 400 thousand US Dollars, and/or an annual balance sheet total not exceeding 350 thousand US Dollars.⁽⁵⁾

The comparison of the three definitions of SMEs above shows that, although the three frameworks of definitions are built on the same model and parameters, the basis of consideration is not the same. If the number of employees defines a SME, this factor is a social unit while the SME is an economic entity. The annual turnover and the total investment would be more appropriate parameters for determining the nature of a SME as an economic entity. Thus, the comparison of annual turnover and the total investment in the three examples provided above reveals that a classified SME in South Africa may be regarded as a 'large' enterprise in the DRC. Similarly, a classified SME in Europe may be considered a 'large' organization in South Africa.

Table 2.1: Comparison of SME definition factors as on 1st of June 2017

Country/region	Total employees	Total Turn-over in Euro	Total Assets in Euro
European Union	250 persons	50,000,000	43,000,000
South Africa	200 persons	4,370,420	1,567,408
DRC	200 persons	356,252	311,720

Source: Author

Table 2.2: Currency parity on the 1st of June 2017

1 Euro (1 st June 2017)	1 Euro (1 st June 2017)
= 1.1228 US Doll (1 st June 2017)	= 14.6739 ZA Rends

Source: South Africa Reserve Bank

The comparison in Table 2.1 of the total paid employees, the total turn-over and the total assets as criteria to define a SME, meets the view of Byrd and Meggison (2013:4) who conclude that there is no generally accepted or universally agreed definition of a Small Business. Therefore, SMEs sectors are not the same in different regions due to many realities, particularly the economic realities. In Sub-Saharan Africa for example,

⁽⁵⁾ *Ministere Congolais des Petites et Moyennes Entreprises, Charte des Petites, Moyennes Entreprises et de l'artisanat (2009)*

SMEs are characterized by the common problems they experience such as lack of adequate resources and skills shortages. ⁽⁶⁾

Despite the challenges that characterize them, SMEs in the African region are also not the same. In terms of the total turn-over and total assets values depicted in the frameworks that define them, the comparison shows that a SME in South Africa is not absolutely the same as a SME in the DRC. Furthermore, some levels of SMEs in South Africa could be categorized as large organizations in the DRC. Similarly, a SME in Europe is not absolutely the same as a SME in South Africa. Hence, the right way to study and understand the SME sector is to approach it in the context of its location and definition. Therefore, for the purpose of this study, the SME sector is addressed within the South Africa context.

2.2.2 SME Sector in South Africa

In South Africa, the SME sector is regulated and operates under the authority of the Small Business Development Ministry. Under the authority of this Ministry, the SMEs are categorized and defined by the 1996 National Small Business Act as amended in 2003. As explained in the previous paragraph, the definition of a SME in South Africa, according to the National Small Business Act, is modeled on the most common design. The common design used to define a SME considers generally the number of employees per enterprise, the category combined with the annual turnover and the gross assets, excluding fixed property (Abor & Quartey, 2010 :221).

Table 2.3: Summary of criteria for SMEs definition in South Africa

Enterprise Category	Total employees paid	Total Turn-over in ZAR	Total Asset in ZAR
Medium	< 200 persons	≤ 50,00 million	≤ 18,00 million
Small	< 50 persons	≤ 10,00 million	≤ 4,5 million
Micro	< 5 persons	≤ 0,15 million	≤ 0,10

Source: South African National Small Business act (1996), pages15-16

According to the summary in Table 2.3 above, as extracted from Act Number 102 of 1996, amended in 2003, any undertaking, which does not exceed the specified limit of

⁽⁶⁾ *Edinburgh Group, Growing the Global Economy through SMEs (2014)*

any of the factors, regulated in this Act, can be classified or defined as a SME in a given sector. For example, the largest number of employees that may not be exceeded is 200 people for the medium-sized enterprises in the mining sector. While the maximum number of employees required to be classified as a micro enterprise in the agriculture sector is 5 persons. As for the annual turnover, the higher limit is 50,000 million in the mining sector and the lower limit is 0.15 million in agriculture. The same applies to the total investment figures which are 18 million in mining and 0.10 million in agriculture. However, the specific details of the SME categorization can be found in Act 102, 1996 as listed in the South Africa Government Gazette.

The interest of the government in regulating and supporting the development of the SME sector is that this sector becomes an important player in Africa, as it is in most world economies (Gjini, 2014). SMEs comprise about 90% of African business operations, and contribute to over 50% of African Employment and Growth Domestic Product (Mulumba, 2014), cited by Lekhanya (2015). In the case of South Africa, a rich literature reveals that the SME sector is now considered as the backbone of both national and local economies (Student & Robu, 2013:86). According to a study undertaken by Stellenbosch University in 2016, the SME sector contributes between 45 to 50% to the GDP. Even local governments now recognize the important economic role SMEs fulfill as vital contributors to the health of the economy and to diversity of opportunity in society (Lekhanya, 2015:412).

As in the case of other top emerging economies, the SME sectors in South Africa interacts significantly in the production of goods and services, in trade transactions, as well as in job creation. The SMEs constitute approximately 80% of the Manufacturing sector, and 1/5 of the units exported are produced in this sector. For instance, the case study of this research, the wine industry of South Africa ranks among the world producers and exporters of wine, thus connecting South Africa with other countries in trade transactions.⁽⁷⁾ In the same context, the SME sector in South Africa has an estimated 5.6 million small businesses operating in South Africa, creating 11.6 million total employment opportunities (Morgan, 2012:3).

⁽⁷⁾ <http://www.wesgro.co.za/investarticle?InvestArticleID=-JrMqGI-gb> [12 May 2017]

Considering all the elements discussed above, many research studies and scientists, public authorities and the private sectors, to support the development and growth of SMEs in South Africa, are putting strategies together. South African government departments implement supports strategies that allow SMEs to grow in operation, as well in size (Adediran *et al.*, 2016:527). South Africa government implements many entrepreneurship strategies that are designed to support the SME sector's development. For instance, through strategies such as the youth enterprise development and the integrated strategy on the promotion of entrepreneurship and small enterprises, South Africa aims to develop an entrepreneurship-driven SME sector.⁽⁸⁾

Similarly, the private sector, such as banks and financial services, are also devoted to supporting SMEs through entrepreneurship initiatives and funding.⁽⁹⁾ Despite these initiatives however, South African SME sector continues to face the common challenges of all SMEs worldwide, namely difficulty in accessing capital and the shortage of skilled labor (Anon, 2016b:7-8).

2.3 SMEs and logistics management

2.3.1 Logistics and its importance in SMEs

According to Harrison and Hoek (2005:7), logistics management is the process of planning, implementing and controlling procedures for the efficient and effective flow of material, including services and related information, from suppliers to customers. This traditional framework of logistics has served as the basis for the emergence of supply chains, given that logistics serves as the connecting point between business organizations.

Furthermore, Rushton *et al.* (2012:15) reveal that, in the 20th century, logistics emerged as the linking point between SMEs and large organizations in the supply chain. This statement makes it clear that, for both large organizations and SMEs, logistics in intra-organizational and inter-organizational endeavors functions a prominent activity in business organizations (Massindao & Coelho, 2014:2).

⁽⁸⁾ South African Department of Trade and Industry, *Annual Report 2014/2015*

⁽⁹⁾ First National Bank, *State of Entrepreneurship in South Africa (2012)*

Logistics plays a significant role in supply management, both internally and externally. The importance of this role can be demonstrated in several aspects. A rich literature focuses on the importance of logistics on the creation of value and the competitive advantage of business organizations. As argued by Christopher (2005:8), logistics is a prominent area of value creation for an organization, as well as for other organizations in the supply chain.



Figure 2.2: Porter's generic value chain

Source: Frynas and Mellahi (2011:125)

Porter's generic value chain, presented in Figure 2.2 above, indicates that, the inbound and outbound logistics as primary activities are the strong connectors in the value chain. Logistics is positioned as a bridge between an organization and external individuals or other business partners. Through incoming and outgoing business transactions, logistics create value in serving as a major enabler of growth of trade and commerce in an economy.⁽¹⁰⁾ However, even in non-business organizations, the relevance of the logistics function as a major player in the value chain can be proved.

⁽¹⁰⁾ CII Institute of Logistics, *Fundamental of Logistics*

The importance of the logistics function in the business environment goes beyond the creation of value to become a source of sustainability and competitive advantage. Since the 1950s the scope of logistics has been extended beyond the army, to be recognized as one of the important tools for developing competitiveness.⁽¹¹⁾ For instance, through a strong and efficient distribution system, companies can ensure the availability and presence of their products in the markets. This process allows their brands to achieve an advantage over those of competitors. Hence, through the flow of material from origin point to its distribution in the market place, logistics facilitates business continuity (Pienaar & Vogt, 2012:6).

In the same context, Christopher (2005:28) states that the management of logistics has impacted on the majority of changes observed in competitive environments. This fact accounts for the significant emergence of SMEs in global trade, a development that is supported by logistics. The reason why Mafini and Omoroyi (2013:145) studied the effect of logistics in SMEs in South Africa was to support the theory that, in this competitive age, the logistics function can be regarded as the backbone of all business organizations. In the same way Kirby and Brosa's (2011:21) study of logistics as the source of competitive advantage for SMEs, confirmed that, in Latin America and the Caribbean, the competitiveness of SMEs depends on the quality of the logistics industry.

The literary review demonstrates that the importance of logistics in the business organizations is not limited. In the current context of paradigm change, this importance seems to have reached a significant scale in the case of SMEs. An efficient logistics system enhances SMEs' capability to grow and remain sustainable, (Kirby & Brosa, 2011:10).

2.3.2 Managerial logistics in SMEs

According to Cano-Olivos and Orue-Carrasco (2014:63), an effective logistics management system would be a source of competitive advantage for SMEs. Much literature has been written on "management" in relation to the difficulties that stifle the competitiveness and sustainability of SMEs. As part of the overall operations activities, logistics management is not excluded as a reason for such difficulties. However, most

⁽¹¹⁾ *Idem*

research studies related to the broad topic of “logistics management in SMEs” suggest, within the parameters of their specific aspects, models and frameworks to manage logistics in SMEs which focus on the specific characteristics of these business enterprises (Cano-Olivos & Orue-Carrasco, 2014:62).

It should be pointed out, however, that most of the suggested logistics management frameworks for SMEs need to consider SMEs’ common difficulties, regardless of their location or products.

Therefore, managing logistics activities, such as outsourcing in SMEs, should consider factors such as limited resources, limited skills and the influence of large organizations in the supply chain. Owing to the fact that available resources can influence processes, the logistics process in all the SMEs will not be the same because the resource constraints of any two enterprises are not always the same. Consequently, even the management approach would not be entirely similar. According to Payaro and Papa (n.d.), a significant portion of SMEs fail to achieve their logistics objectives due to the direct transplantation of management models used by large organizations into SMEs.

In addition to the specific characteristics and difficulties of SMEs, the perception and heterogeneity in the interpretation of the concept of "logistics" by SMEs has also impacted on the management of logistics operations in this category of enterprises (Gecse, 2012:21). A accurate interpretation and understanding of the logistics concept leads to the successful management of logistics in SMEs (Mafini & Omoroyi, 2013:149). While in large organizations logistics activities can include customer service, it may be perceived by SMEs as limited to delivery. Therefore, the management of logistics in SMEs is driven by the way logistics is scoped in these enterprises.

While the change in the global market place has extended the scope of logistics, SMEs still appear to limit the scope of logistics to primary activities. Transportation and warehousing still constitute the main structure of the logistics system, because, according to the study on logistics outsourcing by Solakivi *et al.* (2011), SMEs still focus mainly on these two types of activity. However, the management of logistics in SMEs may also be dictated by their interaction with large organizations in the supply chain (Trung & Belihu., 2010). In today’s environment, the complexity of supply chain constrain SMEs to operate on the same platform as the best skilled and equipped large organizations, a factor which also affects their management scopes.

The discussion in the previous paragraph appears paradoxical due to the fact that most SMEs' style of managing logistics does not extend beyond local boundaries, while the supply chain in which they operate is a global movement. Further, the realities in this supply chain constrain them to manage their logistics within a global or international perspective, which requires access to relevant resources and technical skills. Thus, this discussion again leads to the observation that, if the generic management in SMEs is not effective, it can result in a shortage of resources and a lack of technical skills, both factors that prevent the efficient running and sustainability of SMEs.

Furthermore, if the generic management itself, together with the lack of necessary resources and skills are still identified in literature as persistent problems in SMEs, then the management of logistics in particular is also a resistant problem in SMEs as indicated by Hadi (2015:4806). If the management of logistics is still a problem in SMEs, the logistics function in SMEs is exposed to many challenges, such as poor planning, poor organization, poor coordination and control. Therefore, the consequence of these challenges is that SMEs have difficulty in achieving their logistics objectives which is the point of logistics performance. It should be noted that achieving logistics performance in SMEs may be the difference between survival and failure (Campos-Garcia, 2012:11819).

2.3.3 Logistics performance in SMEs

The discussion in the previous section shows that logistics management is a general problem facing SMEs. It concludes also that logistics management as a problem transforms itself into a logistics performance problem in SMEs. Among the drivers of these problems, there is the interpretation of the "logistics" concept in SMEs. According to Gecse (2012:21) the heterogeneity in the interpretation of the concept of "logistics" by SMEs is behind the problems relating to logistics management. Can the fact that the interpretation of the concept "logistics" presents a problem for SMEs, influence the quality of their "logistics performance"? Firstly, a general discussion of logistics performance is needed before attempting to answer this question within the perspective of SMEs.

In a general sense, the "performance" concept is explained by the Oxford Dictionary as 'the act of achieving a good or profitable outcome.' Therefore, one can also say that,

performance is related to the result of certain actions. According to Berrah, L. (2013:43) within the operational context, performance consists of evaluating the output results against the inputs data. Similarly, Brevis and Vrba (2014:34) add that, performance consists in balancing efficiency from input and effectiveness from output. They add again that, efficiency consists in doing things right while effectiveness consists in doing right things. In this context, logistics performance consists in balancing the efficiency from the inputs of logistics activities to the effectiveness of the output of logistics activities. In other words, logistics performance consists of achieving the right logistics service through the right logistics process. In this approach, the common objectives of operations managers, including logistics managers, is to yield the maximum of output through the minimum of input (Steverson, 2007:4). Regrettably, in this age of increased competition, operations managers are under pressure to meet the market's requirement for higher quality while striving for lower production costs (Wanke *et al.*, 2008:4812).

Thus, although other factors may be considerable, all controversies regarding logistics performance unanimously revolve around cost reduction and quality improvement that leads to customer satisfaction. In addition, the current trend shows that cost reduction is the key driver of efficiency in the internal dimension of logistics performance. Whereas quality improvement is the key driver to the effectiveness in the external dimension of logistics performance. Hence, "logistics performance is fundamentally achieved through a balance of required level of logistics services and reasonable total cost of all involved elements in the logistics chain" (Vrlíková and Tkáč, 2014).

Table 2.4: Logistics performance equation

Logistics effectiveness Vs Logistics efficiency	= Logistics performance
Higher logistics service quality Vs Lower logistics costs	= Logistics performance

Source: Researcher

The above discussion on the meaning of logistics performance can be summarized in the equation as illustrated in Table 2.4. This equation is balanced by the logistics effectiveness against the logistics efficiency. Similarly, the equation is balanced by the higher logistics service quality against the lower logistics costs. Viewed from another perspective, this equation may appear as a dilemma because most of the logistics systems' improvements are subject to increased costs. Furthermore, maintaining this

equation appears to present an impasse for SMEs due to their limited skills and resources. On one level, striving to reduce logistics costs can alter the service quality, while on the other level the increased efforts to achieve better logistics service quality can drive costs to overrun the budget.

For instance, while competing in the same industry with large organizations, SMEs face exorbitant logistical costs, while trying to maintain high quality logistics service (Mafini & Omoruyi, 2013:149). According to Olawale and Garwe (2010:736), SMEs often deal with high logistics costs, such transportation costs, although moderating costs is the primary way of achieving better logistics performance. In the same way, improving the logistics quality is not an option for SMEs, because quality becomes a “must” in the current competitive global market environment. Despite this other form of dilemma, achieving a high level of logistics performance is non-negotiable in SMEs’ operations.

As stated by Cano-Olivos and Orue-Carrasco (2014:61), logistics performance constitutes a key aspect through which SMEs can successfully compete and survive in a global economy. Likewise, logistics performance enhances SMEs growing capability (Kirby & Brosa, 2011:10). With all the changes observed in the global market environment, and all realities facing SMEs, logistics performance still has to be studied in terms of its capacity for either enhancing or impeding the survival and growth of SMEs (Mansiddo & Coelho, 2014:4).

Despite this fact, the studies that have been conducted on logistics performance in SMEs are limited (Mansiddo & Coelho, 2014:6). However, there are some existing studies on logistics performance in SMEs which are mostly oriented towards their overall result, namely their competitiveness and sustainability as the final objective beyond the performance. For instance, the study of Wanke *et al.* (2008:4812) emphasis that, although logistics performance includes other dimensions such as flexibility, reliability, and responsiveness, SMEs should focus on cost reduction as a means of enabling their financial results to become the overall point of performance and sustainability.

Likewise, Hisano and Andreotti (2012:257) also suggest that SMEs should be skilled and equipped to yield logistics performance, and that this performance should be analyzed in

order to measure its impact on the sustainability of SMEs. In the same way, the study of Mansiddo and Coelho (2014:16) emphasizes the analysis of performance and its impact on the performance and competitiveness of SMEs. Hence, the point of convergence of all these studies is understanding where and how to improve logistics performance in SMEs.

However, most of studies conducted in the above perspective emphasize partnership and relationship in the supply chain as means of improving logistics performance by SMEs. A rich literature on logistics and supply chain management indicates that SMEs, as well as large organizations, are partnering with 3PLs to improve logistics performance by the means of outsourcing. Outsourcing logistics services by using 3PLs to enhance logistics performance has become a popular approach. For more than a decade, outsourcing has been pointed out as a way to improve logistics performance by several researchers, such as Walters (2003:216).

The use of 3PLs becomes not only a popular practice, but also a phenomenon in countries such as South Africa where the movement of materials and information continues to increase. Furthermore, within SMEs the practice of outsourcing logistics from 3PLs is being recognized as the best way of achieving success for SMEs (Khuyen, 2009). SMEs are significantly involved in outsourcing to eliminate logistics 'bottlenecks' and to yield better logistics performance. As indicated in Chapter One, the main objective of this study was to determine how outsourcing can effectively improve logistics performance in SMEs. Therefore, the relevant literature on logistics outsourcing will be reviewed in the following section.

2.4 Logistics outsourcing

As discussed earlier, outsourcing has emerged as a solution for the logistics performance of SMEs (Khuyen, 2009) and the concretization of this phenomenon is explored in several aspects. Thus, this section essentially covers the following points:

- An overview of outsourcing and outsourcing in logistics,
- Determinants of logistics outsourcing,
- Logistics outsourcing management.

In attempting to answer the questions posed in the study, the review of literature around these points will try to answer respectively the following questions: What is logistics outsourcing? Why companies outsource logistics? How do companies outsource logistics?

2.4.1 An overview on outsourcing and outsourcing in logistics

2.4.1.1 Outsourcing: meaning and object

Before approaching the concept of “logistics outsourcing”, it is important to present the concept of outsourcing itself as an explanatory concept. The term ‘outsourcing’ comprises two concepts, namely ‘out’ and ‘sourcing’ which mean respectively ‘external’ and ‘supplying’. Thus, the combination of the two concepts could mean “external supplying”. According to Murphy *et al.*, (2012:251), outsourcing involves ceasing an internal business process and establishing a contractual arrangement with an external firm for full or partial execution of that process. According to Richards and Grinsted (2015:197), outsourcing is the task or function of getting a third party operator to perform non-core processes.

Given the increased pressure and competition in the global market environment, many business organizations find themselves under constraints to revisit their strategic formulation and ways of operating. Furthermore, getting business partners to support their operations becomes the most popular option amongst other aligned strategies. The concept of outsourcing is definitely supported by the involvement of an external partner called the ‘Third Party’. The key question at this point is the extent to which the Third Party is involved. Many controversies have been raised on this topic as outsourcing continues to develop as a phenomenon. According to the view of Richards and Grinsted (2015:197) outsourcing is concerned with non-core processes. while most of the recent views expressed by researchers supports the idea that any process can be outsourced. At this point, the other question that arises frequently relates to the identification of core and non-core processes.

The most recent discussions around the identification of core and non-core processes related to outsourcing conclude that, in the new global economy all processes are essential and strategic to create value and to earn competitive advantage. Thus, the role of the Third Party is extended to sensitive processes and functions (Manners-bell, 2014:21). Similarly Per V *et al.* (2005:15, 20) argue that outsourcing has moved from

traditional considerations to the strategic and core processes of organizations, and conclude that, outsourcing extends to all areas of an organization.

2.4.1.2 Outsourcing in logistics: meaning and trend

By referring to the meaning of outsourcing as discussed above, outsourcing in logistics operations consists of appointing a Third Party to execute the internal logistics process. According to Mentzer *et al.* (2007:374), logistics outsourcing is an arrangement whereby a logistics service provider, generally called Third Party Logistics (3PLs), performs for a firm the services that could be, or have been previously, provided in-house. Likewise, Waugh and Luke (2011:338) also define logistics outsourcing as the process whereby an organization contracts a logistics provider to perform recurring logistics activities that were, or could be, performed in-house in the short or long term.

Although in practice, 3PLs is the most used term to mean logistics outsourcing, a rich literature shows the emergence of logistics outsourcing at the 4th level, commonly known as The Fourth Party Logistics (4PLs). As illustrated in Figure 2.3 below, the supply chain development has correlated with the gradual progress in the level of logistic outsourcing. The logistics outsourcing has moved from the non-contractual logistics operations, to the formalized logistics partnership and, furthermore, up to the consultancy level in the supply chain, commonly identified as 4PLs.

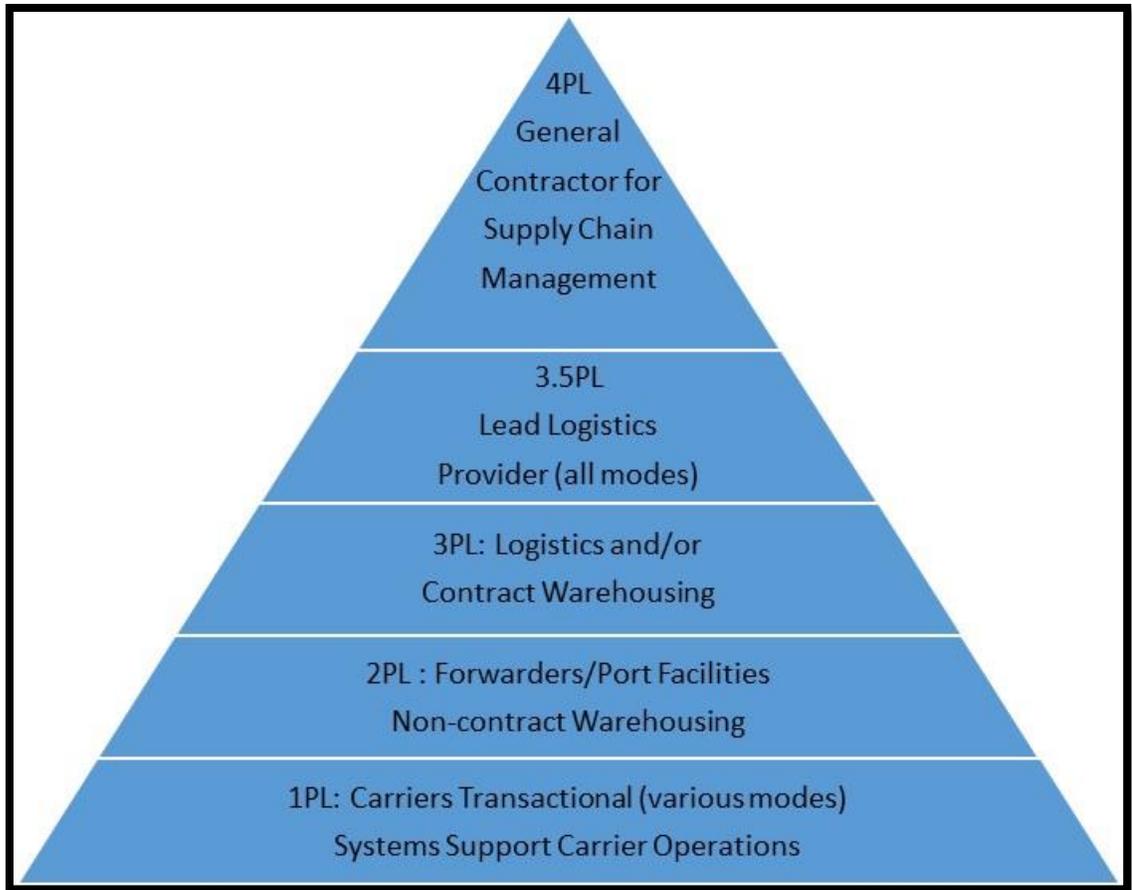


Figure 2.3: Pyramid of logistics outsourcing evolution ⁽¹²⁾

The term '4PLs' was defined by accenture in 1996 on the basis of logistics information technology (IT) requirements, to mean the provider of interface or a supply chain integrator ⁽¹³⁾. However, the term 3PLs was defined in the perspective of traditional logistics services such as transportation and warehousing ⁽¹⁴⁾. Thus, the ensemble of two levels of services constitutes the logistics outsourcing in the view of new economy.

Despite the fact that the terms 3PLs and 4PLs were retained earlier to mean the outsourcing of logistics services, the process of logistics outsourcing is old, and yet it was part of the remarkable business trends of 1980s and 1990s (Walters, 2003:32). The first resurgence of logistics outsourcing was observed early in the 1990s in the USA, with companies such as IBM opting to outsource some of its deliveries and customer

⁽¹²⁾ <http://www.transconsulting.com/outsourcing-management> [25/07/2017]

¹³ Cerasis, *The Essential Guide to Third Party Logistics : What is a 3PL , Considerations for Hiring , & How to Select & Implement a 3PL.*

⁽¹⁴⁾ Idem

service processes to reduce their costs (Per V *et al.*, 2005:78). However, the development of the logistics industry is a strong signal of logistics outsourcing demand and usage. This growth can be measured by the current trends that show a continual increase in logistics outsourcing, and other continual increases in motivations to outsource logistics (Langley & Capgemini, 2016b:12).

2.4.2 Determinants of logistics outsourcing

After an overview of relevant literature on logistics outsourcing, this point will discuss the determinants of logistics outsourcing that are necessarily the "why". In general, the discussion set out in this point, sometimes expresses the views of outsourcing drivers, and sometimes those of outsourcing motivations. Furthermore, the literature review reveals that, to a great extent, the motivations of outsourcing are generally the emanation of it drivers. Researchers such as Mentzer *et al.* (2007:382), prefer to discuss the determinants of logistics outsourcing, simply as the "why", rather than separating the two approaches. However, the discussion in this section will try to address the determinants of logistics outsourcing in both perspectives.

2.4.2.1 Drivers of logistics outsourcing

As is the case in other areas of business, the outsourcing of logistics is fundamentally driven by the stakes of globalization. In recent years, business organizations deal with the liberalization of the economy and the expansion of trade, both issues resulting from globalization. These organizations are facing increasing dynamic customer needs together with increased competition within the global market.

Faced with these significant challenges, business organizations find themselves under constraints to review their logistics strategies, in order to meet the customer's requirements and respond to market environment realities (Rushton *et al.*, 2012:6-7). Companies face exorbitant costs when attempting to align their logistics system to the ever increasing pace of the global approach (Manners-bell, 2014:77). At the same time, businesses must deal with pressure to update their existing skills, or acquire new ones, in order to fit into the new and complex business environments in accordance with related paradigm changes (Manners-bell, 2014:21). Therefore, the need to catch up with the complexity in the market environment and the exorbitant costs related to the restructuring of logistics systems have mainly driven the decision of companies to

oversee the external supply chain partners (Mangan *et al.*, 2012:19). Furthermore, these driving factors of outsourcing logistics from the external environment have turned into internal needs or motivations of logistics outsourcing in companies.

2.4.2.2 Motives or reasons of logistics outsourcing

Earlier in the previous discussion, the driving factors were addressed as a cause of logistics outsourcing. In practice in the business environment, the effects of these causes have turned into real problems to be solved. Further, the need to solve these problems has appeared as needs, reasons or motives for which logistics is being outsourced, and further as objectives to be achieved by outsourcing. Therefore, the discussion at this point focuses around the key reasons or motives for logistics outsourcing.

A rich literature discusses the reasons or motivations for which companies outsource logistics. Almost all Authors addressing the outsourcing of logistics return with similar factors to explain why companies outsource logistics. However, Rushton *et al.* (2012:533) have categorized these factors into finance, service and physically related factors. Similarly, Payaro and Papa (n.d.) have related these factors to strategy, finance and operations. Among these factors, the cost reduction is the most quoted reason why companies outsource logistics, Jenster *et al.* (2005:1). This view is supported by Grigorencu *et al.* (2013) who indicate that the major positive impact of logistics outsourcing relates to cost reduction. This fact is also confirmed in the report of Langley and Capgemini (2016b:12).

According to this report, businesses (for example shippers of distribution and exports such as the South African wine producers participating in this research project) who outsource part or all of their logistics gain an average logistics cost savings of 9%. Furthermore, in addition to cost reduction opportunities, companies outsource logistics to benefit from the specialized skills and expertise of 3PLs, so that they can improve the quality of their logistics services (Manners-bell 2014:21). Today most of companies are internationally oriented because they expect to benefit from the international experience and positioning of 3PLs and also to capitalize on the international network they offer (Mentzer *et al.*, 2007:382).

The above discussion reveals that the logistics outsourcing motivation factors have two tendencies. These factors are logistics effectiveness related factors and logistics

efficiency related factors (Grigorenco *et al.*, 2013). From this discussion, it emerges that the main motivation for outsourcing logistics is to improve the two fundamental aspects of performance, namely efficiency and effectiveness in logistics. Therefore, the assertion of Walters (2003:216) that outsourcing is the way to improve logistics performance is supported.

Driven by the factors listed above, the reasons or motivations for logistics outsourcing are as follows: the motivations become the objectives to be reached in outsourcing logistics; these motivations/objectives become the determinants of logistics outsourcing decisions. Thus, the above discussion also reveals that the driving factors of logistics outsourcing decisions are mainly cost reduction and service quality improvement based. Therefore, cost reduction and quality improvement are the two determining factors on which the management of outsourcing has to focus, especially in terms of choosing logistics outsourcing partners.

Although the costs reduction and the improvement of logistics service quality are the two determinants, and the assigned objectives of logistics outsourcing, their achievement is not an automatic process (Solakivi *et al.*, 2011:146). However, the logistics outsourcing objectives are achievable through a management process, since outsourcing is another dimension of business management. Therefore, the good management of logistics outsourcing is relevant to its success, (Rushton *et al.*, 2012:559).

2.4.3 Logistics outsourcing management

The management of outsourcing is the major point to driver its success. This statement is supported by many researchers such as Li (2014:166). The author adds that this success depends on the ability of an organization to manage properly the outsourcing not only as a process but also as a partnership. The management of outsourcing in general, and that of logistics outsourcing in particular, constitutes a vast area of research for which a thorough literature review should be undertaken. Whereas, for the purpose of this study, only the essential facts relating to the management of the logistics outsourcing process and the logistics outsourcing partnership, as suggested by Li (2014:166), are discussed.

2.4.3.1 Logistics outsourcing process

In the context of operations management of which logistics is a part, a process can be understood as a route one follows towards an outcome. From end to end this route consists of a series of interrelated steps or activities (Steverson, 2007:227). The logistics outsourcing process combines different aspects that integrate decisional factors and outsourcing steps and activities toward achieving the logistics outsourcing objectives. The logistics outsourcing process is often illustrated schematically or graphically in the form of models which present the relevant activities in logical steps.

Many studies that have addressed the logistics outsourcing process in the last ten years, such as Chao and Shah (2010:2), have opted the model suggested by Sink and Langley. As depicted in Figure 2.4, this model represents the logistics outsourcing process in 5 steps of activity. The steps of this model are: identify need to outsource logistics, develop feasible alternatives, evaluate and select supplier, implement service, and conduct ongoing service assessment. It is significant that this model commences by identifying the need for outsourcing, which defines the objective of outsourcing, and that it closes with ongoing service assessment, which involves measuring if the outsourcing objectives have been achieved.

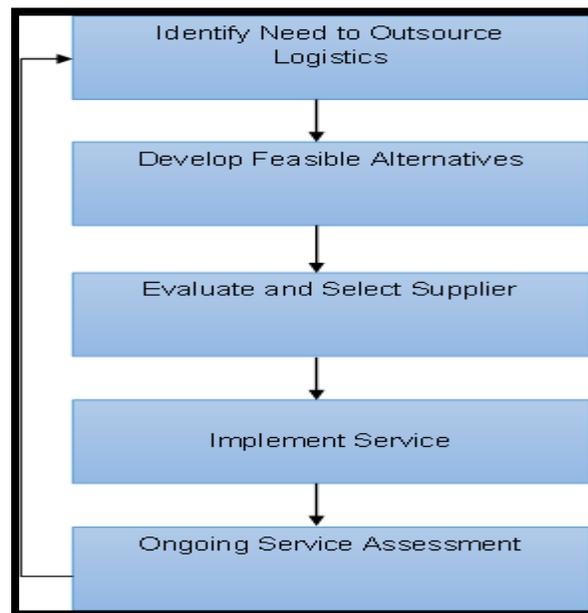


Figure 2.4: Logistics outsourcing process management model

Source: Sink and Langley (1997:175)

In contrast, the author of this study has opted for the model of logistics outsourcing suggested by Li (2014:117). This logistics outsourcing model, depicted in the left-hand column of Figure 2.5, represents the outsourcing process in 4 phases or steps of activity. The steps in this model include: outsourcing motivation, organizational characteristics, implementation mechanism, and outcome measure. In keeping with Sink & Langley's model, Li's model commences by defining the logistics outsourcing objective, and closes by measuring the success of the outsourcing objectives. The reason the author chose Li's model (2014:117) is that it matches the generic management process of Brevis and Vrba (2014:32) which is represented in the right-hand column of Figure 2.5.

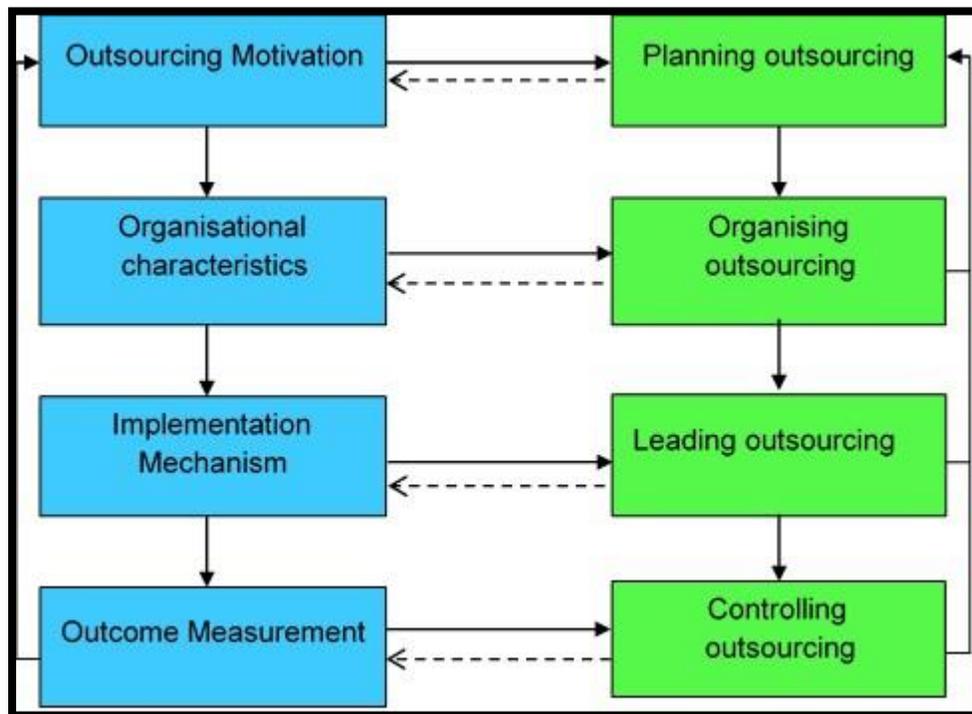


Figure 2.5: Logistics outsourcing process management model

Source: Li (2014:117); Brevis and Vrba (2014:31)

The juxtaposition of the two models in Figure 2.4 aims to emphasize the suitability of incorporating Li's model into the generic management process. According to this integrated model, the outsourcing activities should be planned based on the motivation for deciding to outsource logistics. This phase of the route is very pertinent because it defines the objective of outsourcing which will be measured at the end of the cycle, through the

control process. Further, the arrow travelling in reverse shows the strong relationship between the definition of the objective of outsourcing and its control. Therefore, the control function in the outsourcing process is relevant because it measures the outcome of outsourcing activities, based on its objective (Halvey & Melby 2007:327).

Based again on the integrated model, in addition to the planning and the control of the outsourcing stages, the two intermediary phases – organizing outsourcing and leading outsourcing – are also sensitive since they concern the outsourcing itself. The organizational characteristics and the implementation of outsourcing deal with the outsourcing arrangement. Thus, the managerial aspect of the logistics outsourcing partnership will be addressed immediately in the following discussion.

2.4.3.2 Logistics outsourcing partnership

According to Davis *et al.* (2012:325), within the business context, the partnership can be understood as a relationship that brings together two or more parties who undertake to work together for mutual benefit. From this definition, managing a business partnership consists of managing a long-term business relationship. Therefore, the proper governance of a 3PLs relationship is critical to the success of outsourcing (Dittman & Vitasek, 2016:19). This view is supported by Christopher (2005:4) who states that the relationship management is a key success factor in the supply chain.

Nowadays, LSPs (3PLs) have become very important partners in the supply chain, and the relationship between the companies built on LSP's junctions can have a great impact on the entire network. An effective relationship management with 3PLs enhances opportunities while a poorly executed relationship can have a negative effect (Li, 2014:99). In the same context, Mentzer *et al.*, (2007:361) add that, good relationship management is essential for attaining the logistics outsourcing objectives.

Thus, the success of the outsourcing partnership as a business relationship, and its chance of achieving its objectives, is built on certain pillars. Many authors, such as Halvey and Melby (2007:523), and Dittman and Vitasek (2016:10), have detailed different factors that help ensure a sustainable outsourcing relationship. In other words, the factors on which the relationship management will have to be based to safeguard the success of the logistics outsourcing partnership are not limited. Most discussions on these factors agree on the following three key elements – the choice of logistics supplier,

the engagement on contract and the collaboration – which the author of this study presents in the form of a model, depicted below.

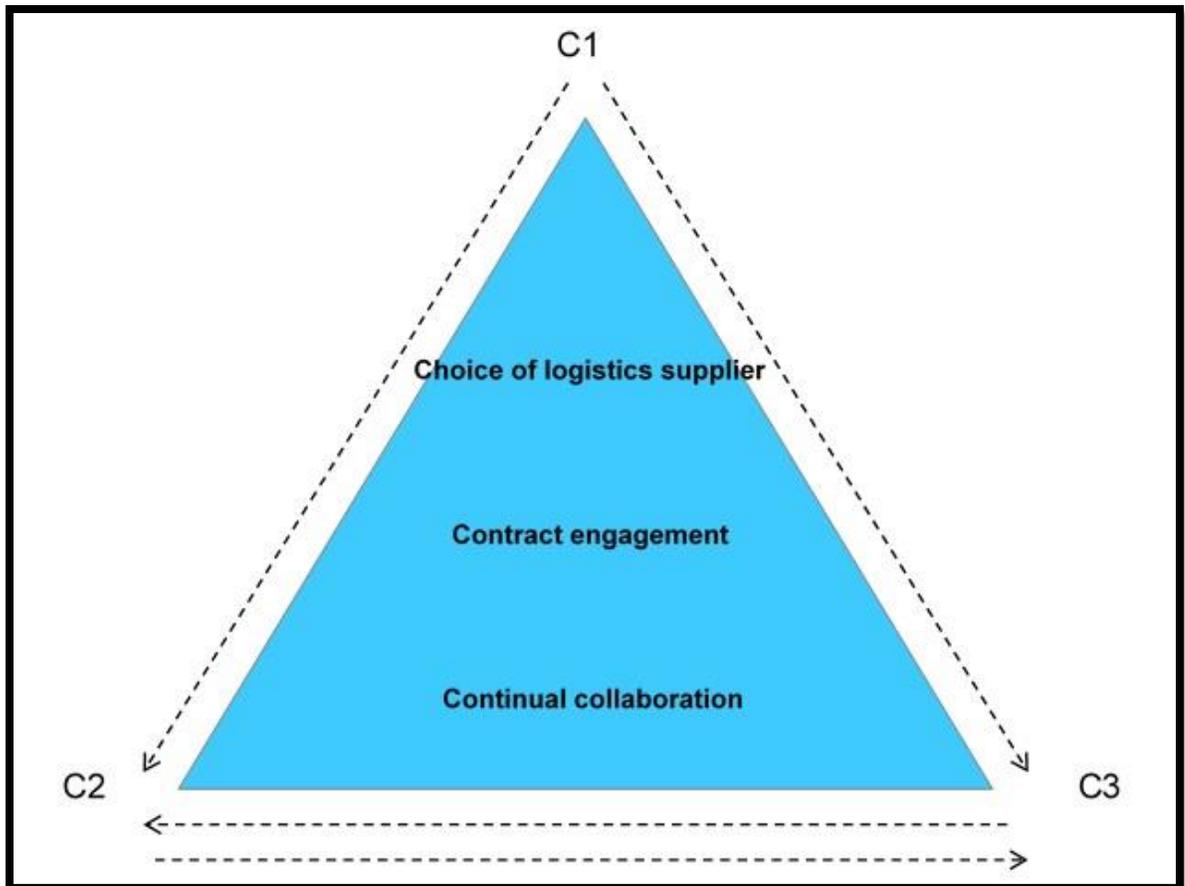


Figure 2.6: The 3C Logistics outsourcing relationship management model

Source: Researcher

Although there are numerous other factors required to manage effectively the business relation, the factors depicted in Figure 2.6 are fundamental for a positive relationship in the form of business partnership. The 3C model above constitutes the main structure on which to build a sustainable outsourcing relationship.

The choice of logistics partner is positioned on top of this triangular model as the basic factor which can influence the direction of the other two factors. Choosing a 3PLs partner is a business-wide strategic decision that requires business leaders to be intimately involved in the process (Dittman & Vitasek, 2016:10). The key concern at this point, is deciding on how to choose a logistics service partner”. In the current changing business environment, the criteria of choice for 3PLs have been the subject of

controversy between logistics decision makers. Consequently, long lists of suggested criteria are found in the literature as being fundamental when selecting a logistics outsourcing partner.

At this point, it is important to mention that the criteria for choosing 3PLs are not always the same, because of differences in aspects such as: the size of the buyers of logistics services, the nature of their operations, the reasons for logistics outsourcing and their objectives. Therefore, the choice of logistics outsourcing partner will have to take into account all the relevant and important factors to the success of forming an outsourcing partnership. Nevertheless, it should be dictated by the motivation for outsourcing logistics and its objectives. According to this view, based on the determinant of the logistics outsourcing decision as discussed above, the choice of 3PLs will be based essentially on technology, expertise and cost (Dittman & Vitasek, 2016:12).

In addition to the choice of partner, another meaningful pillar to manage the outsourcing relation is a partnership contract. The contract is an important element in business relationships because it is an act of commitment to the partnership. It defines the terms and conditions on which the services will be provided and used (Halvey and Melby, 2007:523). In other words, the contract is the safeguard or guarantee of the existence of a business relationship on which to build the logistics outsourcing partnership. As is the case in all partnerships, the agreement of terms and conditions of partnership, in the form of a contract, ensures all partners keep to their agreed commitment (Davis *et al.*, 2012:334). Although the contract is legally grounded, Dittman and Vitasek (2016:14) suggest that it is preferable that the logistics outsourcing contract should be fair and balanced, and offer benefits for both parties.

Furthermore, managing the business relationship for the success of a partnership also requires mutual collaboration. Collaboration is indeed the essence of governing the outsourcing contract (Dittman & Vitasek, 2016:20). As is the case with other relationships in the supply chain, continual collaboration during outsourcing helps 3PLs and shippers to work and to stay together in order to continually monitor and improve the logistics outsourcing performance.⁽¹⁵⁾ This view is supported by Mentzer *et al.* (2007:366) who state that collaboration enables the alignment and commitment of the partners in the supply chain in order to enhance the expected performance.

⁽¹⁵⁾ BSI Group, *Smart Guide to Collaborative Business Relationships*

2.5 Improving logistics performance through outsourcing

The overall discussion in this research projects tend to demonstrate that outsourcing improves logistics performance. As discussed in previous sections, researchers such as Sople (2012:200) indicate that, outsourcing is perceived by companies as a strategic solution to improve their quality of service, and to reduce costs. In the same view, Walters (2003:216) affirms that, outsourcing is the way that companies achieve improved logistics performance. And yet Berrah (2013:41) asserts that, this performance makes sense only, if it is measured based on specific framework. Thus, before discussing the implications of outsourcing on logistics performance, this section discusses the logistics performance metrics.

2.5.1 Logistics performance metrics

Logistics performance and its equation have been discussed in Section 2.3. As a reminder, logistics performance according to Vrlíková and Tkáč (2014) is fundamentally achieved through a balance of the required level of logistics services as point of effectiveness, and the reasonable total cost of all involved elements in the logistics chain as point of efficiency. This balance, as presented in the equation in Table 2.4, makes sense when it is measured either qualitatively or quantitatively (Gélinas & Bigras, 2002:64). Therefore, the qualitative or quantitative measurement of performance is the key element in the performance management function.

Thus, good performance management involves definitively the definition of measurement factors in the form of metrics (Dittman & Vitasek, 2016:17). In practice different metrics are structured to measure and to monitor the logistics performance. However, most often, logistics metrics in the performance perspective are structured around logistics cost efficiency and logistics service quality effectiveness and are mostly framed on the SCOR (Supply Chain Operations Reference) model (Pienaar & Vogt 2012:480). According to the Author, SCOR as presented in Table 2.5 is a generic and referral model endorsed by the Supply Chain Council as the cross-industry.

Table 2.5: Logistics performance metrics

Performance Level	Attribute	Metric
Effectiveness (External) Customer	Reliability	Perfect Order Fill
	Responsiveness	Order Fill Cycle Time
	Agility	Supply Chain Flexibility
		Supply Chain Adaptability
Efficiency (Internal) Organization	Cost	Supply Chain Management Cost
		Cost of Goods Sold
	Assets	Cash-to-cash Cycle Time
		Return on Supply Fixed assets
		Return on Working Capital

Source: Pienaar and Vogt (2012:482).

The SCOR model is customer-satisfaction driven and aims to measure the operational performance at both an internal and external level. The SCOR model presents a common standard to measure performance, (Pienaar and Vogt, 2012:482), by which the outsourcing capability to drive performance in logistics can be monitored. In other words, the SCOR model includes metrics on which the effects of outsourcing on logistics performance can be explained.

2.5.2 Implications of outsourcing in logistics performance process

During the past two decades, 3PLs have demonstrated innovation by introducing process improvements, adding information technology (IT), improving execution and offering new services that enable optimization in logistics, by generating more value and reducing costs (Li, 2014:125). A rich literature explains the potential of outsourcing to improve logistics performance and even confirms the effects of outsourcing on logistics performance. For instance, researchers such as Srabotić (2012) confirm that outsourcing contributes effectively to logistics performance.

According to the author, as a result of their capacity to ensure the right product, in the right quantity and quality, at the right place and the right time, 3PLs have allowed shippers to eliminate significantly the dysfunctions in their logistics systems. As a result, businesses have enhanced their customer service and gained the competitive advantage. Likewise, Li (2014:125) has listed all the logistics performance drivers as part of the advantages that shippers gain from contracting 3PLs. Based on their technical capabilities and working knowledge, 3PLs have developed a greater potential to offer more effective and efficient logistics services (Zhang & Okoroafo, 2015:38). This improvement is essentially built on the IT and assets capabilities, as well as the expertise and working knowledge of 3PLs (Githinji, 2012:19).

As professional operators in the logistics industry, the 3PLs own suitable logistics assets that are missing to shippers. In addition to this, 3PLs are up to date with the paradigm change and IT required to meet the international standards. 3PLs also have possess the requisite expertise and working knowledge to provide solutions to the eventual logistics challenges (Ross 2003:301). Furthermore, Sheikh (2012:43) indicates that, the integration of the logistics assets, logistics competency and IT tools owned by 3PLs, allows them to offer efficient and effective logistics services to shippers. Thus, the above point of view and assertions are summarized and modelled in Figure 2.7, to illustrate how outsourcing drives the logistics performance of shippers.

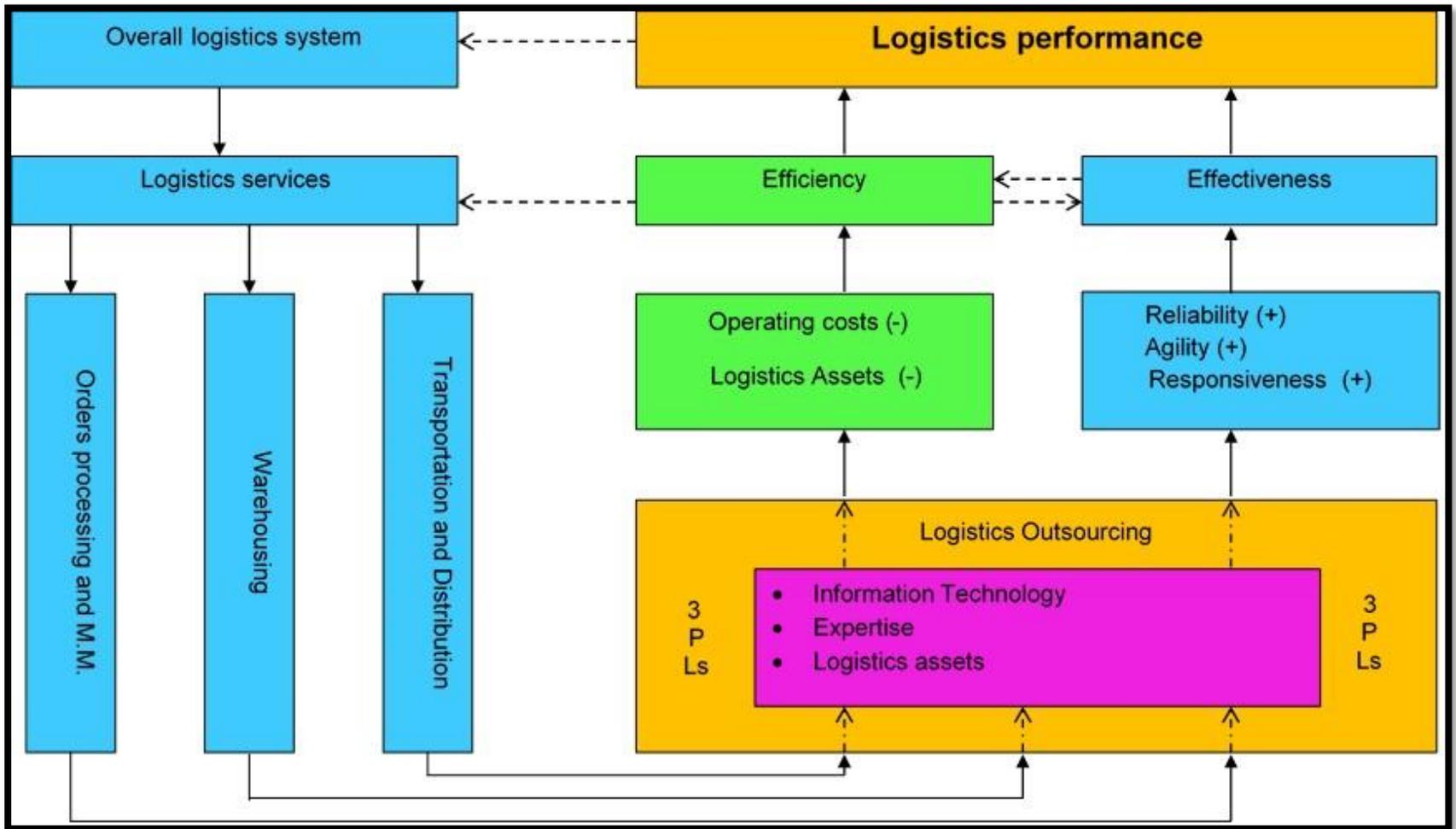


Figure 2.7: Model of implications of outsourcing logistics on logistics performance

In this age of digital economy, the management of logistics, especially in the business environment is dramatically accelerated by the pace of technological developments (Ross, 2003:297). The globalization of the supply chain has led the participants to work in a virtual space, such as E-procurement, which requires access to the relevant IT, for instant information sharing. Since IT stands as a key factor to drive performance in the supply chain, 3PLs have become the backbone of improved performance, competitiveness and sustainability for shippers due to their ability to provide IT facilities to shippers (Ayers, 2001:156).

Further, 3PLs provide shippers with IT tools that allow them to streamline activities in the supply chain and to minimize inconvenience (Zhang & Okoroafo 2015:40). According to Ayers (2001:415), 3PLs have excelled in creating interface and extra net software, as well EDI channels that improves the flexibility of document distribution and enables saving on related logistics costs, such as purchasing costs. In addition, the IT tools provided by 3PLs significantly improves the flow of shipping information and provides for electronic fund transfer (EFT) capabilities that impact positively on the logistics agility and logistics administrative costs (Ross, 2003:301).

In addition, the author believes that the supply chain management package, offered by 3PLs, has improved the flow of information that enables rapid response to customer requirements and reduces cycle times in the supply chain. Further, it is important to underline that the IT tools offered by the 3PLs, have enhanced the capability of shippers to improve their 'Just In Time' (JIT) service, thereby reducing costs associated with inventory management (Zhang & Okoroafo, 2015:40).

Similarly, the IT tools provided by 3PLs enable shippers to use efficiently the logistics assets they own, thus saving on costs such as depreciation and maintenance. Other outsourcing benefits from the use of 3PLs include cost savings on investment in logistics assets such as material handling and operating equipment (Ross, 2003:297).

Although shippers can also own logistics assets, the logistics assets capability offered by 3PLs is another key element that drives their performance. According to Ross (2003:301), historically 3PLs have developed logistics practices and infrastructure geared to handle the bulk storage and movement of massive products through the supply network. This process results in the economy of scale that enables 3PLs to offer shippers less costly logistics services than those produced in-house (Githinji, 2012:17).

In addition to the IT services and physical assets, the expertise and industry knowledge provided by 3PLs plays a significant role in integrating all other factors towards improved logistics performance. The working knowledge and technical skills provided by 3PLs enable shippers to integrate the logistics efficiently with other functions in the process of value creation, in order to achieve effective logistics services quality, which is the reason that Mentzer *et al.* (2007) argues that outsourcing of logistics moves from the economy of scale to the economy of skills. For instance, 3PLs provide shippers with support in using specific tools such as IT tools (Zhang & Okoroafo, 2015:41).

2.6 Summary

Chapter 2 has reviewed the literature relevant to the topic of this research project. The importance of the literature review in this study is that, it has first clarified and developed the key words of the research topic, namely logistics performance, logistics outsourcing and SMEs. While integrating key words, it has provided a better understanding of the research topic and its significance. In addition, since the literature review is not disassociated from the overall research methodology, this chapter is also significant because it provides useful information and knowledge to answer both the main and sub-questions of this research project, and has helped to ground the analysis of the research findings.

Chapter 2 was structured in six points, including the introduction and summary, and was articulated on logistics and logistics performance in SMEs, logistics outsourcing with an emphasis on motives, determinants and drivers of logistics outsourcing. It also explored and expressed ideas relating the management of the logistics outsourcing process and partnerships, and finally the implications of outsourcing through 3PLs, in the process of driving logistics performance of shippers, which is illustrated schematically in the model provided in Figure 2.7.

Therefore, from this review of existing literature, it has emerged that the logistics systems play such an important role in value creation and business competitiveness. However, the logistics systems of SMEs, especially those of non-developed countries such as those in Africa, are not as effectively established as in large organizations. This discrepancy results their facing challenges such as not easily achieving their logistics

performance because of their lack of appropriate expertise, the necessary logistics investments and resources. These three factors are the key reasons why SMEs, following the pattern of large organizations, decide to outsource logistics services to 3PLs.

Furthermore, this literature review has revealed that IT expertise, logistics assets capability and industry expertise constitute the pillars of the existence of logistics outsourcing. On the one hand, IT capability, assets capability and expertise are the determinants of logistics outsourcing decisions since they constitute the motivation for outsourcing. On the other hand, these three factors comprise the key criteria used in the choice of 3PLs partners, since they are the key factors that explain the capability of outsourcing to drive logistics performance.

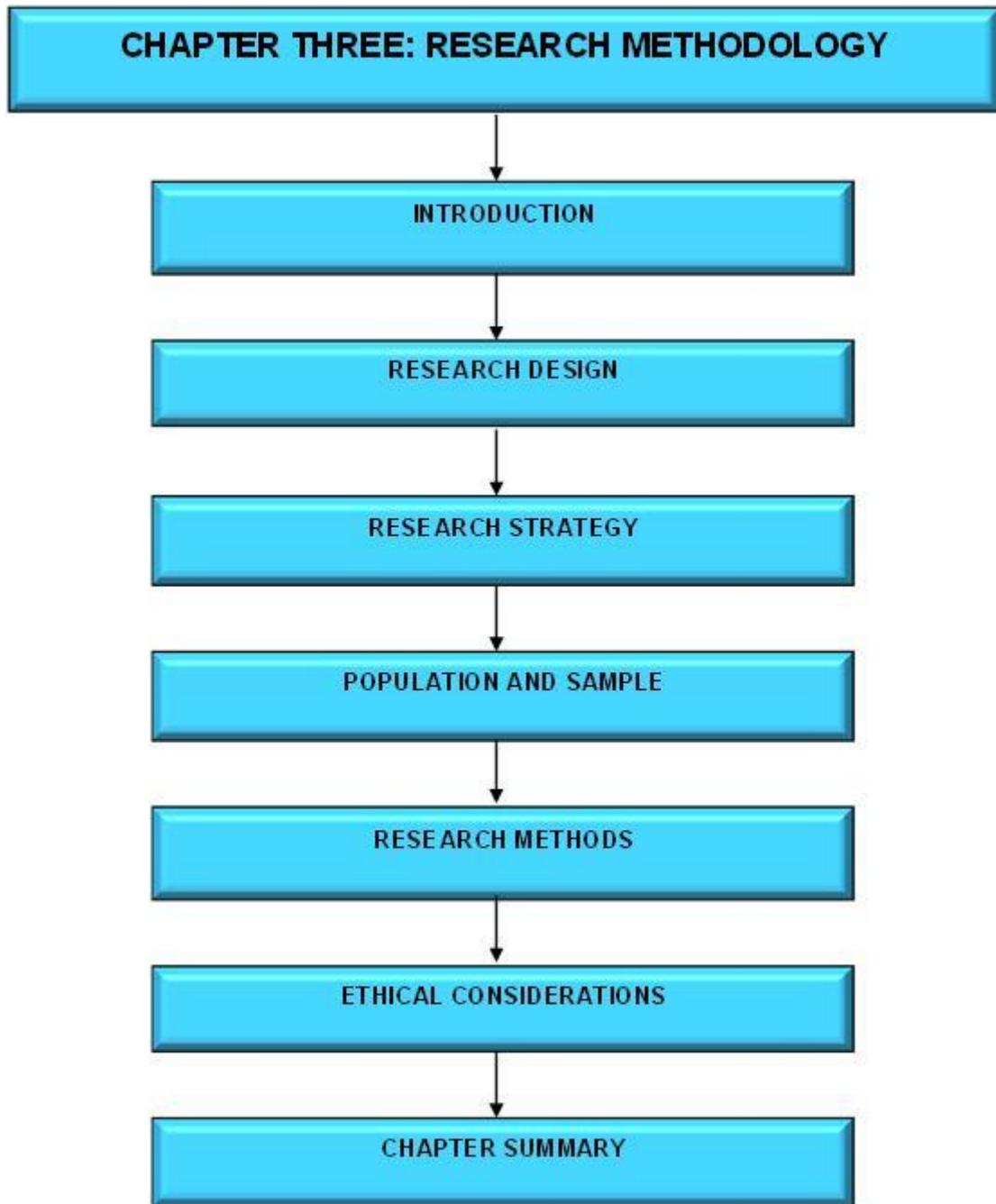


Figure 3.1: Graphical representation of Chapter 3

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

Chapter One provided an overview of the research methodology used for the purpose of this study. The present chapter discusses this research methodology in detail and focuses on the description of the design, approach, methods and techniques that were employed to achieve the research objective.

According to (Kothari, 2004:8) “Research methodology is a way to systematically solve the research problem”. Thus, one can say that, research methodology is a single process including other procedures that help to solve the problem. As represented in Figure 3.1, this chapter presents the research design as a ‘road map’ for the study, and describes the key techniques and processes used, notably:

- Research design and strategy;
- Population under study and sampling;
- Research methods;
- Ethical considerations.

3.2 Research design

Research design is defined by Kumar (2011) as “a plan, structure and strategy of investigation so conceived as to obtain answers to research questions or problems”. Similarly, Kothari (2004:8) adds that, research design is a conceptual structure in which a research project will be conducted. As is the case with a building project, conception is the focal point that defines appropriate methods and techniques to produce its deliverables.

Eventually, literature associates the research design with specific paradigms and approaches and, furthermore, with the relevant methods (Gray, 2013:19; Morgan, 2014:47). Therefore, the choice of design is essential for this research project owing to the fact that the rest of the research process depends on it. Furthermore, the research design has great bearing on the reliability of the research findings.

3.2.1 Choosing the qualitative design

Determining in which design to conduct this research, was a sensitive decision at the beginning of this study, as is the case for most social sciences research projects. According to Zikmund (2013:133) there are two predominant study designs used to conduct research, they are quantitative and qualitative research. The quantitative research is typically deductive, objective and general, while the qualitative research is typically inductive, subjective and contextual (Morgan, 2014:47).

Furthermore, the qualitative research is socially oriented and focuses on the way people interpret and make sense of their opinions and experiences associated with their environment (Hague, 2006:75). The qualitative design was chosen to conduct this research given that it has allowed the researcher to explore logistics outsourcing as a phenomenon in the context of SMEs, through the interpretation of experiences and opinions of logistics outsourcing users in the wine industry in the Cape areas.

3.2.2 Research approach

The research approach can be understood as the path that the researcher takes to arrive at the result. It involves the use of reasoning as the means for moving toward the research result. Logically, the research approach is not independent of the research design. Morgan (2014:47) confirms that the quantitative approach is associated with deductive reasoning, while the qualitative approach is associated with inductive reasoning.

According to Gray (2013:16), the inductive approach consists of collecting and analyzing qualitative data in order to observe the existence of patterns that emerge for the purpose of generalization and construction of theory. Thus, this approach has been adopted to achieve the objective of this research project because it has enabled the author to build a logistics outsourcing framework, from the subjective experiences, opinions and beliefs, in terms of logistics performance, from the personnel employed by the SMEs who participated in the case study.

3.2.3 Research paradigm

According to Bhattacharjee (2012:17) a research paradigm is the mental frame of reference that a researcher can use to organize his reasoning and observation. The author has distinguished two main approaches to paradigms, namely the positivism and interpretive approaches. In the positivism approach, the research believes that the social world exists externally to the researcher, and that its properties can be measured directly through observation (Gray, 2013:23). While in the interpretive approach, the world is interpreted through the classification schemas in the minds of subjects (Gray, 2013:21). Furthermore, in this latter approach to paradigms, it is believed that the reality to be studied consists of people's subjective experiences of the external world. This paradigm, associated with inductive approach, was relevant to this study because the experiences and opinions of the logistics outsourcing users in the participating SMEs, should be interpreted in order to explore the effects of outsourcing on the logistics performance in this category of enterprises.

3.3 Research strategy

In 'business' language, strategy implies the selected way of achieving the desired objective or attaining the solution to a problem (Frynas & Mellahi, 2011:6). Similarly, in the context of this study, strategy can be understood as chosen way to realise the objective of the study and to answer to the questions posited in the study. These definitions lead to the conclusion that the research strategy is driven by the research objectives.

3.3.1 Choosing case study as research strategy

As previously stated, the main objective of this research project was to determine How outsourcing can effectively improve the logistics performance in SMEs. Furthermore, its aim was to explore the effects of outsourcing on the logistics performance in this category of enterprises. In order to complete this aim and to achieve the objective; it was relevant to study the outsourcing process as practised in the 'real' world, namely in selected SMEs operating in the wine industry in Constantia, Stellenbosch and Paarl in South Africa. Consequently, the research was conducted by means of case study strategy.

Yin (2002:13) defines the case study as “an empirical inquiry that investigates a contemporary phenomenon within real-life context”. Furthermore, Bhattacharjee (2012:93) adds that, the case study helps to provide a more contextualized and authentic interpretation of the phenomenon. The reason of choosing a case study as the relevant strategy for this study is because, according to Gakure, cited by Perera *et al.* (2015), it would retain the logistics outsourcing from other emerging phenomena.

3.3.2 Brief view on case studied

As described in the introduction, this study explores the effect of outsourcing on the logistics performance in selected SMEs in wine industry in Constantia, Stellenbosch and Paarl, South Africa. According to Jooste *et al.*, (2015:306), the wine industry is one of the oldest in the country. This industry emerged in the middle of the 17th century with the arrival of Dutch Nationals in the country, particularly in the Cape Peninsula (Kruger, 2000).

Several reports on global wine production reveal that South Africa ranks among the top 10 wine producers, globally. Since the year 1990, the countries' wine industry has produced over a million tons of grapes annually (Meissenheimer, Karaan & Vink, 1990). According to the web site Top Wine SA, the country produced in 898.4 million litres of wine in 2016. Furthermore, the country has recorded annual domestic sales of 436.9 million litres and annual international sales of 451.8 million litres in the same year. (¹⁶)

(¹⁶) http://www.topwinesa.com/?page_id=8505 [31/07/2017].



Figure 3.2: Image of a wine farm in Stellenbosch ⁽¹⁷⁾

Although the industry is geographically far removed from the most important international wine markets, it is well-integrated in the world markets and has well-developed wine-related value chains (Anon, 2016a). In addition to that, Hamann *et al.* (2017:3) reveal that, despite the consolidation, multiple economic reforms, and regulations implemented in the last three decades, the wine industry in South Africa remains in the hands of a large number of small producers. The country has about 3,800 grape-farmers, mostly mixed farming SMEs, and just over 500 private wine cellars of which, the largest portion is in the Western Cape Province, and particularly in the Cape Peninsula (Hamann *et al.*, 2017:9).

⁽¹⁷⁾https://en.wikipedia.org/wiki/South_African_wine#/media/File:Stellenbosch-region.JPG
[15/10/2017]

Historically, the motherland of the South African wine industry is the Western Cape Province. The Cape Town region, traditionally called the Cape Peninsula, together with the regions surrounding Stellenbosch and Paarl, remain the major points of concentration all of wine producing activities. According to the data published in the review of the provincial level trade data, as quoted by Morokolo (2013:30), the Western Cape Province keeps the leadership for both the production and exportation of wine, and has had high export values over the past decade. In the same context, the industry is regarded as a driving force behind the provincial economic growth, through an interaction with other industries such as tourism and hospitality, as well as through increasing exports and job creation, all of which contribute to the provincial GDP.

3.3.3 Selected wine regions for study interest

The previous point describes the South African wine industry in general, with an emphasis on The Western Cape Province as South Africa's wine capital. According to Sikuka (2015), the 'Cape' is still an area of prominence in the wine industry being home to the major wine producing regions of Constantia, Stellenbosch, and Paarl.

As indicated on the wine regions map in Figure 3.3, these three areas are of interest for the purpose of the study, since they are representative of the wine industry in the 'Cape'. Constantia, Stellenbosch and Paarl are amongst the oldest wine producing regions in South Africa. In addition, these three regions are reputed in the local and international arenas as key operational wine producing sites.



Figure 3.3: Map of wine regions in the Western Cape Province ⁽¹⁸⁾

3.4 Population and Sample

Defining the population and sampling process are key steps in the research methodology because they constitute an inferential process that is significant to the final research result. This point discusses the population under study and sampling process used to determine a portion of population for observation and analysis.

3.4.1 Defining the population

According to the business dictionary, in research the 'population' is composed by "all elements, individuals, or units that meet the selection criteria for a group to be studied,

⁽¹⁸⁾ https://en.wikipedia.org/w/index.php/File:South_African_wine_regions.jpg
[15/10/2017]

and from which a representative sample is taken for detailed examination". This study was concerned with SMEs in the manufacturing sector, given that, in South Africa the SMEs sector comprises approximately $\frac{3}{4}$ manufacturing businesses (Sunjika & Sklar-Chic, 2012:199-2).

3.4.2 Sampling: Frame, method and size

According to Greener (2008:47), it is not practically possible to study the entire population. Consequently, a representative sample should be selected from the population of interest for observation and analysis, a process known as sampling. Bhattacharjee (2012:65), defines 'sampling' as the statistical process of selecting a subset of a population of interest, called a sample, for the purposes of making observations and statistical inferences about this population. As illustrated in Figure 3.4, a sample is a small part of the population under study, selected to represent this population in order to escape the practical difficulties of studying the entire population (Burns & Burns, 2008:181). Therefore, this study was conducted on the basis of a sample framed from selected wine manufacturing SMEs in the Constantia, Stellenbosch and Paarl regions.

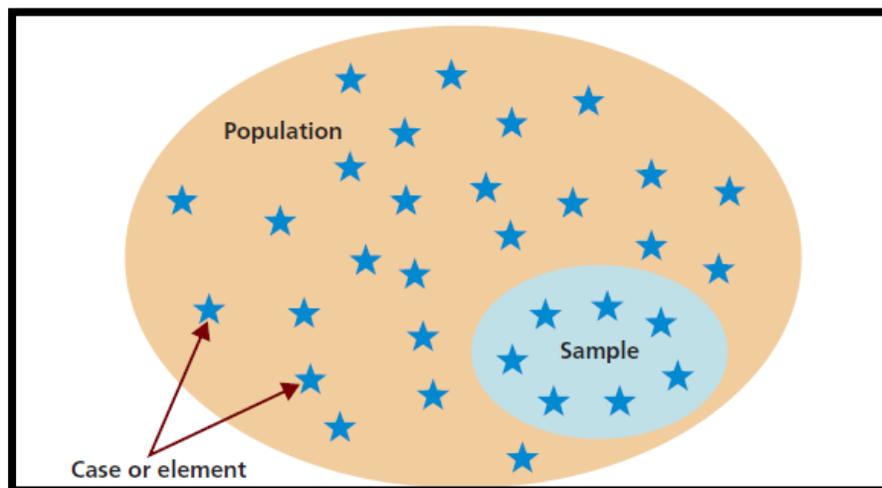


Figure 3. 4: image of sampling ⁽¹⁹⁾

⁽¹⁹⁾ <https://research-methodology.net/sampling-in-primary-data-collection/> [15/10/2017]

The sample frame of this study comprises SMEs involved in logistics outsourcing at whatever extent they are involved, that are located on the following major roads: Constantia Road, R44 and R45. These SMEs which are located on the three main roads of Constantia, Stellenbosch and Paarl, were identified and selected during the process of requesting for participation in the research interview.

In qualitative research, the samples are likely to be chosen in a deliberate manner known as purposive sampling (Yin, 2011:87). A purposive sample is a non-probable sample that is built on the preferences basis for specific purposes. Likely, Greener (2008:49) supports that, the purposive sampling is widely used in qualitative research, often with a small sample and mostly in case studies such as the one used for this study. The reason for choosing this sampling method is because only SMEs involved in outsourcing can be a source of the relevant information needed to achieve the study objectives.

In addition to the sample frame, the choice of sample size is also important. According to Yin (2011:89), there is not no standard formula to determine the sample size in qualitative study. However, as supported above by Greener (2008:49), the sample for such a study is relatively small. Therefore, based on the research design and methods chosen for this study, and the purpose of making the interview process practicable, it was determined that a small sample of 20 SMEs in total would be adequate. Given the saturation in data collection, due to the homogeneity in the operating modes of wine manufacturing SMEs, relevant data was collected from only 16 SMEs – 4 in Constantia, 7 in Stellenbosch and 5 in Paarl – from which the conclusions were drawn.

3.4.3 Sample unit and unit of analysis

The sample unit in this study is a single SME which is part of the case study. The unit of observation concerns the level at which the data is collected. The unit of analysis concerns the level at which data is analyzed and conclusions are drawn. ⁽²⁰⁾

In this study, the data were collected from only responsible for the logistics function in the SMEs under study. One respondent per each SME has been approached, and then

⁽²⁰⁾ <http://re-design.dimiter.eu/?cat=43> [30/07/2017]

constituted the unit of observation for this study. However, the collected data was analyzed within the perspective of SMEs and conclusions were also drawn using the same perspective. Therefore, the unit of analysis for this study has been constituted by a single SME.

3.5 Research methods

The research methodology as a whole, is a way to systematically solve the research problem (Kothari, 2004:8). One can also say that research methodology is the means of obtaining answers to the research questions. Furthermore, the method is concerned with how relevant information is collected and processed in order to answer the research questions. This section discusses in detail the methods and techniques used to collect relevant information and to analyse it for the purpose of achieving the aims of this study.

3.5.1 Data source

A rich literature discusses numerous data sources. In general, the data needed for a research study, can be collected from several similar or different sources. However, depending on the design and the objective of the study, relevant data can be obtained from either primary or secondary sources. Primary source data is information collected directly from the original source for a specific purpose, and used for the first time in a research study, while secondary data is information which has been stored or used for previous studies.

According to Nicholas (2010:69), the primary source data tends to be more reliable than secondary source data, especially for the qualitative approach such as being used in this study. Therefore, data for this study was collected by direct interviews with personnel responsible for logistics management in selected SMEs. The advantage earned from using primary source data in this study was that the sufficient relevant data was collected to achieve the research objective. In addition, the primary source data allowed the author to study the outsourcing process as phenomena arising from the dynamic experiences and opinions of logistics outsourcing users.

3.5.2 Data collection technics

The data for the purpose of this study was collected through the interview technique. According to Kumar (2011:144), the interview is a commonly used method of collecting information from people, mostly in qualitative studies. Likewise, Wauters and Lambrecht, cited by Asoba (2016), highlight that, the interview as qualitative method, enables the researcher to answer the "why and how" questions such as "How can outsourcing effectively improve the logistics performance of SMEs in Cape Town?" which was the main question in this study. Hence, interview was chosen as a suitable method to collect qualitative data for the exploratory case study of this research.

Furthermore, this method was realised through the semi-structured interview technique, thus ensuring that certain key questions were asked of every participant (Bhattacharjee, 2012:78). As advised by Dawson (2008:68), the interviews for this study included leading questions asked in a standard way which were then supported with interactive questions based on respondent's reactions.

The main advantage of the use of the interview technique was the ability of the researcher to record extra comments of respondents, and to record also his personal observations about their attitudes along with their answers to key questions since the interview was conducted face to face. By the way, the researcher adopted to record empirical information in written Notes. The choice of this particular form of recording information took cognizance of the appropriate ethical considerations, given that, respondents were wary of voice recording for confidentiality and anonymity reasons. In addition, the note taking method allowed respondents unlimited interaction with the interviewer (Dawson, 2008:66).

3.5.3 Data collection process

The collection process started with the definition of interview questions, based on the research questions, followed by the creation of the interview guide. As described in the previous point, the relevant data was collected through face-to-face interviews that were prescheduled with SMEs personnel responsible for logistics management and conducted in their offices at the scheduled time. Key data about the respondents'

experiences, opinions and emotions was recorded through note taking, given that respondents were sensitive to any voice recording.

3.5.4 Data analysis

The previous point has explained how the data needed for this study was collected. Thus, this point explains how the collected data was analysed in order to achieve the end-result of the study. According to Zikmund *et al.* (2013:459), data analysis consists of transforming raw data into filtrated and meaningful information. In the grounded theory perspective, exploratory qualitative analysis of data was conducted as a key part of qualitative designed study.

The grounded-theory technique is “an inductive approach, that allows the researcher to build theories about a social phenomenon, based on the interpretation of data collected about this phenomenon (Bhattacharjee, 2012:113). In this case study, the data collected about outsourcing process and partnership management, was analyzed in perspective to suggest a framework of logistics outsourcing that can drive effectively the logistics performance in SMEs.

To realise this process, the author used the constant comparative method. This analytical technique allows the researcher simultaneously to code and analyse by confronting the interviewee on the key concepts (Kolb, 2012:83). Therefore, the analysis consisted of:

- Capturing and codifying the data from interviews;
- Identifying themes and key concepts;
- Classifying themes and concepts;
- Grouping concepts into higher order categories
- Summarizing concepts.

Thus, the data was analyzed around four sub-themes of which the first is general and the three last sub-themes are based on the research sub-objectives.

- The first sub-theme analysis processed the findings related to the frequency and the level of outsourcing in SMEs and covers data obtained from question one to question three.
- The second sub-theme analysis processed the findings related to the logistics outsourcing process in SMEs and covers data obtained from question four to question six.
- The third sub-theme analysis processed the findings related to determinants factors of logistics outsourcing SMEs and covers data obtained from question seven to question nine.
- The fourth sub-theme analysis processed the findings related to the implications of outsourcing on the logistics performance of SMEs and covers data obtained from question ten to question sixteen.

3.6 Ethical consideration

The points and sub-points discussed earlier in this chapter describe the methodology used to solve the problem of this research. The ethical consideration is added to this list to demonstrate the importance of ethical behavior in the entire research process. Nowadays, ethics has become a very sensitive issue in all areas of life, to which one must comply. According to Cooper and Schindler (2014) "ethics refers to norms and principles guiding the moral choices of human inter-relationships". In the context of scientific research, Blanche *et al.* (2006:61) indicate that the consideration of ethical issues consists in protecting research participants, as well as the other areas such as scientific conduct and plagiarism.

However, throughout its entire process, this study has significantly involved human beings, and has been exposed to the academic and scientific principles of research. Indeed, this research study has complied with ethical principles relating to the protection of human beings and also with the scientific standards of research. Therefore, the author has considered the ethical issues such as: confidentiality and the anonymity of the respondents, their prior consent and voluntary participation in the data collection process. Further, the author also considered the control of plagiarism and copyright.

During its project phase, both before and after data collection, this study was submitted to an ethical clearance process implemented by CPUT through the ethics committee. The ethical clearance process consists of an examination of the research proposal and data collection tools on the one hand and on the other hand by confirmation through written evidence of the consent of the participants in the research study, as well as a plagiarism and similarity test. This ethical clearance process insured that the study responds to the key ethical principles such as protection of participants and originality of research as indicated by Blanche *et al.* (2006:61)

3.7 Summary

Chapter Three discussed the methodology used for the completion of this study.

20 wine producers were retained purposively as sample small and medium manufacturing enterprises in this industry, for a further qualitative analysis. In this approach, the grounded-theory technique was used to analyze the collected data and to elaborate the findings that will be presented in Chapter Four.

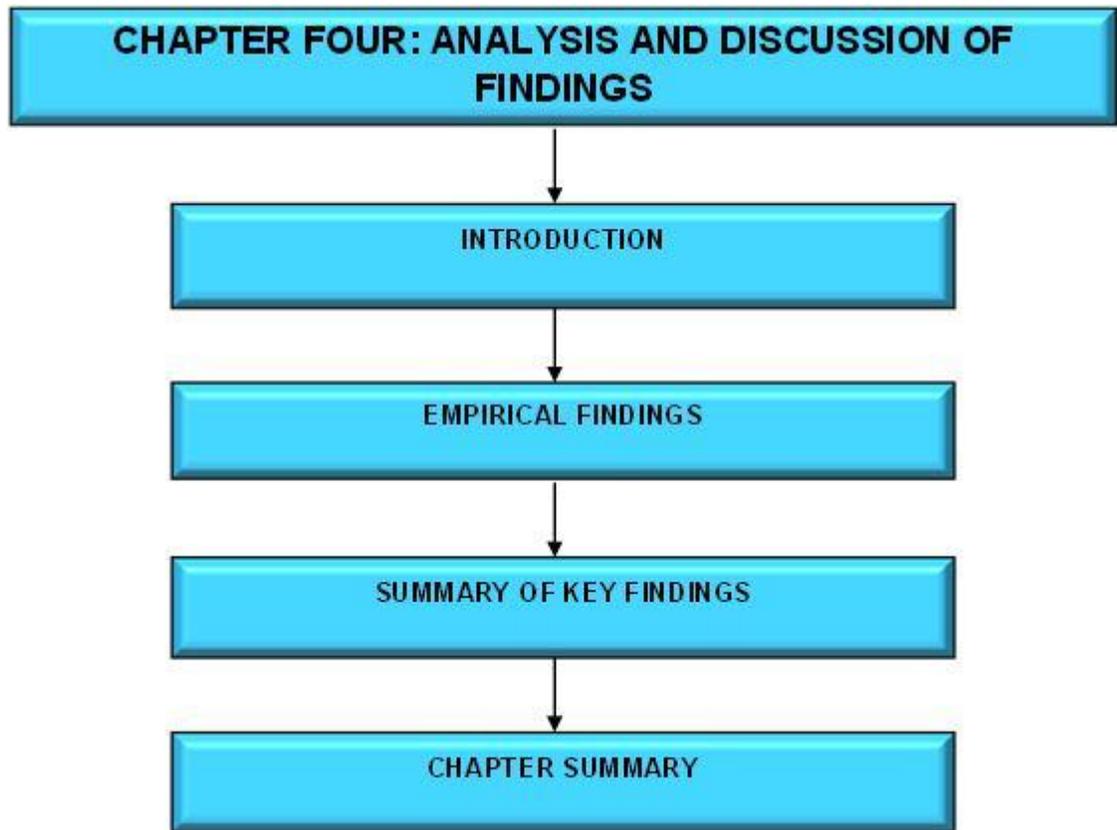


Figure 4.1: Graphical representation of Chapter 4

CHAPTER FOUR: ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Introduction

The first three chapters, namely the introduction, the review of literature and, the description of the research methodology, constituted the theoretical part of this research project that serves as the basis for analyzing the empirical findings. Whereas, this second part, beginning with this fourth chapter, constitutes the body of the research and deals with the evidence derived from the case study that allows the author to meet the aim of the research. As represented in Figure 4.1, this chapter analyses and discusses the findings from the case study, then summarizes these in order to draw the conclusions that are recorded in Chapter 5.

4.2 Empirical Findings on the outsourcing of logistics in wine industry

As indicated in the research methodology, this section is dedicated to the qualitative analysis and, thus, focuses on the concepts and their meanings, rather than on the quantification the data collected. Thus, all similar findings in relation to a particular interest are summarized by considering the most inclusive data. In addition, the respondents' emotional behavior is analyzed in order to interpret their subjective answers.

Question 1: Does your company outsource the logistics services? Regularly? If yes, to which frequency? If no, do you think that one day your company will do so?

When asked if their companies are involved in logistics outsourcing, the positive reaction of all respondents confirms that, in today's business environment, outsourcing logistics becomes unavoidable, especially for the SMEs. The following key responses were obtained:

- a) *We outsource logistics regularly. In today's business world we cannot achieve everything alone, especially in the distribution of our product.*
- b) *Yes, we outsource regularly, outsourcing is one of our racing horses.*
- c) *Logistics suppliers are our regular collaborators. Actually, the logistics investments are so expensive, that we cannot afford operating alone.*

- d) *We outsource logistics regularly; the outsourcing function has become our third hand, because the supply chain today requires professional technical capabilities, and much investment.*
- e) *We are regularly outsourcing when there is need. For instance, for local distribution we use our own trucks. But for long distance distribution we look for support from outside.*

Outsourcing logistics becomes unavoidable, especially for the SMEs. These reactions are supported by the studies of Kirby and Brosa (2011), as well Khuyen (2009), both of which demonstrate how outsourcing is a solution for logistics in SMEs. All respondents also indicated that their companies are involved in outsourcing logistics on a regular basis, and furthermore, that the logistics providers have become their alliance partners. This successful approach towards logistics outsourcing is confirmed by Li (2014:166).

Question 2: What are the most outsourced logistics services by your company? Transportation? Warehousing? Orders processing? Information Technology?

Asked about the most outsourced logistics services in their organizations as SMEs, all respondents revealed that SMEs outsource the same major logistics services as large organizations. The following key responses were obtained:

- a) *We outsource the full logistics package from the transportation to IT.*
- b) *We outsource the basic logistics services such as order processing, transportation, and warehousing.*
- c) *Our logistics provider focuses on orders processing and transportation, but also provides warehousing if needed.*
- d) *We outsource only transportation.*

From these answers it emerges that order processing has become the major outsourced logistics service in SMEs. As demonstrated by Mentzer *et al.* (2007:381), order processing becomes an important activity around which the logistics performance is built. However, as proven by several studies, such as Solakivi *et al.* (2011:137) transportation is still the core logistics activity and, thus, the most frequently outsourced by SMEs.

Furthermore, it clear that SMEs do no outsource the IT component as an entire logistics service. Only one respondent said that his company outsourced the full package of

logistics outsourcing that includes IT. This trend has been indicated in the study of Solakivi *et al.* (2011:137) that reveals that approximately 50% of the SMEs report zero outsourcing of logistics IT.

However, respondents explained that, although their companies do not outsource the IT service specifically, the other outsourced logistics services, such as order processing, are still supported by their suppliers' IT tools. At this point, it may be assumed that, although SMEs do not outsource the IT service directly, they do so indirectly.

Question 3: Do you outsource logistics services for local or international activities? And which type of logistics providers does you use, local or international?

In response to this question, respondents demonstrated that, although the SMEs are nationally based, they have significant interest in international logistics activities. The following key responses were obtained:

- a) *We outsource from South African based logistics service providers with an international foot print or international network, because we are greatly involved in exportation.*
- b) *We work with local logistics service providers (LSPs) who have international experience because we also operate in the international market.*
- c) *We use LPSs according to the level of service required, for more complex exportation transactions, such as to Europe or Australia, we use the reputed international LSPs because of their experience in the global market place, and we use local LSPs for domestic and neighboring markets.*

The above answers from all respondents responsible for logistics, demonstrate that, outsourcing logistics is relevant in the internationalization process of SMEs. SMEs in South Africa are significantly involved in the international arena. As supported by Mentzer *et al.* (2007:382), the interest to expand in the global market place significantly drives the outsourcing preferences of SMEs. All respondents referred to the exportation to demonstrate that, either for local or international activities, the useful logistics providers should be able to operate in both a local and an international perspective.

Question 4: How does your company commence the logistics outsourcing process?

Asked to explain how, or from what point, they commence the outsourcing process in their companies as SMEs, the majority of responses obtained from personnel responsible for logistics performance reveal that most of SMEs do not process logistics outsourcing effectively. The following key responses were obtained:

- a) *We start the outsourcing process by assessing the proposals of LSPs in comparison to our internal logistics procurement and logistics policies.*
- b) *We start the outsourcing process based on the market realities, but also on looking which LSPs can offer a low-cost service.*
- c) *We start the logistics outsourcing process by assessing the proposals from LSPs, and then we go for the most interesting offer.*
- d) *We start the outsourcing process when there is any confirmed order that needs to be filled, and then we contact the LSPs.*

A rich literature on logistics outsourcing, as well the logistics outsourcing process models presented by several researchers, such as Li (2014:117), indicates that the effectiveness of logistics outsourcing depends on the process that is built on the answer to the question “why outsourcing” as initial stage. However, responses from almost all interviewees responsible for logistics performance make it clear that, the majority of SMEs start their logistics outsourcing based on market habits, rather than on a specific internal problem or need. As indicated by Chao and Shah (2010:25), starting outsourcing is a process to solve a problem, that should be identified and understood. Likewise, Mentzer *et al.* (2007:385) confirms that the outsourcing process should not be addressed on the base provider’s proposal, but as an alternative to the internal problem. While all interviewees gave the impression that they did not fully understand how to solve their specific logistics problems through outsourcing. In contrast, they appear to be more interested in assessing the offers made by the LSPs [3PLs], which are not necessarily the most efficient solution to their problems.

Question 5: *In your opinion, what motivates your company to outsource logistics?*

Asked about what motivates or drives the outsourcing in their organizations as SMEs, respondents explain that the motives for logistics outsourcing in SMEs are similar to those of large organizations. The following key responses were obtained:

- a) *Today's business world is becoming more competitive than ever before. To survive in such a world, you must have a more competitive product or service. We outsource logistics because we prefer to relieve ourselves from such functions, so that we can concentrate more to our production and the product itself.*
- b) *3PLs have logistics investments and skills that we do not have, especially as a small company; we don't have sufficient funds to invest in such logistics assets. This is what mainly motivates us to outsource logistics. But also, detaching ourselves from a section of our operations, such as logistics, allows us to concentrate on our strategy and other major operations.*
- c) *The competition and market constraints become a burden to handle carefully in every industry. Cutting cost is among front line strategies to survive and sustain in such an environment. So, in our company, the logistics outsourcing is mostly motivated by the need to cut costs.*
- d) *The developments of global supply chains have made the logistics system very complex, requiring the specialized investment and skills. In addition, in today's business environment, a 'standalone' company cannot survive. You need to be connected. So, in our company, the outsourcing is motivated by the need to palliate to these challenges.*

A rich literature on logistics outsourcing indicates that decision to employ outsourcing in most business enterprises is grounded in the need to access specialized logistics skills or expertise, the need to cut costs and the need to network within the supply chain. Similarly, all respondents from this study confirm also that the logistics outsourcing decisions in SMEs are also driven by the needs associated the accessing specialized logistics skills or expertise, cost reduction and the access to networking within the supply chain. Despite some differences between industries, the discussion of Mentzer *et al.* (2007:377) on the factors driving the outsourcing decisions supports the opinions of respondents participating in this study. The author highlights aspects such as the need to access specialized logistics skills or expertise, the need to cut costs, and the need to network within the supply chain, among the key drivers of outsourcing in the last decade.

However, although sufficient literature confirms these factors as common motivating factors for logistics outsourcing in SMEs, none of interviewed logistics personnel were

able to understand and to demonstrate the specific outsourcing motivating factors in their organizations. Furthermore, SMEs do not conduct any prior studies or analyses to identify particular problems, despite the fact that Kreowski *et al.* (2011:172) advise that the logistics outsourcing motivation, should be well analyzed, and the reasons well defined, in order to limit the risk of failure.

Question 6: What are your criteria for choosing a logistics outsourcing supplier?

Respondents to the above question unanimously stated that, as SMEs, the criteria for choosing LSPs [3PLs] was related to cost reduction and quality improvement as drivers of logistics performance. The following key responses were obtained:

- a) *Often, our choice of logistics partner is driven mostly by the market realities and expectations of our customers. But, we also consider more the opportunities to save cost.*
- b) *To choose a LSP we look on his infrastructure, his industry knowledge and expertise to provide a reliable logistics service, but also his ability to respond to the realities of the market. In addition, we look at his ability to provide services at an affordable cost, and his capacity to work with us in the international market place.*
- c) *We choose partner that is able to keep our customers satisfied. He must be able to work professionally in order to provide a reliable logistics services, furthermore, his ability to offer an affordable good quality of service.*
- d) *The today's world of business is developing based on relationships. We prefer to work with a LSP that has an open business network, mostly in the global supply chain. In practice, we consider the capacity of a LSP to produce a reliable logistics service at an affordable cost.*

Although none of respondents mentioned it specifically, there is a direct link between the motivations of logistics outsourcing in the SMEs, and their choices of outsourcing suppliers. In the previous question, respondents indicated that their engagement in outsourcing logistics is mainly motivated by the need to access the specialized skills and knowledge that can perform their logistics services effectively, the need to cut cost, and the need to concentrate on the core process. Similarly, respondents again stressed that they considered the following factors when choosing their logistics outsourcing suppliers

–opportunities to reduce costs, the ability to provide a high-quality logistics service quality and to network with LSPs [3PLs] in the supply chain.

Furthermore, the SMEs' selection of LSPs [3PLs] is undertaken from an objective perspective, which is in line with the views of Smit and Watkins (2012:6327) who state that the lack of adequate resources and skills shortage are permanent issues in SMEs. However, the previous discussions demonstrate that SMEs personnel responsible for logistics management attach great importance to the defining of outsourcing motivations and objectives because the choice of LSPs should be aligned absolutely to the objectives of logistics outsourcing.⁽²¹⁾

Question 7: How do you manage the outsourcing arrangements to maintain good outsourcing partnerships?

All the respondents positively supported the idea that the outsourcing should not be managed as an isolated incident, but as a long-term relationship. Furthermore, respondents emphasized that; this long-term relationship should be built on a solid foundation. The following key responses were obtained:

- a) *It is obvious that long-term relationship is the core of the outsourcing partnership. We manage our outsourcing arrangement in more collaborative style. We have implemented a permanent system to communicate regularly with our LSP. That helps us to follow up on the ongoing process.*
- b) *At the beginning of our outsourcing arrangement, we agree on terms and conditions with our future partner because this allows us to assess our partnerships. Besides that, we implement a permanent communication system to follow up on the activities;*
- c) *The management of the outsourcing arrangement depends on good and effective communication with the LSP. An effective communication system allows us to monitor the outsourcing activities and guarantees transparency on both sides.*

All the respondents acknowledged the relevance of a good business relationship management as being essential to the success of the outsourcing partnership as asserted by Dittman and Vitasek (2016:19). Furthermore, all respondents revealed that

⁽²¹⁾ Cerasis, *The Essential Guide to Third Party Logistics: What is a 3PL, Considerations for Hiring, & How to Select & Implement a 3PL.*

SMEs build upon this effective communication system to maintain a long-term outsourcing relationship. An effective communication process is critical for maintaining an ongoing outsourcing relationship and consistent follow-up procedures. ⁽²²⁾

The communicational approach, adopted by SMEs to grow the logistics outsourcing relationship, meets the principle of collaboration, that enables the alignment and commitment of the partners in the supply chain in order to enhance the expected performance in partnerships that aim to yield performance (Mentzer *et al.*, 2007:366). In addition, SMEs, build on the agreement according to the in terms and conditions defined in the contract to maintain an effective outsourcing relationship. An outsourcing relationship built on the agreement of terms and conditions, ensures that all partners sustain their level of commitment (Davis *et al.*, 2012:334).

Questions 8 & 9: What are the factors influencing the outsourcing decision? In your opinion, are the most influential factors to outsourcing logistics in the wine industry, internal or external? Why?

When responding to these two questions, all respondent demonstrated that the factors influencing the logistics outsourcing decision in SMEs are strongly linked to the motivational factors. At certain levels these factors are the same. The existence of this similarity is reinforced by Cahill (2007), cited by Khuyen (2009). The following responses were obtained from the respondents:

- a) *Mainly, our outsourcing decision is often influenced by the factors that can drive cost reduction or cost saving. For instance, the choice of a LSP is influenced by his asset capacity to generate the economy of scale and to offer an affordable cost.*
- b) *According to our experience, the factors influencing the outsourcing decision are not separate from motivational factors. Therefore, our outsourcing decision, in my opinion, is influenced by the factors that drive cost reduction and improved customer satisfaction. Mostly they are: the knowledge of our industry by the LSPs, their professionalism and assets capability.*
- c) *We are a small company, we expect the outsourcing to facilitate getting our costs reduced, and we expect them also to provide a reliable logistics service that*

⁽²²⁾ <http://www.farousa.com/services/what-makes-a-good-3pl-company> [02/10/2017]

makes our customers satisfied. So the factors influencing our decisions are those that can turn into these expectations.

- d) When making a logistics outsourcing decision in our company, we focus on the technical capability of the 3PLs. Logistics is more technical than theoretical assistance. When a logistics supplier is technically up-to-date, his technical capability allows cost saving, and also provides high quality service that challenges competitors;*
- e) The wine industry is among the most regulated and the knowledge of the industry is a very critical factor in the choice of logistics supplier. However, among other factors, such the economies of scale, the reliability and international experience, the most influential factors are mostly externally driven. This situation is because in the decision-making process, we pay much attention to the requirements of our customers. In addition, we also consider the market forces such as the competitors. Consideration of the regulatory framework is also very important in the industry is also the.*

Similar to the data provided regarding outsourcing motivations, the factors that influence the logistics outsourcing decision in SMEs, are also related to the desire to save costs, to access the specific logistical assets and skills of the LSPs [3PLs], and the need to extend in the supply chain. Furthermore, the discussion with the interviewees revealed that SMEs mainly focus their logistics outsourcing decisions on strategic approaches, while logistics outsourcing is more operational in practice. In the perspective of performance, Li, (2014:117) suggests that when making an outsourcing decision, more specific operational criteria have to be considered. **

In addition to that, respondents support the claim that the logistics outsourcing in their industry is externally oriented, because, the factors that influence it are market driven. This opinion is supported by Zailani *et al.* (2015) that say that, outsourcing decisions are based on service related considerations, which depend on the market environment and client needs. In the same context, although much seduced by cost reduction in their outsourcing decision making, respondents believe that the expertise of the outsourcing provider would be the best decision-making factor, given that expertise is a key factor in driving logistics performance. Likewise, Sople (2012:200) supports that, the industry expertise of the outsourcing provider has to be taken seriously.

Question 10: What expectations does your company have regarding outsourcing providers?

Asked about the expectations that their companies have regarding the outsourcing providers, the reactions of respondents reveal that SMEs expect a great deal from the outsourcing provider. On top of expectations regarding outsourcing, SMEs expect LSPs [3PLs] to act in some ways as their commercial agents. However, all expectations converge to the cost efficiency and quality effectiveness driven by LSPs. Therefore, the following key responses were obtained:

- a) *We expect them to work with us in synergy for cost reduction, and to keep our customers satisfied with reliable service. In addition, as paradigms change, we expect also flexibility from them in order to respond to eventual changes.*
- b) *For us, the outsourcing provider is a consultant from whom we expect all the technical logistics solutions. Especially we expect outsourcing to be the solution to cost reduction cost and, at the same time, to yield reliability in logistics.*
- c) *We expect outsourcing providers the provide the expertise and professionalism that helps provide cost reduction and customer satisfaction. But the outsourcing providers must be also flexible enough to adapt to all eventual market changes.*
- d) *We expect from outsourcing providers a logistical and technical capacity that helps us to control the lead time, to save costs, and to provide reliable service.*

The main expectation of personnel responsible for logistics performance in SMEs is to ensure that the LSPs [3PLs] provide solutions to their logistics problems. They expect the LSPs to be their logistics expert, with technical knowledge and competency. Obviously, the expertise of the outsourcing provider has been proven as a major driver of logistics performance. “*Logistics outsourcing has moved from the economies of scale to the economies of skills*” this statement of Mentzer *et al.* (2007:382), is supported by the opinions of the respondents, since the changes in global market constrain all organizations to focus on specialized skills.

Furthermore, SMEs expect the LSPs to possess the flexibility to react all the changes in the global market. This level of expectation, meets the statement of Sople (2012:202) that indicates that, logistics outsourcing provides the operational flexibility to meet the

changing needs of the customers. The flexibility of LSPs is not only a source of competitive advantage for SMEs, but also a source of logistics performance.

The summarized expectation of SMEs in terms of outsourcing, as stated by the respondents, is to reduce their costs and to improve their service quality. According to Vrlíková and Tkáč (2014) , the minimum cost and maximum service quality are fundamental to achieve logistics performance. Furthermore, these attributes can be acquired through outsourcing. Outsourcing logistics is currently treated as a strategic solution to improve the quality of service and to reduce costs (Sople, 2012:200).

Question 11: How does the outsourcing relationship affect your success in the supply chain?

With regards to the effects of logistics outsourcing on their supply chain relations, all respondents have positive experiences. SMEs evolve within a complex and challenging supply chain. The opinions of personnel responsible for logistics management support the statement that outsourcing is a solution for succeeding in the supply chain. Therefore, the following key responses were obtained:

- a) *Acting as the intermediary and the contact point, outsourcing providers support the relationship of trust between our customers and us, which guarantees the control of our market share. The outsourcing process has also allowed us to expand our business network even with our virtual partners, which also offers us the opportunities for growth. To some extent, the outsourcing provider acts as our brand management agent since they represent us physically in market place.*

- b) *We have always had good experience from logistics outsourcing, particularly with regard to satisfaction from our customers. With their logistics assets, IT tools and expertise, the LSPs have allowed us to meet the market demand at the highest level; they also have allowed us to control the lead-time, and to limit waste, returned goods and customer complaints.*

As demonstrated earlier in the previous discussion recorded above, positive relationship gained through LSPs is a source of several advantages for SMEs. For instance, according to Murphy *et al.* 2012:269) outsourcing relationships, offer small firms

potentially alternative options to access needed resources. Likewise, Waugh and Luke (2011:339) also state that logistics outsourcing is a source of strategic repositioning.

From comments on their supply chain relationships, respondents demonstrated also that outsourcing has allowed them to gain advantages on some performance metrics, such a meeting their customers' demands at a higher level, controlling the lead-time, limiting waste, returned goods and customer complaints (Pienaar & Vogt,2012:482).

Question 12: What is your opinion of outsourcing as a way toward improved logistics performance in SMEs like yours?

All personnel responsible for logistics performance in SMEs, who were asked for their opinions on outsourcing as a way toward improved logistics performance, reacted positively with the key following responses:

- a) *In today's business environment, no business organization can stay out of outsourcing. Outsourcing the logistics and some functions like recruitment and tax management, allows us to concentrate on the core functions, especially on the products and increasing our overall performance.*
- b) *We don't have any other choice. Through the technical competencies and knowledge of outsourcing providers we can improve our logistics in terms of delivery quality and customer satisfaction. In addition, the current market environment requires an up-to-date logistics system that constantly requires new investments. Outsourcing saves us from these investment costs, and allows us to increase our return on investment.*
- c) *By an efficient flow of distribution of our product, driven by the LSPs, we increase our turnover with the same fixed charges. Also, we are kept out of paying overhead charges such as overtime pay and storage costs.*
- d) *Outsourcing is a good option to allow SMEs to focus on our major business. In addition, we expect outsourcing to enable us to satisfy our customers with a reliable logistics service and also, to help us to reduce costs. In our case, we have a good experience of customer satisfaction through outsourcing.*

All the above evidence provided by respondents aligns with assertions of researchers such as Walters (2003:216), Solakivi *et al.* (2011:) that support the claim that

outsourcing is a source of improved logistics performance. For instance, based on experience, one of respondents says that, “*outsourcing saves us from investments costs, and helps us to improve our logistics performance in terms of delivery quality and customer satisfaction*”, thus reiterating respondents’ opinions of outsourcing as a way toward improved logistics performance. Their responses support the statement of Sople (2012:198) which indicates that outsourcing has been reported as a source of cost reduction and quality service improvement, by several companies around the globe.

Question 13 & 14: In your opinion, what implications does the outsourcing function have on logistics costs and service quality in SMEs? How does outsourcing affect the logistics costs and service quality in wineries?

In response to these twin questions, personnel responsible for logistics performance have, based on their experience, demonstrated that outsourcing has positive implications on the logistics performance in SMEs. Respondents emphasize that it is the technical competencies and logistics expertise of LSPs [3PLs] that drive both cost efficiency and quality effectiveness. The following responses were obtained:

- a) *Through the expertise of outsourcing providers, especially their ‘know-how’, and their IT applications, we exchange information with our customers without any problems. This contact allows us to deliver the right product, to the right customer, at the right time. This type of action provides us with reliability and responsiveness in logistics.*
- b) *Our outsourcing provider has good experience in the distribution of alcohol and beverages which allows us to fill our orders perfectly, and in large quantities and to have them delivered on time and in the right condition. This level of efficiency protects us from customer claims and other related administrative costs, such as overtime.*
- c) *Yes, outsourcing helps us to save costs at certain levels. Through the interface organized by our outsourcing provider, we can operate with our customers in a B2B model that allows us to be efficient in the management of the demands of our customers, and to eliminate some administrative costs. In addition to this, our LSP has expertise in the logistics of alcohol and beverages, which allows us also to reduce our waste, and, more especially, to be reliable in our service.*

- d) *Outsourcing has affected our cost and the quality of our service mainly through the 'know-how' of our logistics suppliers, but also with the IT they provide us, they allow us to decrease the lead time. Through their IT system, we exchange information smoothly with our customers, which avoids delays and errors in delivery. But also, our LSP has all the assets in logistics, starting with the elevators and the trucks, it saves us from having to invest in these assets;*
- e) *First, our outsourcing provider has expertise in the logistics industry, and also mastery of our industry, that allows us to have a reliable logistic service. The LSP has the IT that allows transparent and accurate communication between us and our customers. On top of that, their technical capacity allows to us reach a greater quantity and value of deliveries while remaining with the same fixed costs.*
- f) *In addition to that, LSPs make 1 logistics assets available to us that would otherwise incur heavy costs for us. This saving helps us to realize a good return on investment. However, we don't have any experience of direct advantage on cost, such as on service price. The cost of managing the outsourcing, added to the cost of paying for this service, means that we don't see any financial advantage offered by the outsourcing process.*

From the evidence and experience of the respondents, it is noted that, the outsourcing positively affects the logistics cost and service quality, through the IT tools and logistics assets owned by LSPs [3PLs], as well their expertise. However, the evidence from some respondents indicates that, while the implications of outsourcing on service quality effectiveness seem direct and visible, the implications on the cost efficiency are not always evident. Furthermore, respondents have focused on three factors to demonstrate the effects of outsourcing on cost efficiency and quality effectiveness.

With the evidence such as *"the IT run by the outsourcing providers allow us to share information smoothly with our customers, which avoids delays and errors in deliveries"*, interviewees' responses demonstrate that the IT tools provided by the outsourcing providers, enables efficient order processing which eliminates some administrative costs. Not only the IT but also the logistics assets owned by outsourcing providers allow shippers to avoid logistics investment costs, furthermore, to avoid costs related to maintenance, capital and depreciation. The most significant single factor that creates

synergy with other factors, and has great implication on quality effectiveness and cost efficiency is the expertise of LSPs [3PLs]. The evidence of respondents such as *“experience in the distribution of alcohol and beverages that allows us to fill our orders perfectly, and in large quantities, and to have them delivered on time, and in the right condition. This level of efficient protects us against customer claims, and other related administrative costs, such as overtime”* is sufficient to demonstrate that, any opportunity to reduce logistics costs, or improve logistics service quality, is driven by the logistics assets and the IT tool owned by outsourcing providers. It should be noted that the expertise of LSPs is a key to achieving these advantages.

The above recorded implications of outsourcing on logistics cost efficiency and logistics services quality, through the logistics assets, IT and expertise of outsourcing providers, are confirmed by many researchers. Ayers (2001:415) confirms that, 3PLs excel in creating interface and additional internet software, as well EDI channels, that results in improved document distribution and flexibility and enables saving on related logistics costs such as purchasing costs. Likewise, Ross (2003:301) supports the respondents claims that the IT tools provided by 3PLs significantly improves the flow of shipping information, that, in turn, impacts positively on the logistics agility and logistics administrative costs. Furthermore, Zailani *et al.* (2015) add that, common facilities owned by LSPs encourage efficiency because they are used for several customers and thus offer the opportunity to generate economies of scale, that can result in an more affordable logistics service.

Question 15 & 16: How do you measure the performance of your Logistics Services Providers (LSPs) and your satisfaction with this performance? As an SME, what are the major elements you consider important in the logistics performance metric and why?

Contrary to the previous twin questions, the responses of personnel responsible for logistics management to these questions reveal that the logistics in SMEs is obstructed by the fact that, the measurement framework is not effective. The following responses were obtained from the participants:

- a) *We don't have a standard model to measure. But usually we follow up regularly on feedback from the market. We generally look at the order 'feel rate', the delivery time, and also the cost of delivery.*
- b) *We measure both logistics performance and logistics service performance at the same time. We consider the feedback from customers as the basic framework, at the same time we balance it with our internal reports. We look on the order 'fill rate', we look at the rate of broken or damaged goods, the average lead time, and also the rate of delivery cost compared to sales volume'.*
- c) *To measure our outsourcing provider and our satisfaction, we always refer to the satisfaction of our customers, because all we do is for them. In the logistics metric we consider first the order fill rate, then the reliability and the volume of logistics cost.*
- d) *We do not necessarily measure logistics performance. It is often difficult to measure, but we look on the monthly report to appreciate the outsourcing. For instance, we look on the volume of delivery; we look also on how much it costs us.*

The responses such as: *"We do not necessarily measure logistics performance"* and *"We don't have a standard model to measure"* reveal that the notion of logistics performance measurement and the evaluation of LSPs [3PIs], is not effective in SMEs. And yet Berrah (2013:41) affirms that the performance makes sense only, if it is measured. In addition, several researchers, such as Li (2014:117), demonstrate that logistics outsourcing as process needs to be measured at a certain point.

Furthermore, though respondents indicate that their standard of measurement is focused on customer satisfaction and cost reduction, it emerges that SMEs do not use sufficient metrics to measure logistics performance and to evaluate the outsourcing process they employ. According to the metric structure stipulated in the standard of performance measurement in the supply chain, as presented by Pienaar and Vogt (2012:482), on the one hand, cost efficiency is built on the reduction of costs and logistics assets as metric attributes, while, on the other hand, the quality of effectiveness focuses on the reliability, responsiveness and agility as metric attributes. In contrast to these claims, the respondents indicate that their organizations focus only on cost reduction and reliability

as a means of measuring their logistics performance and evaluating the outsourcing process.

In the same context, Kreowski *et al.* (2011:176) assert that the performance measurement should be tailored around the objectives. While the discussion emanating from the previous questions demonstrate that SMEs do not set up effectively either their logistics objectives or outsourcing objectives. This lack of planning makes it difficult to set the standard of performance measurement, whether for the logistics itself or for logistics outsourcing. Similarly, respondents give the impression that they are not really aware of their needs in outsourcing logistics, while Kreowski *et al.* (2011:176) indicate also that to measure effectively their partnership, SMEs have to develop the performance measurement system that aligns with their needs.

4.3 Key notes on findings

From the above data analysis, the key findings on the outsourcing of logistics in wine industry are summarized as below:

- a) According to the evidence generated through this case study, SMEs in the wine industry that is a portion of manufacturing sector are sufficiently involved in logistics outsourcing.
- b) Based on the finding from the wine industry, SMEs in the manufacturing sector outsource mainly transportation and order processing. In the current configuration, SMEs in the wine producing industry in the Cape areas seem to outsource order processing more than warehousing.
- c) Through their relationship with outsourcing providers, SMEs expand their supply chain. By the means of effective communication, SMEs can monitor the outsourcing relationship and maintain its standard.
- d) The expertise of LSPs [3PLs], their assets and technical and IT capabilities are the key determinants in the logistics performance in SMEs, since they are the key motivational factors. At the same time, they are the key decisional factors, in key decisions such the choice of LSPs. Beside these factors, the choice of outsourcing providers by SMEs depends also on the LSPs' knowledge of shipper's industry.
- e) The effects of outsourcing on logistics performance in SMEs are driven by the LSPs' expertise, logistics assets and IT tools that, at the same time, drive the quality

- effectiveness and the cost efficiency, by delivering “the right product to the right customer, at the right time, in the right condition”.
- f) Most of SMEs in wine industry have good experience in directly improving their logistics service quality by the outsourcing, while achieving the cost reduction seems to be indirect
 - g) Based on the finding from the wine industry, it is noted that SMEs expect a high standard of professionalism from outsourcing providers, and, in particular, their flexibility in reacting continuously to the dynamic of the market place.
 - h) The logistics outsourcing process in most of SMEs is not consistent from the initial stage, given that personnel responsible for logistics management in these enterprises cannot accurately define the reason or objectives for outsourcing logistics.
 - i) Another point of inconsistency in the logistics outsourcing process as noted from the wine industry is that personnel responsible for logistics management in SMEs cannot establish their standard of performance measurement, since it is linked to the objectives.

4.4 Summary

Throughout this chapter, which is considered as the core section of this research project, findings from respondents were analyzed and discussed. Furthermore, as empirical findings from the case study, the responses from interviewees were summarized question by question in a methodical manner, in order to draw the conclusions.

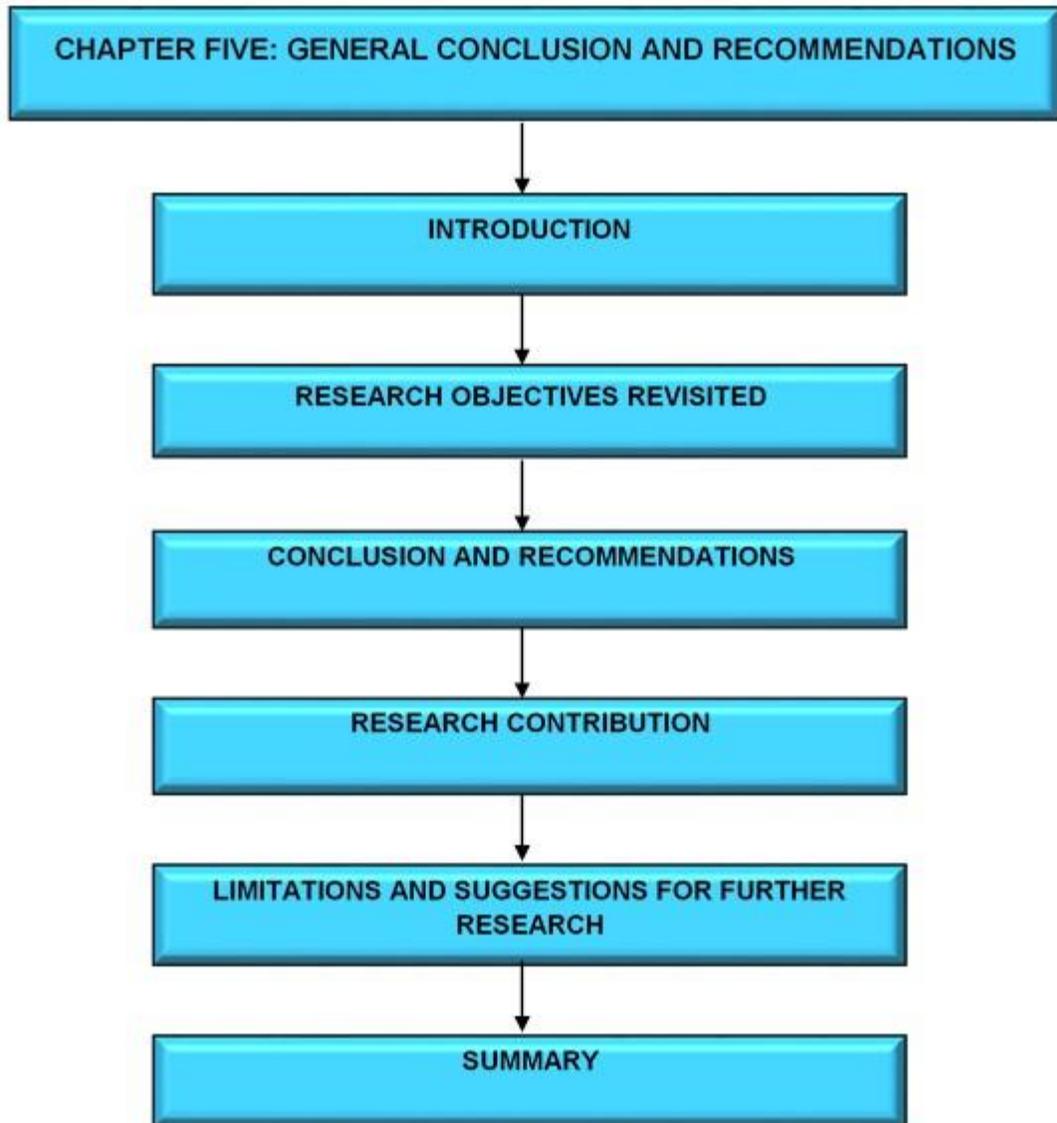


Figure 5.1: Graphical representation of Chapter 5

CHAPTER FIVE: GENERAL CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In the previous chapter, findings from the case study were analyzed and discussed based on relevant literature. In this chapter, conclusions from the findings are drawn based on studies' objectives, and relevant recommendations are made and elaborated accordingly.

As a reminder, this research aimed to explore the effects of outsourcing on the logistics performance in SMEs. Its main objective was to determine how outsourcing can effectively improve the logistics performance of SMEs. Thus, the aim and objectives were met based on the analysis and discussions of the findings emanating from the case study. Further, it emerged from the case study that, the specialized competencies of LSPs [3PLs] significantly improve the efficiency and effectiveness in logistics of SMEs. This enhancement is essentially driven by the expertise, the logistics assets and the IT tools provided the LSPs. Furthermore, this enhancement depends on how SMEs manage the outsourcing process.

Thus, this chapter revisits the research objectives, it sets out the overall conclusion on findings with relevant recommendations, before providing the useful contributions the study. Finally, eventual limitations are highlighted, and possible topics for further research are suggested

5.2 Research Objectives revisited

5.2.1 Logistics Outsourcing Process in SMEs

The main observation is that the logistics outsourcing process in SMEs is not sufficiently effective to improve logistics performance. According to Steverson (2007:217), in the context of operations such as outsourcing logistics, the process is a key toward performance. In the same context, Li (2014:166), supports that the success depends on its management as a process. Likewise, Wisner and Stanley (2008:401) demonstrate the relevance of effective process management in the achievement of logistics objectives.

The findings demonstrate that the logistics outsourcing process in SMEs is not effective from the initial stage that is “defining the outsourcing motivations”. Furthermore, the limitation of the fundamental phase affects as well other levels of process, such as the choice of logistics partners. Likewise, SMEs cannot control effectively their outsourcing process and measure their logistics performance objectively.

5.2.2 Drivers and Determinants of Logistics outsourcing decisions in SMEs

The influencing factors of the logistics outsourcing decision in SMEs are not very different from those influencing the same decision in the large organizations. However, their outsourcing process is not necessarily the same than large organizations. As decisional factors, determinants of outsourcing decisions in SMEs are associated with the motivational factors. These factors are the expertise, the ITC and logistics assets of LSPs [3PLs], that are needed to cover the skill shortages and insufficient logistics assets in SMEs. From SME’s perspective, ‘expertise’ encompasses the capability of LSPs to efficiently ran the logistics operations and related information, their deep knowledge of the operating industry, as well as their international experience. While ‘logistics assets’ encompass the ensemble of principal logistics materials, namely the appropriate transportation equipment, warehousing and storage system, as well other logistics support equipment owned by LSPs that can enable SMEs to avoid various logistics investments costs.

5.2.3 Implications of outsourcing on the logistics systems of SMEs

From the empirical findings, it emerges that, the outsourcing affects the logistics performance in SMEs at the internal level (company) through cost efficiency, and at the external level (customers) through quality effectiveness. The IT tools and logistics physical assets owned by the LSP [3PLs] drive the cost efficiency and quality effectiveness. These two factors are also supported by the logistical expertise [experience and knowledge of shipper’s industry] of the LSP. Thus, the common implications are:

- a) The outsourcing of logistics supports SMEs’ supply chain in creating value, and allows them to focus on products and brand, and creates synergy in the overall performance process.

- b) The IT tools owned by LSPs [3PLs] enable SMEs to share information with customers smoothly and accurately which prevents mistakes and shortens the lead time.
- c) The IT tools owned by LSPs enable SMEs to fill customer orders perfectly at a higher rate.
- d) The expertise of LSPs and their knowledge of the SMEs' industries, allow SMEs to adapt to relevant changes in market environments.
- e) The combination of IT tools, logistics assets owned by LSPs, and their expertise, enable SMEs to optimize operation, and to save on some operating costs, such as inventory management costs and customer management costs.
- f) The physical logistics assets owned by LSPs [3PLs] enables SMEs to save on physical logistics investment costs, and to avoid related costs such as depreciation, maintenance and costs of capital. This saving allows SMEs to benefit also through the cash cycle time (short cash cycle). At the same time, it allows SMEs to increase their Return on Investment due to the low value in fixed assets that excludes the logistics investment.

5.3 Conclusion and recommendations

5.3.1 Conclusion on findings

The overall findings of this study leads to the conclusion that, the outsourcing function continues to emerge as a solution for SMEs in this competitive age. Through the logistics competency of LSPs [3PLs], SMEs achieve their logistics objectives. In the manufacturing sector, SMEs such as those under study [Small Wine Producers] benefit from the up-to-date technology, logistics assets capability and expertise of LSPs [3PLs] to improve their logistics quality and maximize their customer satisfaction. Similarly, they benefit from the logistics competency provided by 3PLs which saves them from logistics investment and enables them to reduce certain logistics costs.

Despite the potential opportunities to capitalize from outsourcing, almost all SMEs outsource logistics on a routine basis more than on clearly defined motivations or objectives. Although the personnel responsible for logistics management interviewed strongly recognize outsourcing as a source of logistics performance, they do not

measure or determine this degree of performance, due to a lack of logistics objective metrics [Performance measurement framework].

In sum, the outsourcing process improves effectively the logistics performance if it is objectively managed. However, from the findings of this study, the following recommendations are offered as a framework for outsourcing that will drive logistics performance in SMEs to a higher extent.

5.3.2 Recommendations

From the key notes on findings, as well as the concluding remarks, some recommendations are prescribed below, to enhance the effectiveness of outsourcing in driving logistics performance in SMEs in the manufacturing sector.

- a) Before expecting outsourcing to be the path towards enhanced logistics performance, logistics managers in SMEs should first understand outsourcing as a solution to a specific problem. In order to do this, they will have to clearly define this problem, which will be broken down into objectives to be assigned to the outsourcing process.
- b) In a logistics performance approach, SMEs should manage their outsourcing operations as a process. A process modeled on the generic management, a process shaped in a cycle that moves from the definition of objectives to their control as follows:
 - Identification of need [problem] and Setting the clear objectives of outsourcing;
 - Choosing relevant LSPs [3PLs] based on the objectives;
 - Conducting the ongoing outsourcing relationship;
 - Evaluating the outsourcing process on the basis of the objectives.
- c) SMEs should choose the LSPs [3PLs] objectively from the perspective of the required solution to their logistics problem, and not from the perspectives of the special offers of LSPs. Thus, they should choose the LSPs based on:
 - The IT processing capability of LSPs;
 - The logistics assets capability of LSPs;
 - The logistics expertise of LSPs;
 - The knowledge of their industries by the LSPs;

- The international capability of LSPs.
- d) SMEs should define clearly their logistics performance metrics and attributes in line with the logistics objectives as performance framework. Preferably, their logistics performance should be measure based on:
- The reliability in logistics service;
 - The responsiveness in logistics service;
 - The agility in logistics service;
 - The volume of operating logistics costs;
 - The volume of investment cost in logistics assets.

Furthermore, SMEs should evaluate the outsourcing process based on this performance framework.

5.4 Research contribution

Two aspects of contribution are deduced from this research study, namely the practical aspect and the methodological aspect.

- In the practical aspect, the outcome of this study contributes to the effective improvement of logistics performance in SMEs. In addition, it contributes to the overall performance of SMEs that is relevant to their sustainability and growth.

Furthermore, the outcome of this study contributes to the economic growth of South Africa. Given that SMEs are the engine of most countries' economy, the sustainability of SMEs, built on financial and operational performance, is the corner stone in the foundation of the economic growth of the country.

- In the methodological aspect, the contribution of this research is linked to its design. As qualitative study, the outcome from the inductive reasoning provides the logistics decision makers with an outsourcing framework that is built on the experiences and opinions of logistics outsourcing users. In addition, as findings from the case study indicate, the outcome of this research is grounded in real world experiences, that are helpful in increasing knowledge regarding both SMEs and logistic performance.

5.5 Limitations and suggestions for further research

Although some useful contributions come out from this research, it was limited at some extent. Due to financial and material constraints and other limitations such as access to data, the findings of this research could be considered limited. The research was restricted to selected SMEs [wine manufacturers] in three regions in and around Cape Town, South Africa. In addition to that, only qualitative data were analyzed. Extending this research to other geographical regions and sectors, or increasing the sample size with quantitative analysis using statistical tools, would improve the reliability and validity of the findings, and lead to the more robust end-result.

Furthermore, this research leaves some areas open for further research. Any further research on this topic will help SMEs to understand the approach to outsource logistics as source of performance and growth. Therefore, this research can be completed by the study of the following topics:

- a) The impact of outsourcing logistics on the financial performance of SMEs. For instance, the study can investigate the relationship between logistics outsourcing and revenue, as well the operating cost and, finally, establishing the relationship with all margins.
- b) The role of logistics outsourcing on the internationalization process of SMEs. The study of this second topic should attempt to explain the perspectives of using LSPs [3PLs] for successful internationalization of SMEs.

5.6 Summary

In summary, this research work covered five focus areas:

1. The rationale of the study which stated the research problem, the research objectives of the research and questions leading to the achievement of the objectives.
2. The survey of relevant scholarship in the form of literature on logistics outsourcing, logistics performance and on SMEs in particular. It highlighted on the advantages of logistics outsourcing in business organizations, with a particular focus on SMEs.
3. The description of the research methodology that was sufficient to address research problem to achieve the research objectives. It was qualitative approach with the

design, strategy and methods. A sample of 20 SMEs from the manufacturing sector was investigated. However, data were collected from only 16 small wine producers that constituted the case study of the research.

4. The collected data were discussed and analyzed where the grounded- theory technique was used to transform the empirical data into useful information.
5. In terms of conclusion and recommendation, it emerged from the study that, the ITC, the logistics assets owned by LSPs, and their expertise are the key determinants of logistics outsourcing. These characteristics drive positive implications on the logistics performance of SMEs. In addition, it is recommended that improvement of the management of outsourcing is needed to address logistics performance weaknesses in SMEs.

Finally, it is suggested that further research as an extension to this study be conducted using quantitative approach that may provide another perspective of logistics performance.

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Appendix A: CPUT ETHICS APPROVAL CERTIFICATE



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Office of the Chairperson Research Ethics Committee	Faculty: BUSINESS
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At a meeting of the Research Ethics Committee on 21 November 2016, Ethics Approval was granted to MUELA ARTHUR CLAUDE KULONDI (213258234) for research activities Related to the MTech/DTech: MTECH: Business Administration at the Cape Peninsula University of Technology

Title of dissertation/thesis/project:	LOGISTICS OUTSOURCING BY SELECTED SMALL AND MEDIUM MANUFACTURING ENTERPRISES IN CAPE TOWN Lead Researcher/Supervisor: Dr M Twum-Darko
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Comments:

Decision: APPROVED

 Signed: Chairperson: Research Ethics Committee	21 NOVEMBER 2016 Date
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APPENDIX B: SAMPLE OF CONSENT LETTER



Date: 31 August 2016

I, PK Steenkamp, in my capacity as General Manager at Groenland, give consent in principle to allow Mr Claude Muela, a student at the Cape Peninsula University of Technology, to collect data in this company as part of his M Tech Business Administration research. The student has explained to me the nature of his research and the nature of data to be collected.

This consent in no way commits any individual staff member to participate in research, and it is expected that the student will get explicit consent from any participants. I reserve the right to withdraw this permission at some future time.

In addition, the company's name may or may not be used as indicated below. <<Tick as appropriate>>

	Thesis	Conference paper	Journal article	Research poster
Yes				
No	x	x	x	x

A handwritten signature in black ink, appearing to read "PK Steenkamp", is written over a light grey rectangular background.

31-08-2016

Groenland Wines

Kuilsriver

7579

Appendix C: INTERVIEW COVERING LETTER



Dear Sir/ Madam

Request for you to participate in an interview

I am a registered Masters student at the Cape Peninsula University of Technology, department of Graduate Centre for Management. I am conducting research. The title of the research is: **Logistics outsourcing by selected Small and Medium manufacturing Enterprises in Cape Town.**

The general objective of the study is to determine how logistics outsourcing can contribute to the logistics performance of SMEs in Cape Town.

Consent to participate in the study (Please place an X in the appropriate box only)

1) I understand that my participation in the study is entirely voluntary and that I am free to stop at any time	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
2) I understand that I cannot be identified by my answers and that my answers cannot be linked to me.	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
3) I understand that I do not have to answer any question I do not wish to answer for any reason.	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
4) I agree that the information I give may be used in research and that this research will not reveal my personal identity.	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
5) I have understood the information regarding my participation in the study and agree to participate.	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>

Dr. M.T. Darko (Supervisor of researcher)

Mr. M.A.C. Kulondi (Researcher)

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APPENDIX D: Interview guide

Research Questions	Interview guide questions
<p><u>Main Research Question</u></p> <p>How can outsourcing improves effectively the logistics performance of SMEs in Cape Town?</p>	
<p><u>Introductory questions</u></p>	<ul style="list-style-type: none"> • Does your company outsource the logistics services? Regularly? If yes, to which frequency? If no, do you think one day your company can go for it? • What are the most outsourced logistics services by your company? Transportation? Warehousing? Oder processing? • A) Do you outsource logistics services for local or international activities? B) Do you use international or local logistics providers?
<p><u>Sub-research question 1</u></p> <p>How do SMEs outsource their logistics services?</p>	<ul style="list-style-type: none"> • How does your company start the logistics outsourcing process? • What are your criteria for choice logistics outsourcing supplier? • How do you manage the outsourcing arrangements to maintain good outsourcing partnerships?

Research Questions	Interview guide questions
<p><u>Sub-research question 2</u></p> <p>What are the determinants of logistics outsourcing decisions in SMEs?</p>	<ul style="list-style-type: none"> • What are the factors influencing the outsourcing decision? • In your opinion, what motives the logistics outsourcing decision in your company? <ul style="list-style-type: none"> • What are the (internal) push factors? • What are the (external) pull factors? • In your opinion, the most influencing factors to outsourcing logistics in wine industry are internal or external? Why?
<p><u>Sub-research question 3</u></p> <p>What are the implications of outsourcing on the logistics systems of SMEs in Cape Town?</p>	<ul style="list-style-type: none"> • What expectations the company has regarding Logistics Services Providers? • How does the outsourcing relationship affect your success in the supply chain? • What is your opinion on outsourcing as a way toward logistics performance in SMEs like yours? • In your opinion, what implications does outsourcing function have on logistics costs and logistics services quality in SMEs? • In your opinion, what implications does outsourcing function have on

	<p>logistics costs and logistics services quality in SMEs?</p> <ul style="list-style-type: none"> • How does outsourcing affect the logistics costs and logistics services quality in wineries? • How do you measure the performance of your Logistics Services Providers and your satisfaction with this performance? • As SME, what are the major elements do consider in the logistics performance metric and why?

APPENDIX E: LETTER FROM GRAMMARIAN (EDITING & PROOFREADING

DECLARATION OF LANGUAGE EDITING

The dissertation submitted in fulfilment of the requirement of the Degree of Master of Technology in Business Administration in the Faculty of Business and Management Sciences at the Cape Peninsula University of Technology entitled:

The effects of outsourcing on the logistics performance of selected Small and Medium Manufacturing Enterprises in Cape Town, South Africa

By Muela Arthur Claude Kulondi

has undergone an English language-edit by Dr Barbara Basel

D.Litt. University of Pretoria, MA Potchefstroom University, BA UNISA
Executive Member of English Academy of Southern Africa
Lecturer in English Literature and Linguistics at Pearson Institute of Higher Education, Cape Town Campus.
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7 January 2018

