

# THE RELATIONSHIP BETWEEN LOGISTICS SERVICE OUTSOURCING AND PERFORMANCE OF IMPORT-EXPORT COMPANIES IN HO CHI MINH CITY

**Dr. Nguyen Thanh Hung**

*nguyenhung@ufm.edu.vn*

*Faculty of Commerce, University of Finance – Marketing, Ho Chi Minh City, Vietnam*

## **Abstract**

*The emergence of globalization has made outsourcing become one of the business strategies widely applied to provide the best services for businesses in the private and public sectors. While some researchers have analyzed the concept of outsourcing and its effect on the performance of the organization, very little research has been done on this issue in the context of import-export firms. Therefore, the absence of this research raises the question: “What is the impact of logistics outsourcing operations on the performance of import-export companies?” This quantitative study was conducted in one of the key economic centers - Ho Chi Minh City - to answer the above question. Respondents for this study included import-export and logistics staff (including managers and supervisors) at import-export enterprises. The results show the positive effects of outsourcing logistics services to the organization's performance and at the same time identify outsourcing activities that positively affect the performance of import-export businesses.*

**Keywords:** *Import-export company, Logistics, Outsourcing, Organizational performance,.*

## **1. Introduction**

Outsourcing, which is the strategic use of external resources to carry out activities handled by employees and internal resources, has received increasing interest in management practices around the world in recent decades (Bhattacharya, Singh and Bhakoo, 2013). The reasons companies decide to outsource are so different, the motivations most often mentioned are to achieve cost benefits or focus on core competencies. These two drivers are often linked together as an argument while managers use outsourcing to improve the use of capital investments by concentrating company human and capital resources on corporate operations activities (Quélin & Duhamel, 2003). In addition to these main motivations, other reasons for outsourcing mentioned in studies include achieving best practice by approaching external capabilities (Kakabadse, 2002); converting fixed costs into variable costs (Alexander and Young, 1996); and act as a tool to adapt to rapidly changing environments (Leavy, 2004). Increasing a company's internal focus on core business is often thought to improve performance and, as a result, increased market value.

Outsourcing is a management strategy through which a company assigns some non-core functions to more efficient, specialized service providers so that the organization can execute and focus on core business activities. The trend of globalization has driven many companies to outsource services from specialized firms to focus on their competitive advantage. Companies are sometimes forced to seek outsourced services due to a lack of human resources because they face challenges of acquiring the right skills and knowledge to enable them to gain world class competencies similar to what is expected of the service providers (Kremic, Tukel & Rom, 2006).

Outsourcing decisions are influenced by an organization's ability to invest in capacity development and maintain a position of competency superior to that of its competitors. Processes in which the organization lacks the necessary internal resources or competencies can be outsourced. Organizations can access additional capabilities from external providers that cannot benefit from implementing those processes internally (Irina, Liviu and Ioana, 2012).

The outsourcing concept has not received considerable attention and support, which can be considered as a favorable condition for improving the development and performance of an organization in Vietnam. The import and export sector needs enormous logistic mechanisms and requires careful management of this in order to achieve the organization's operational effectiveness. The core business of an import-export company is to do international business even though they still need to purchase goods, manage inventory, clear customs and transport goods. All of these other activities are not core and can be outsourced so that import and export companies can focus on their core function of doing international business.

Although some scholars (Bhattacharya et al., 2013; Njuguna, 2010; Kroes & Ghosh, 2010; Bustinza, Arias-Aranda and Gutierrez-Gutierrez, 2010) have demonstrated the positive effect of logistics outsourcing on activities of the organization, but there is a lack of research on this issue in the context of import-export companies. Therefore, further experimental studies are needed to shorten this research gap.

Scholars have defined outsourcing in many different ways. Previously, Lonsdale and Cox (2000) defined outsourcing as "the process of transferring an existing business, including related assets, to a third party". For their part, Bustinza et al. (2010) defines outsourcing as an organization retaining responsibility for providing services but assigning the day-to-day performance of those services to an external organization, according to contracts with agreed standards, costs, and conditions. In this study, outsourcing is defined as "the strategic use of external resources to carry out activities handled by employees and internal resources" (Bhattacharya et al., 2013).

Outsourcing is based on many theories, but this research applies the following theories: Resource-Based Perspectives, Transaction Cost Economics, Core Competencies and Contract Theory.

### ***1.1. The structure of outsourcing***

From the studies reviewed, four main structures of outsourcing are identified: cost reduction, quality improvement, technology adaptation and risk management.

#### *a. Cut the cost*

Outsourcing frees up capital, thus allowing investment in core operations, improving the organization's focus, freeing up management time and reducing staff costs and giving the organization flexibility (Lysons & Farrington, 2006). Reducing costs and improving efficiency are frequently cited as the main drivers of outsourcing. Smith & McKeen (2004) call them “outsourcing performance” is done with the clear goal of saving money through staff cuts and other resources.

#### *b. Improve the quality*

Quality is the ability of a product or service to consistently meet a customer's needs and expectations by delivering value for money. Growth in outsourcing is attributable to firms that need diverse and high quality services to survive and excel in rapidly changing external environments (Kok & Richardson, 2003). However, building strong outsourcing partnerships faces challenges given that companies don't know how to choose their outsourcing provider and poorly manage outsourcing relationships (Kok & Richardson, 2003). Quality can be described as being suitable for use. Quality in outsourcing contracts exists when the contract serves its function and meets the goals of both parties.

Outsourcing contracts can be affected by human and environmental factors in the organization. To build a satisfying relationship with service providers, businesses need to equip themselves with the knowledge and ability to appropriately manage relationships (Ren, Ngai, & Cho, 2010). In their research, Lee & Kim (1999) found that outsourcing success is influenced by 5 factors: trust, business understanding, benefit and risk sharing, conflict and commitment, while Anderson & Narus (1990) found other factors such as top manager's support, communication, and seniority of relationships. Successful outsourcing allows companies to achieve their organizational goals and build a competitive advantage (Han, Lee, & Seo, 2008).

#### *c. Technology adaptation*

Organizations are choosing to outsource non-core service activities such as HR services, Finance, Transport, IT and Engineering to both local and global service providers who have experience and better technical know-how in those fields. In any case, outsourcing such functions is a challenging process. The process is driven by factors that are not merely cost reduction (Moen, Somaya, & Mahoney, 2013). Other factors such as service design, job management in different cultures and business process redesign are important factors that must be considered in outsourcing management. The service provider is also responsible

for making changes in the service industry as needed due to changes in technology (Holcomb & Hitt, 2007). Similarly, when a company does not have the necessary qualifications to perform non-core activities, outsourcing may be an option.

Increasing inflation rates keep product prices rising, calling for more capital, and pressuring companies to reduce costs further in order to maintain their short- and long-term survival (Moeen, Somaya, & Mahoney, 2013). Manufacturing is expensive and requires high operating costs, thus becoming the main reason for outsourcing.

Device failure leads to delays in the delivery of products and services, which in turn results in poor organizational performance resulting in customer dissatisfaction and loss of goodwill. For specialized (and individually built) equipment, knowledge and skills to perform maintenance and spare parts required for replacement are required from original equipment manufacturers (OEMs) (Holcomb & Hitt), 2007). Therefore, the customer must have a maintenance service contract with the OEM which results in a non-competitive market. If the resellers provide maintenance service instead of OEM, the switching cost will prevent the customer from changing their service agent, so the customer is tied up and can't do anything without major financial harm (Moeen et al., 2013).

#### *d. Risk management*

The goal of outsourcing should be to unleash management and create trust so that companies take more risks in more value-added core businesses. However, outsourcing business activities leads to serious risk issues related to operational changes related to human resources, physical assets, technology and business processes, leading to operational risk (Irina et al., 2012). Furthermore, outsourcing brings uncertainty as the new relationship between service provider and company represents an unproven agreement. In addition, it is difficult to justify whether the carrier performs the task better than the one internally performed (Lungescu, Pampa & Salanta, 2011). While outsourcing can come with different types of risks, they are all related to performance. This requires a risk assessment before entering into the outsourcing agreement for any business function (Irina et al., 2012).

Outsourcing results in loss of control, loss of critical skills and knowledge, loss of intellectual property, insecurity, quality of service can be reduced, and costs can increase and lose the ability to innovate (Wayman, two thousand and thirteen). There is also a need for continuous monitoring and monitoring of the service provider relationship as well as for dispute resolution. The most important challenge is how to deal with the change in the balance of power in favor of the service provider (Weele, 2010).

Due to the fact that the parties to the outsourcing contract have a long-term relationship, many issues need to be considered. Several aspects are of interest in contracting. According to Weele (2010), risks related to outsourcing contracts can be aggregated as technical risks, commercial risks, contractual risks or performance risks.

Several scholars (Bhattacharya et al, 2013; Njuguna, 2010; Kroes & Ghosh, 2010; Bustinza, Arias-Aranda, and Gutierrez-Gutierrez, 2010) have demonstrated that outsourcing positively affects team performance. This will be discussed in the next section.

### 1.2. Organizational performance

According to Jenatabadi (2015), organizational performance can be broadly defined as “a set of financial and non-financial indicators that provide information on the extent to which objectives and outcomes are achieved”. Cocca and Alberti (2010) argue that organizational performance can be represented by the following aspects: effectiveness, efficiency, quality, productivity, quality of work, profitability, innovation and learning.

Efficiency refers to an organization's ability to fulfill its goals in the right way while efficiency refers to the full use of resources to accomplish its identified goals. Quality refers to the ability to effectively meet or exceed customer expectations (Jiménez-Jiménez & Cegarra-Navarro, 2007); productivity is related to the ratio of output to input; quality of work life that indicates an employee's emotional response to their work and organization (Pavlov & Bounce, 2011); profitability refers to revenue that exceeds cost while innovation refers to the continual improvement of a product / service or process (Rhee, Park & Lee, 2010); and according to Argote (2011), learning is defined as the ability of an organization to continuously create, store and transfer knowledge within the organization. Key aspects of organizational activity identified by other scholars include the ability to innovate (Liao & Wu, 2010; Rhee et al., 2010); productivity (Field, 2011); employee satisfaction and the ability to amplify to acquire, transfer and utilize new knowledge (García-Morales, Lloréns-Montes, & Verdú-Jover, 2008); competitive advantage (Hsu & Pereira, 2008), and improving the organization's reputation (Calantone, Cavusgil and Zhao, 2002).

## 2. Method

This study seeks to expand the knowledge in the field of logistics management by improving and testing a model that assumes logistics outsourcing activities are the determinant of the organization's performance.

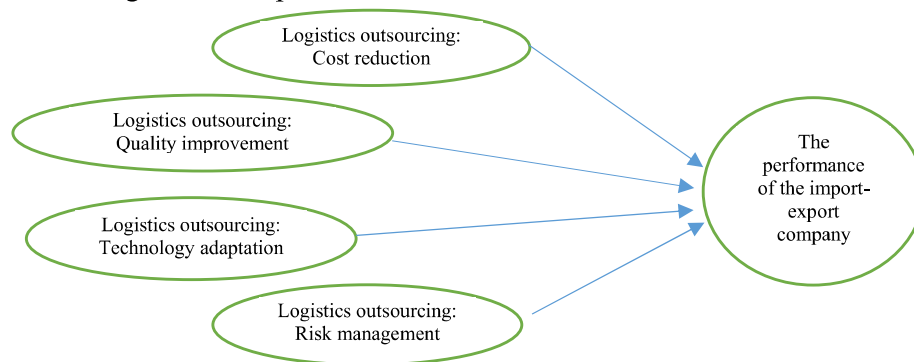


Figure 3.1. Research model (Source: Nzitunga, 2019; Joyclare, 2020 and author)

Because outsourcing frees up capital, thus allowing investment in core activities, improving the organization's core competencies, freeing up management time and reducing staff costs as well as bringing in the organization more flexibility (Kenneth & Lysons, 2006), the first hypothesis is thus derived:

H1: Cost reduction through logistics outsourcing positively affects the performance of import-export companies.

Scholars (Ren, Ngai, & Cho, 2010; Han, Lee, & Seo, 2008) have found that outsourcing provides improved quality by using a knowledgeable service provider, experience and expertise in providing a particular service, improving the organization's operational efficiency. Therefore, the second hypothesis is developed:

H2: Quality improvement due to logistics outsourcing positively affects the performance of import-export companies.

In Moeen, Somaya and Mahoney (2013) found a positive effect of technology adoption from outsourcing on organizational performance. From there, there is a reason to believe that this is also the case for the import and export sector. Therefore, a third hypothesis was formed:

H3: There is a positive relationship between technology adaptation achieved from logistics outsourcing and organizational performance in the import-export industry.

Several researchers have provided evidence of a positive association between risk management and organizational performance (Nair, Purohit, Choudhary, 2014; Saleem & Abideen, 2011). Therefore, the fourth hypothesis is deduced:

H4: Effectively manage risks due to logistics outsourcing that can positively affect the organization's performance in the import-export industry.

### **3. Results**

For this study, a quantitative approach was used. Measurement data are used to form facts and explore patterns in research. This approach was chosen because the study seeks to test a set of hypotheses and it is an appropriate approach for a study designed to analyze theory through proposed hypotheses and collect data to support or refute these hypotheses (Leedy and Omrod, 2010). The sample subjects for this study included import-export and logistics staff (including managers and supervisors) at import-export companies in Ho Chi Minh City.

#### ***3.1. Sample***

Due to the application of the EFA analysis method, the sample size is based on two factors: the minimum size and the number of measurement variables. According to Hair et al. (2010), the minimum sample size is 50, preferably 100, and the ratio of observations /

measurement variable is 5/1, meaning that each measurement variable needs a minimum of 5 observations. The study has 32 measurement variables, so the minimum sample size is  $5 \times 32 = 160$ . Research crowd is import-export enterprises in Ho Chi Minh City. The study used a simple random sampling method. Questionnaires were sent to import and export businesses by email, fax and directly. The total number of questionnaires distributed was 350, returned 270 with valid samples of 253 corresponding to 93.7% rate used as research data. Out of 253 observations, the distribution followed (table 3.1).

Characteristics of the research sample showing gender, age, academic level, position in the enterprise, the results are shown in Table 3.1.

**Table 3.1. Sample characteristics**

3.1.1 Gender

<b>Gender</b>	<b>Quantum</b>	<b>Ratio</b>
Male	160	63.2
Female	93	36.8
Total	253	100

3.1.2 Age

<b>Age</b>	<b>Quantum</b>	<b>Ratio</b>
19 - 29	73	29
30 - 39	142	56
40 - 49	28	11
Over 50	10	4
Total	253	100

3.1.3 Academic level

<b>Level</b>	<b>Quantum</b>	<b>Ratio</b>
Post graduate	32	12.7
Bachelor	165	65
Baccalaureate	48	18.9
Import-export certificate	8	3.4
Total	253	100

3.1.4 Position

<b>Position</b>	<b>Quantum</b>	<b>Ratio</b>
Governor	10	4
Manager	30	12
Staff	157	62
Others	56	22
<b>Total</b>	<b>253</b>	<b>100</b>

### 3.1.5 Outsourcing field

<b>Outsourcing activities</b>	<b>Quantum</b>	<b>Ratio</b>
Warehousing	35	14
Inland transport	23	9
Package	10	4
Consolidation & Deconsolidation	15	6
Chartering	43	17
Documentary	127	50
<b>Total</b>	<b>253</b>	<b>100</b>

*(Source: author's data)*

According to the analysis, there are 160 men and 93 female respondents, which shows that the number of male workers in import-export companies accounts for nearly twice the number of female workers at the rate of 63.2 and 36.8%, respectively. The results also showed that the majority of respondents (56%) were between the ages of 30 and 39. Only 4% of the respondents were 50 years of age or older. The rest, at the age of 19 - 29, make up 29% while 11% of the respondents are in the age group 40 - 49. This shows that the import-export companies hire the workforce mainly in the age group 30-39 and very It is rare to hire workers aged 50 and over. The reason may be due to the many movements between customs departments, ports and ICDs, shipping agency agency offices, packing and withdrawing container goods with a variety of time, so import and export companies. giving priority to young and dynamic laborers. The proportion of 4% of respondents in the age group above 50 can also be attributed to the fact that the labor force in this age group has become a manager, making it more difficult to access the sample.

The results showed that the majority of respondents (65%) have a bachelor's degree, while a baccalaureate degree is only 18.9% and postgraduate is 12.7%. This result shows that import-export companies mainly hire workers with bachelor's degrees, very few hire



workers with import-export certificates because the work involves a lot of specialized profession, needing judgment. , analyze and solve problems and situations. In terms of positions and positions in the organization, the results show that most of them are employees (62%), while a very small percentage is the director (4%). The rest of the respondents are managers (12%) and other positions (22%). Due to their busy work, senior managers and directors are difficult to access and if they can do so, these individuals often authorize subordinates to answer the survey. Regarding the outsourcing field of logistics services, the results showed that document operations accounted for the largest proportion (50%) compared to other service sectors that import-export companies performed. This proportion shows that the main outsourced logistics services of import-export companies are import and export customs clearance procedures, finalization of processed goods norms, import and export taxes, thereby showing for import and export enterprises, customs procedures are considered to be complicated and complicated operations and should be outsourced.

### 3.2. Inspection scales using Cronbach's coefficient alpha reliability

Analysis results of Cronbach's alpha (table 3.2) show that most scales have Cronbach's alpha coefficients greater than 0.6 and total variable correlation coefficients greater than 0.3 (Hair et al., 2010). So the standard, ensuring reliability scales will be included in the analysis of the discovery factor EFA.

**Table 3.2. Results of analysis of confidence coefficients Cronbach's alpha**

Concept	Number of variables	Cronbach's alpha	Corrected Item-Total Correlation	Conclusion
Cost reduction	6	0.947	0.661 – 0.909	Yes
Quality improvement	6	0.913	0.621 – 0.849	Yes
Technology adaptation	6	0.908	0.606 – 0.832	Yes
	6	0.925	0.657 – 0.873	Yes
	8	0.841	0.416 – 0.751	Yes
Risk management				
The performance of the import-export company				

(Source: author's data)

### 3.3. Explore factor analysis (EFA)

The results of the factor analysis method are evaluated through KMO coefficient, loading

coefficient, the difference between two or more factors, eigenvalue and total variance explained.

After analyzing Cronbach Alpha, the observed variables of the model continue to be included in the analysis of the exploratory factors EFA according to the Eigenvalue standard greater than 1 and 05 factors are extracted. KMO coefficient = 0.843 > 0.5, so all variables are satisfactory. The total variance extracted is 82.552, which means that these 5 extracted factors explain 82.552% of the variation of the data and are satisfactory. With Varimax rotation, the loading coefficients are all greater than 0.5 and meet the conditions of factor analysis. Therefore, these 5 observed variables are accepted and continue to be included in multiple regression analysis to consider the impact level of the independent variable on the dependent variable of the research model.

Name and explain the factor: The observed variables after being handled and removed appropriately, the variables with large loading coefficients in the same factor will be the explanatory variables for that factor and based on the nature of the specific variables that the factor includes will find a new name for the factor, this property is called the discovery property, which is a prominent feature of EFA.

From the KMO and Barlett's test results, we have KMO coefficients of 0.843, greater than 0.5 and sig of 0.000, less than 0.005. Total Variance Explained results show that the total variance extracted is 82.552%, greater than 50% and the Rotated Component Matrix results show that all factor loading factors Factor loading are greater than 0.5. At the same time discover a new factor. Specific results are in (table 3.4)

**Table 3.4. Results of explore factor analysis EFA**

Concept	KMO	Sig.	Cumulative of Variance	Loading factor
	0.843	0.000	82.552 %	
Cost reduction (CP)				0.705 – 0.947
Quality improvement (CL)				0.701 – 0.860
Technology adaption (CG)				0.655 – 0.879
Risk management (RR)	0.749	0.000	71.768%	0.680 – 0.886
Market flexibility (LH)				0.637 – 0.851
Organizational performance (HS)				0.534 – 0.861

*(Source: author's data)*

The following EFA adjusted research model is:

Organizational Performance = Function (Cost Reduction, Quality Improvement, Technology adaption, Risk Management, Market Flexibility).

*Test assumptions of the linear regression model*

In order for the results of the analysis to have broad implications from the sample to the whole, the study continues to perform the step of testing the assumptions of the regression model. To perform the linear regression analysis step, the model must ensure that there is no multicollinearity phenomenon, because “multicollinearity makes our assessment of the impact of each independent variable on the dependent variable into deviation”(Hoang & Chu, 2008).

**Table 3.5. Multicollinearity test**

Model	Unstandardized		Standardized		t	Sig.	Collinearity Statistics	
	Coefficients		Coefficients				Tolerance	VIF
	B	Std. Error	Beta					
(Constant)	3.116	.294			10.597	.000		
CG	.093	.061	.131		1.530	.000	.482	1.075
CP	.053	.541	.732		.988	.000	.635	1.574
CL	.048	.682	.623		.705	.002	.452	1.214
RR	.289	.054	.412		5.358	.000	.594	1.683
LH	.003	.061	.104		.054	.003	.518	1.929

a. Dependent Variable: HS

(Source: author's data)

Verification of no multicollinearity phenomenon identified by VIF magnification of factors 1.929 (<2) meets the requirements. It can be concluded that no multicollinearity has occurred.

*c. Multiple regression analysis*

Regression analysis was performed with 05 independent variables, including the variables: Cost reduction, Quality improvement, Risk management, Technology adaption, Market flexibility and one dependent variable, Organization Performance. The Enter method is used to analyze this relationship. Variables with significance level <0.05 are selected.

**Table 3.6. The summary model using the Enter method**

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson

1	.764 <sup>a</sup>	.733	.715	.67183	1.846
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a. Predictors: (Constant), LH, RR, CP, CG, CL

b. Dependent Variable: HS

#### ANOVA<sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	5.224	5	1.045	27.558	.000 <sup>b</sup>
1	Residual	34.149	247	.138		
	Total	39.373	252			

a. Dependent Variable: HS

b. Predictors: (Constant), LH, RR, CP, CG, CL

*(Source: author's data)*

From the results we see that the Adjusted R Square = .715 means that about 71.5% of the organizational performance variance is explained by the independent variables, the rest is due to factors outside the model and random error. The Sig value of the F-test is 0.000 < 0.05. Thus, the built-in linear regression model can be broadly extrapolated and applied to the whole.

So the standardized linear regression equation is as follows: Organization Performance from outsourcing logistics services = 0.732 (Cost reduction) + 0.623 (Quality improvement) + 0.131 (Technology adaption) + 0.412 (Risk management) + 0.104 (Market flexibility)

## 4. Discussion and Conclusions

### 4.1. Summarize and discuss key findings

#### 4.1.1. The effect of cost reduction on the organization's performance

The first hypothesis - specifically that cost reduction through logistics outsourcing positively affects the organization's performance in the import and export industry - is confirmed by the coefficient of statistical significance (0.732). This finding is consistent with research by (Lysons and Farrington, 2006; Smith and McKeen, 2004). The management effects are logistics outsourcing that leads to cost reduction through the elimination of ineffective assets; reducing investment in assets and redirecting internal resources into company core operations; and the availability of more funds for other projects, thus leading

to increased organizational performance.

#### *4.1.2. The impact of quality improvement on the organization's performance*

For the second hypothesis - the hypothesis that quality improvement due to logistics outsourcing positively affects the organization's performance in the import-export industry has been confirmed by the coefficient of statistical significance (0.623). This is consistent with research by (Ren et al., 2010; Han et al., 2008). This implies that for the import-export industry, the achieved organizational performance is proportional to the level of logistics quality.

#### *4.1.3. Effect of technology adaption on an organization's performance*

In addition, for the third hypothesis, namely, there is a positive relationship between the application of technology obtained from logistics outsourcing and the organization's performance in the import-export industry, small statistical significance (0.131) was found by regression analysis, consistent with the study of (Moeen et al., 2013; Holcomb & Hitt, 2007). This means that for the import-export industry, the organization's performance is proportional to the adaption of new technology by the organization, but the level of impact is limited.

#### *4.1.4. The effects of risk management on the performance of the organization*

Relating to the fourth hypothesis - effective management of logistics outsourcing risk is likely to positively affect the performance of an organization in the import and export industry - the statistical relationship is found by regression analysis (0.412). This is consistent with research by (Irina et al., 2012; Wayman, 2013). In addition, here, the regulatory implication is that for the import and export industry, the performance achieved by the organization depends on whether risk management practices are enhanced.

The study also discovered a new factor that is market flexibility, although the statistical significance is still modest (0.14).

This study has contributed to additional studies on logistics management. While the findings point to a positive statistical significance for logistics outsourcing operations, as well as for organizational performance, there is room for improvement. Adequate evidence from research suggests that import-export firms should implement appropriate logistics outsourcing to improve their organization's performance in the import-export sector in Ho Chi Minh City. These aspects are measurable and therefore manageable.

## **4.2. Conclusion**

The import and export sector needs effective logistics mechanisms and requires careful management to achieve the organization's operational effectiveness. The core business of an import-export company is international business, although they still need to purchase raw materials, manage inventory, clear customs and transport goods. All of these activities are not core activities and should be outsourced so that import and export

companies can focus on their core function of international business.

With the findings of the study showing the positive effect of outsourcing logistics on the organization's operations, steps that can be taken immediately to address the current situation may include but are not limited are: strategic planning of all stages and aspects of logistics management; ensuring that key personnel are trained in logistics management, in contemporary logistics management concepts and principles; objectively measuring logistics management performance and ensure that there is an appropriate outsourcing plan to effectively support the implementation of logistics management policy.

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