DRIVERS AND OBSTACLES OF OUTSOURCING PRACTICE IN NIGERIA

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Abstract

Outsourcing is a popular means of enhancing a company's flexibility and competitiveness because it allows the company to focus on what it does best (i.e., core competency) and thus better utilize its given resources. However, the scope of outsourcing may vary from one company to another depending on the company's range of business activities and level of outsourcing experiences. Third-party logistics providers (3PL) have become a dominant form of logistics intermediaries due to their quick adaptation to changing business environments. In response to growing demand, many traditional trucking firms or warehousing companies have transformed themselves into 3PLs after broadening their logistics service offerings. However, the rapid growth of the 3PL industry has intensified competition and thus posed numerous challenges for 3PLs. Some of these challenges include increased cost and service pressures. To make logistics outsourcing through the intermediaries successful, companies should be aware of potential dangers associated with logistics outsourcing. Some of those dangers stem from a lack of strategic fit, incompatible business objectives, poor communication, and shaky business relationship between the logistics service user and the provider.

Keywords: *Drivers, Logistics, Outsourcing Practice, Obstacle*

Introduction

Logistics outsourcing is one of the biggest emerging industries. The number of outsourcing businesses and logistics service providers has grown substantially, and competition has intensified (Srabotic & Ruzzier, 2012). The global logistics outsourcing market is estimated to be worth USD 985.2 billion in 2021 and is expected to expand at a healthy pace of more than 4.9 percent between 2021 and 2027 (Quadintel, 2022). The essential function of supply chain management in ensuring smooth flows of products and information across a firm's supply chain is today one of the business's key performance indicators, and as supply chain management becomes more complex and the gap between what they want to achieve and what they can do in-house grows, firms understand that doing the right thing is more exciting than doing everything. As a result, they are becoming more concentrated and specialized by outsourcing operations that are outside of their core industries. (Fadile, El Oumami & Beidouri, 2018).

Outsourcing is a management approach in which a firm distributes some non-essential duties to more specialized, effective and efficient service providers, allowing the organization to focus on core business activities (Nzitunga, 2019). Suhaiza, Rizaimy, Khairu &Mohammad (2017) opined that in order to be able to make more targeted investments in the areas that give it its distinct competitive edge, the firm pushes toward outsourcing.

Consumer needs have evolved throughout time, as have the complexity and diversity of products and services. Logistics services have also progressed as domestic and global markets for goods and services have grown. Over the last several decades, tens of thousands of new goods and services have been developed, disseminated, and sold to people all over the world. Market competition has increased as a result, and during the past 20 years in particular, businesses have found it increasingly challenging to sustain historical profit levels and growth rates (Somuyiwa, Odepidan & Dosunmu, 2015). As a consequence of a shortage of human resources, businesses are occasionally compelled to use outsourcing services since it is difficult for them to retain their historical profit levels and growth rates while also acquiring the necessary knowledge and skills to become global players. (Kremic, Tukel, & Rom, 2006).

The domestic, international, and value-added warehousing and distribution segments of the Nigerian third-party logistics (3PL) market are separated by type and end-users. In Nigeria, the market for third-party logistics (3PL) is anticipated to increase at a pace of over 8% from 2020 to 2025. The expansion of intra-continental commerce under the African Continental Free Trade Agreement is what fuels the market's growth (AfCFTA). Additionally, the market is growing as a result of changes in purchasing habits and the expansion of the manufacturing sector, which has

increased demand for logistics services. Deficits in infrastructure and disjointed supply networks across the nations are the main economic drags (Culled from Mordor Intelligence Report).

Concept of Logistics Outsourcing Practice

Planning, administration, supplies, billeting and encampments, bridge and road construction, even reconnaissance and intelligence in as much as they were connected to movements off the battlefield, were all included in the history of logistics as the practical art of moving armies (Munoz, Jimenez-Redondo, Perez-Ruiz & Barquin, 2003). The term logistics is used to describe the entire process of materials and products moving into, through and/or out of a company. Logistics thus includes any activity involved in the management of inventory at rest (awaiting production into finished goods or distribution at the final point of sale) or in motion (during transportation). The general trend in logistics outsourcing is progressing in two directions, a growth in the number of purchasers of logistics services, and an increase in the extent to which logistics services are used. The amount of utilization comprises the number of activities or business processes outsourced, geographical coverage, contract kind and term, proportion of total logistics budget provided to 3PL businesses, and level of commitment (Bhatnagar, Sohal & Millen, 1999). In order to convert resources into usable items for the final customer, a number of processes must occur, and transportation is one of them. The notion of business logistics is the organization of all these operations and sub-functions into a system of products movement in order to maximize service to the consumers while minimizing cost (Chang, 1998).
According to Moeen, Somaya & Mahoney (2013), outsourcing transport logistics is a contract whereby a service provider is hired by an entity to carry out transport services for a company. Transport, storage, inventory control, packaging, and information processing are all parts of logistics. The areas of modes of transportation, infrastructure, geography, kind of delivery, load planning, routing, and scheduling are all covered by transport management. A third party logistics provider, according to Ojala & Jamsa (2006), manages different logistic services and conducts other tasks that are performed by an outside organization on behalf of a shipper. The cooperation between the shipper and the outside firm is meant to be a long-term partnership since these services are provided to clients in an integrated manner rather than separately. Outsourcing, according to Jean-Marie and Alexandre (2013), is the act of acquiring semi-finished goods, finished goods, or services from other organizations, especially when these tasks were not previously conducted internally.

Outsourcing reduces burden, enhances knowledge and talent exchange, and frees up the outsourced company to focus on its main business operations. The tactic can also be employed by a company to acquire access to more specialized knowledge and cutting-edge technology to enhance service and product delivery. Demanding a specialized talent, utilizing cutting-edge technology, and resource investment are some of the variables that decide whether a company would outsource (Rajee & Akinlabi 2013). Companies are being compelled to identify methods to increase the efficiency and effectiveness of their operations as a result of the rising demand from both consumers and shareholders to find ways to reduce costs while enhancing performance. The influence of these demands on businesses' and their clients' perceptions of logistics activities is growing. Thus, logistics is becoming an increasingly significant factor in business success, particularly for businesses looking to boost their level of competitive advantage and overall profitability, hence, outsourcing.

History of Outsourcing Practice In Nigeria

Through the National Economic Empowerment and Development Strategies (NEEDS) policy paper, Nigeria implemented the New Public Management Technique, which included outsourcing, in 2004. (Dlakwa, 2016). The National Outsourcing Policy and Regulatory Framework for Nigeria was developed by the Chief Olusegun Obasanjo administration (1999–2007). The goal was to make Nigeria a globalized nation where each economy may discover and cultivate its competitive power in order to take advantage of future benefits from free trade and financial investment (Umaru, 2014). According to research from Frost and Sullivan 2018, the worldwide BPO industry was forecast to be worth US$86.6 billion in 2018, while it was estimated to be worth US$745 million in Nigeria as of 2016 and was anticipated to be worth US$1.8 billion in 2022 (National Outsourcing Strategy, 2020).

Companies like Nigerian Breweries and the Coca-Cola Company of Nigeria initially handled their transport and haulage activities themselves, which put them under tremendous pressure. As a result, they started outsourcing logistics sub-functions to third party transporters, which relieved their pressure. The marketing approach is the same for companies like Oando, Forte Oil, ConOil, Total Oil, and Mobil Oil, which dominate the petroleum product industry. Previously, their Transport divisions managed the logistics of the corporation using their own fleet; however, this is no longer the case as they now outsource the transfer of their petroleum products to truck and tanker

owners, albeit under the supervision of their pertinent departments. Without a question, this has increased the effectiveness with which clients are served (Onyebueke, Ifeanacho & Wordu, 2019).

Drivers and Obstacles of Outsourcing Practice in Nigeria

Every economy's foundation and the force behind all sectors, including industry, agriculture, and services, is the transportation and logistics sector. The logistics of organizing the movement of resources, such as food, raw materials, finished goods, energy, and petroleum products from producers to consumers, face specific challenges while doing business in Nigeria (Adeyemo, 2015). In terms of business strategy, Kolawole & Agha (2015) observed that the ultimate decision may always have a long-term positive or negative effect on the firm's financial health. After assessing the financial benefits, some organizations could decide to seek outsourcing. However, some people are reluctant since they have certain concerns with the outsourcing strategy as a whole. Some contend that internal manufacturing is still the best way to increase an organization's financial performance, while others assert that outsourcing will have a big influence on the company's ability to respond quickly to the market. The rationale for and obstacles to the practice of outsourcing in Nigeria were examined.

Drivers of Outsourcing Practice in Nigeria

Cost Saving

Due to their focus on logistics, third party logistics businesses have a bigger network than your company's supply chain department, which is one of the most important reasons to outsource. They have unique relationships inside the logistics sector, which increases their leverage in negotiations. Additionally, they can help offer higher volume discounts to clients. These can all help lower overhead costs. Working with a 3PL supply chain management business helps to avoid spending a lot of money on infrastructure since it can provide transportation, storage space, personnel, and tracking technology, among other things. Also Outsourcing aids in the reconfiguration of the supply chain, resulting in greater process efficiency.

Focus on Core Competencies

By outsourcing logistics, company will be able to concentrate on its core strengths rather of having to manage non-core yet crucial operations. Without using internal resources, your company may benefit from logistical experience. Concentrate on your company's key competencies that are more important. Some businesses outsource in order to cut out the noise and concentrate on their core skills. An entrepreneur, for example, might outsource his labor-intensive work or other jobs in which he lacks competence. His output will rise as a result, and the establishment's goal won't be compromised.

Access to Expertise and Experience

It is challenging to foresee and accommodate internal expertise in all the skills and geographies necessary in the complicated global market environment of today. An outsourcing service provider offers expertise and understanding in a variety of areas, including economic rules, import and export laws, international compliance, and transport documents. Businesses wishing to grow into foreign markets may profit from the assistance and logistical expertise that their partner can offer, which can reduce expensive delays, shorten the cycle time, and facilitate entrance into a new region.

Enhance Risk Management

Natural or man-made disasters, as well as unnecessary complaints like sickness, accidents, worker strikes, labor union pressure, salary issues, etc., can cause organizations to become unproductive. However, the outsourcing partner must always uphold the terms of the contract and must provide the services as long as it is in effect. Because these outsourcing partners, particularly those who operate internationally, have adequate disaster recovery mechanisms and thorough backup plans, one may also be protected from other disasters like market fluctuations or technical crises. These plans will help in prompt response and resuming operations.

Enable Business Growth and Market Expansion

Third-party logistics are crucial to supply chain management because they enable businesses to expand into markets where they do not yet have a significant presence. Being able to manage inventory in that market without having to pay for warehouses, equipment, or people can save both money and the time needed to become comfortable with the logistics of a new market.

Minimizes Nepotism and Favoritism

Organizational leaders frequently ignore the flaws or shortcomings of friends and family, but when a service like cleaning is outsourced, failing to execute it correctly costs the outsourcing partner. Organizational leaders may not have personal relationships with their employees, especially if the outsourcing partner is not from the same state or nation.

Aid Migration of New Technology

Because certain outsourcing partners employ cutting-edge technology, the transition to new technologies such as Information and Communications Technology (ICT) will be hastened. As a result, organization's transition from conventional methods of production and service delivery to new methods will be accelerated. This may be used by universities, hospitals, and other institutions.

Improve Customer Satisfaction

All of the aforementioned 3PL benefits will result in enhanced services and response time, on-time delivery, and increased brand reliability. This translates to happy clients, which is the ultimate objective of every firm.

Obstacles of Outsourcing Practice in Nigeria

The key economic disadvantages of the country are infrastructure deficiencies and fragmented supply networks. The following are some of the elements that contribute to the downsides of outsourcing in Nigeria:

Economy Downturn

The Nigerian economy is suffering as a result of the credit crisis and growing inflation. This crisis has resulted in greater restrictions, less demand, and, most crucially, a rise in marginal and fixed costs, decreasing the profitability of the logistics business even further. Also, based on the current scenario, gasoline prices provide a serious obstacle for logistics firms. Due to the recent increase in fuel prices, particularly diesel, the sector is struggling to keep up. Increased gasoline charges as a result of these high fuel prices are projected to raise transportation expenses in Nigeria.

Loss of Control

The loss of control over an outsourced project is one of the most frequent outsourcing issues that businesses encounter in their early stages. Every business must go through this stage because their internal personnel handled the prior duty. The vendor's location and communication capabilities will determine how much control companies have over the outsourced job. Since they won't be informed of companies most recent needs, poorly managed service providers may reduce the quality of your project's delivery.

Government Policies

To begin with, various government regulations have caused significant challenges for the business throughout the years. The Ministry of Communications and the Digital Economy issued recommendations in 2020, one of which was the new license costs for courier and logistics firms in the country. Although it was widely condemned by the public and instilled popular distrust in the government, forcing the government to revoke the decision, it demonstrated that this sector was vulnerable to government involvement at any moment. These standards and restrictions may or may not be genuine, but they are now causing major challenges for a sector with a lot of promise.

Poor Infrastructure

The country's infrastructure is likewise deficient, further complicating matters for the logistics sector. Dilapidated roads, power outages, and weak transit networks throughout the country, are causing challenges for the industry. For any country to boost its logistics industry, it must ensure that it has adequate infrastructure in place to accommodate modern-day logistical demands and requirements. In Nigeria, the government has made large financial expenditures to infrastructure relative to other sectors, yet this is insufficient to address the country's infrastructure issue.

Empirical Review

A research on the examination of outsourcing logistics service and customer satisfaction in manufacturing enterprises in South Western Nigeria was undertaken in 2016 by Somuyuwa, Odepidan, and Dosunmu. This study determines the degree of service outsourcing by manufacturing organizations and how it affects consumer satisfaction. South western Nigerian industrial enterprises were the setting for the research. Top management personnel, such as managers of logistics, procurement, and marketing, make up the study's population. The Manufacturing Association of Nigeria updated its list of fifty (50) listed firms on the Nigerian Stock Exchange in 2005, and 10 Manufacturing companies made up the sample for this study. The acquired data was evaluated through regression analysis. According to the findings, manufacturing organizations outsource transportation and distribution to a great extent. Outsourcing includes procurement, warehousing, and inventory control. The study also discovered that outsourcing has a considerable impact on customer satisfaction. Overall, outsourcing appears to help not just cost reduction but also service performance.

Musubika (2010) examined the effects of outsourcing on the performance of Century Bottling Company Limited. The study's limitations stem from the advantages and difficulties that businesses encounter while outsourcing their non-core operations. Despite a number of restrictions, including time and cost restraints, the data was collected and subsequently evaluated to serve the study's objectives. The research demonstrates that companies outsource to obtain specialized knowledge, hasten service delivery, cut costs, and free up time to concentrate on their core business operations. According to the report, businesses should outsource part of their services in order to cut expenses and concentrate on their core

Akindayo (2021) examined the effect of outsourcing on small and medium-sized businesses (SMEs) in Nigeria. It largely focuses on the tactics SMEs would utilize to their advantage in the highly competitive global market. In the study, 75 Strategic Outsourcing Limited (SOL) participants were polled using a quantitative research approach. The study largely focuses on SOL, a Nigerian outsourcing company founded in 2006 that offers outsourcing services for sales, people, and regulatory compliance. The organization has broken a record for providing superior service to its clients across the nation, in industries including manufacturing, food and beverage production, real estate, and telecommunications, among others. A quantitative methodology was used to evaluate SOL managers using questionnaires. As a consequence of outsourcing's beneficial effects on SMEs, including the creation of more employment, more cost effectiveness, and greater concentration of key capabilities, Nigerian managers supported it, according to the study's findings. However, the Nigerian managers also voiced worries about a number of barriers that prevented SMEs from outsourcing, such as poor infrastructure, corruption, and unfriendly government policies.
Akewushola & Elegbede (2013) investigated outsourcing strategy and organizational performance in the Nigerian manufacturing industry. The study's problem is predicated on how globalization of ten practices, driven by growing rivalry between manufacturing and service delivery organizations, has enhanced enterprises' ability to produce value by making effective use of limited resources. The study employed a stratified sampling strategy to get 120 sample components. According to the data, organizations that outsource some of their activities reduce their average cost, boost sales turnover and profitability, improve expertise, improve service quality, and save time for core activities. However, it was suggested that companies continue to have greater control over the contractor's actions in order to guarantee compliance with best practices.

In order to better understand the effects of deploying 3PLs on performance, particularly with regard to cost-savings and user-firm satisfaction, El Sakty & Okorie (N.D) explores perspectives and trends in the outsourcing of logistical operations by Nigerian oil and gas enterprises. The majority of the research participants are senior management employees, including managers and supervisors in charge of procurement, supply chain, and logistics. The study involved a total of seven (7) oil and gas businesses that are listed in the Nigerian oil companies' directory. The study used a quantitative technique, collecting data using an online questionnaire survey and analyzing the results. According to the findings, oil firms in Nigeria mostly outsource to get cost savings (through price reductions) in

acquiring logistical operations, financial stability, and the possibility to leverage 3PL experience and talents. According to the findings, logistics outsourcing has a considerable influence on total business performance, particularly in terms of increased productivity, organizational effectiveness, and client acquisition. However, given certain stakeholders' reservations, 3PLs in the Nigerian market are urged to enhance their present offerings in order to attract greater patronage. Overall, companies outsourcing services expressed confidence that utilizing 3PLs will continue to improve their organizations' performance.

Potential Challenges for Using Logistics Intermediaries

Although the use of logistics intermediaries can bring numerous managerial benefits, caution should be exercised before entering into a contract with an intermediary. More often than not, a firm that does not clearly understand its core competency, strategic mission, value propositions, and specific performance metrics will run into totally unexpected disasters resulting from the logistics outsourcing contract.

As this example illustrates, common mistakes among 3PL users are their failure to specify their performance expectations prior to contractual agreements with the 3PLs. In other words, they often fail to develop performance metrics and communicate those metrics to 3PLs under the premise that the 3PLs will instantly understand what their users want and expect. Prior to hiring an intermediary, the firm has some fundamental strategic questions to ask herself:

a. What logistics/supply chain problems should be solved?
b. Will logistics outsourcing enable the company to concentrate better on its core competency?
c. What results are expected out of logistics outsourcing?
d. How does logistics outsourcing through the intermediary affect the company?
e. Is the timing right?
f. Does the company try to outsource logistics/supply chain activities it cannot manage efficiently or effectively?
g. Does the company have any escape clauses when there is a contract dispute?
h. How should the intermediary's performance be monitored on a periodic basis?

Concusion

Despite the numerous benefits of outsourcing, there are also drawbacks and dangers to consider. Outsourcing poses dangers to the business, despite the fact that it allows the company to focus on its core skills, reduces operational expenses, and successfully controls risk. Economic downturn, loss of control, government policies, and insufficient infrastructure are among the hazards. There is also the risk of revealing sensitive company information to a third party. A service provider may be catering to the needs of several customers and hence offer less than comprehensive attention to your company's needs.
Nigeria has to make significant, strategic investments in its infrastructure and connectivity. There is also a necessity to adapt to market changes on a daily basis, as well as the difficulty of anticipating the direction of such changes, businesses must concentrate on their core competencies and skills.

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