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PROCUREMENT OUTSOURCING STRATEGIES AND FINANCIAL PERFORMANCE OF FLOUR MILLING FIRMS IN KIAMBU COUNTY, KENYA

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ABSTRACT

Flour milling firms play a critical role in Kenya's food supply chain by ensuring the availability of wheat flour for bread, pastries and other food products. However, flour milling firms in Kiambu County face operational and profitability challenges associated with high operating costs, working capital constraints and supply-chain inefficiencies. This study examined the influence of logistics outsourcing and contract outsourcing on the financial performance of flour milling firms in Kiambu County, Kenya. The study was anchored on Resource-Based View Theory and Resource Dependence Theory. A descriptive research design was adopted. The target population comprised 202 key personnel involved in procurement and supply-chain functions across 71 registered flour milling firms in Kiambu County. Using the Yamane formula, a sample size of 135 respondents was determined. Data were collected using a structured questionnaire. A pilot study involving 14 respondents was conducted to assess the validity and reliability of the research instrument. Content and face validity were established through expert review, while construct validity was assessed using Exploratory Factor Analysis. Quantitative data were analysed using SPSS version 28. Descriptive statistics were presented using frequencies and percentages, while inferential analysis comprised Pearson correlation and multiple regression analysis. The findings established that logistics outsourcing demonstrated a positive and statistically significant relationship with financial performance ($r = 0.595$, $p < 0.001$) and remained significant in the regression model ($B = 0.427$, $\beta = 0.370$, $t = 6.983$, $p < 0.001$). Contract outsourcing also exhibited a positive and statistically significant relationship with financial performance ($r = 0.399$, $p < 0.001$) and remained significant after controlling for the other outsourcing strategies ($B = 0.277$, $\beta = 0.324$, $t = 8.583$, $p < 0.001$). The study concludes that logistics outsourcing and contract outsourcing are positively and significantly associated with the financial performance of flour milling firms in Kiambu County. The study recommends that flour milling firms establish measurable service standards for outsourced logistics and strengthen contract-management systems through clearly defined responsibilities, service-level requirements, financial performance indicators, risk-sharing arrangements and dispute-resolution mechanisms.

Keywords: Logistics outsourcing, contract outsourcing, financial performance, flour milling firms, Kiambu County, Kenya.

Background of the Study

The agro-Business processing industry is an indispensable pillar of both global and national economies, as it transforms raw agricultural produce into value-added products that enhance food security, create employment, and stimulate industrial growth (Makol, 2022). Within this broad sector, milling firms represent a fundamental component, particularly in grain-based value chains. Flour milling firms play a crucial role in the manufacturing and food Business processing sector by transforming raw grains into flour, a staple ingredient for households, bakeries, and other food industries.

Their operations ensure a steady supply of high-quality flour, which is essential for food security and the overall stability of the agricultural value chain (Chenangat & Chege, 2025). In addition, by sourcing grains from local farmers, flour milling firms support agricultural livelihoods by providing a consistent market for smallholder farmers and stimulating rural economic activity. This strong linkage between milling firms and agriculture helps to stabilize crop prices and reduce post-harvest losses, which can be significant in many regions (Khamila et al., 2024).

Beyond economic contributions, flour milling firms are pivotal in improving nutrition and public health. They often enrich flour with vitamins and minerals, helping to address nutrient deficiencies in populations that rely heavily on flour-based diets (Ondieki & Karanja, 2023). In addition, these firms create employment opportunities at multiple levels, from production line workers and quality control personnel to logistics and administrative staff. According to industry reports, the flour milling sector in countries like Kenya contributes substantially to the manufacturing GDP, with large firms employing thousands directly and indirectly supporting tens of thousands through supply chains (Mutua & Kirui, 2025). Moreover, they drive technological innovation in food Business processing, quality assurance, and packaging, which enhances efficiency and competitiveness both locally and internationally. Flour milling firms also play a strategic role in stabilizing national food prices and ensuring affordability (Oyasi & Machoka, 2024). By maintaining large-scale production and storage capabilities, they can buffer against seasonal fluctuations in grain supply, preventing sudden price spikes that would negatively impact consumers. Their role in supporting downstream industries, such as bakeries, confectioneries, and hotels, underscores their importance in the broader economy, as disruptions in flour supply can ripple across multiple sectors. In essence, flour milling firms are not just production units but integral components of food security, rural development, employment creation, and industrial growth (Chenangat & Chege, 2025).

Procurement Outsourcing Strategies refer to the planned approaches and methods that an organization uses to delegate or contract out its procurement functions to external parties. These strategies involve decisions about which procurement activities should be handled internally versus externally, with the goal of achieving efficiency, cost reduction, risk management, and access to specialized expertise (Yasmin, 2024). Procurement outsourcing strategies also encompass the design of contractual agreements, selection of vendors, financial performance monitoring, and alignment of outsourcing decisions with the firm's overall operational and strategic objectives.

Logistics outsourcing refers to contracting external service providers to handle the transportation, warehousing, and distribution of goods. This approach allows firms to optimize supply chain operations, reduce operational costs, and ensure timely delivery of raw materials and finished products, while also benefiting from the specialized knowledge and technology that logistics providers offer (Omair, 2021).

Contract outsourcing, on the other hand, involves the use of external firms to manage the creation, negotiation, and administration of contracts with suppliers. This ensures compliance with legal and regulatory standards, mitigates contractual risks, and allows organizations to leverage external expertise in contract management (Isaksson & Lantz, 2022). This study seeks to examine the influence of logistics outsourcing and contract outsourcing on financial performance of flour milling firms in Kiambu County, Kenya.

Statement of the Problem

Flour milling firms play a critical role in Kenya's economy by ensuring the availability of staple food products such as wheat flour, which is essential for bread, pastries, and other food items consumed daily (Mutua & Kirui, 2025). These firms not only contribute to national food security but also generate employment, stimulate agribusiness through demand for wheat, and support related industries like transportation and packaging (Oyasi & Machoka, 2024). In addition, flour milling firms contribute to government revenue through taxes and support rural development by sourcing raw materials from local farmers, creating a ripple effect across the agricultural sector. Their efficiency and productivity directly affect both the affordability and quality of flour-based products, making their financial performance vital for socioeconomic stability in regions like Kiambu County (Chenangat & Chege, 2025).

Flour milling firms in Kiambu County face significant profitability challenges largely driven by high operating costs, inefficient working capital management, and supply chain constraints. Studies show that working capital factors such as inventory, receivables, and payables account for 73.8% of the variation in profitability among Kenyan flour millers, meaning poor financial management directly erodes margins (Khamila, *et al*., 2024). In addition, the sector has experienced a declining profit trend since around 2015 due to rising costs of energy, labour, fuel, and transport, with some firms even exiting the market. These cost pressures are compounded by fluctuating grain prices and supply instability, which increase production costs and reduce earnings consistency, making it difficult for both large and small millers in Kiambu to sustain strong profit levels (Ondieki & Karanja, 2023).

In terms of market share and customer satisfaction, flour milling firms operate in a highly competitive and fragmented market that limits growth and brand loyalty. Kenya has over 100 millers, yet a few large firms dominate pricing, while smaller firms struggle to expand their share (Mutua & Kirui, 2025). Even leading firms hold relatively small shares, showing how divided and competitive the industry is. Recent entry of new millers has intensified price wars, forcing firms to lower prices and sacrifice margins to retain customers (Oyasi & Machoka, 2024). At the same time, consumers have become highly price-sensitive, often prioritizing cost over quality, which pressures millers to balance affordability with product standards. Inefficiencies in supply chains and inconsistent product quality further reduce customer satisfaction, especially among smaller Kiambu-based millers that lack advanced technology and distribution systems (Chenangat & Chege, 2025).

Procurement outsourcing strategies can significantly influence the financial performance of flour milling firms by improving operational efficiency and cost management. Various studies have been conducted in different parts of the world on procurement outsourcing strategies and Firm financial performance. For instance, Ondemo and Nyang'au (2023) researched on the effect of procurement outsourcing on financial performance of state corporations. Kabachia and Kihara (2024) examined on the effect of procurement outsourcing on financial performance and Nyaguthi, Kibet and Gitau (2022) assessed on the effect of procurement outsourcing practices on financial performance of companies. However, none of these studies focused on logistics outsourcing and contract outsourcing on financial performance of flour

milling firms in Kiambu County, Kenya. To fill the highlighted gaps, the current study seeks to examine the influence of logistics outsourcing and contract outsourcing on financial performance of flour milling firms in Kiambu County, Kenya.

Objectives of the Study

The general objective of the study was to examine the effect of logistics outsourcing and contract outsourcing on financial performance of flour milling firms in Kiambu County, Kenya.

Specific Objectives

i. To assess the effect of logistics outsourcing on the financial performance of flour milling firms in Kiambu County, Kenya.

ii. To determine the effect of contract outsourcing on the financial performance of flour milling firms in Kiambu County, Kenya.

Research Questions

1. How does logistics outsourcing affect the financial performance of flour milling firms in Kiambu County, Kenya?
2. What is the effect of contract outsourcing on the financial performance of flour milling firms in Kiambu County, Kenya?

LITERATURE REVIEW

Theoretical Framework

Resource-Based View (RBV) Theory

The Resource-Based View (RBV) theory developed by Jay Barney (1991) is a framework in strategic management that focuses on the internal resources and capabilities of an organization as the primary drivers of competitive advantage and financial performance (Njagi, 2020). It posits that firms achieve sustainable success not merely by responding to external market conditions but by effectively leveraging unique, valuable, and difficult-to-imitate resources (Joto & Odock, 2020). These resources can be tangible, such as equipment and technology, or intangible, including knowledge, skills, brand reputation, and organizational culture. The RBV emphasizes that the strategic value of these resources lies in their ability to create distinctive competencies that competitors cannot easily replicate, thereby enabling the firm to maintain long-term financial performance superiority (Mathien, 2020).

A key principle of the RBV theory is that resources must meet specific criteria to generate sustained competitive advantage. Resources should be valuable, rare, inimitable, and non-substitutable, often referred to as the VRIN framework (Son, Müller & Djuatio, 2020). The theory further suggests that organizations must continuously assess, develop, and combine their resources in ways that enhance capabilities and align with strategic objectives (Kithuka, 2023). By focusing internally on resource development and optimization, firms can create a dynamic interplay of skills and assets that supports innovation, efficiency, and resilience. The RBV underscores the importance of internal strengths over external market positioning in shaping long-term organizational success (Njagi, 2020). This theory was used to assess the influence of logistics outsourcing on the financial performance of flour milling firms in Kiambu County, Kenya.

Resource Dependence Theory (RDT)

Resource Dependence Theory (RDT) founded by Pfeffer and Salancik (1978) is a framework that examines how organizations interact with their external environment to acquire the resources necessary for survival and growth (Okoye-Chine, 2021). At its core, the theory emphasizes that no organization is entirely self-sufficient; rather, organizations rely on external

entities to provide critical inputs such as materials, information, or financial support (Kalela, 2021). This dependence creates a power dynamic where organizations must navigate relationships with external actors to secure and maintain access to essential resources. The theory highlights the importance of understanding these interdependencies to reduce uncertainty and enhance organizational stability (Makol, 2022).

RDT also explores the strategies organizations use to manage their dependence and maintain autonomy. Since reliance on external resources can create vulnerability, organizations often seek to influence, negotiate with, or control their resource providers to mitigate risks associated with scarcity or unpredictability (Nsowah & Phiri, 2022). This may involve forming alliances, partnerships, or other mechanisms to stabilize the flow of resources. The theory underscores that the external environment, including competitors, suppliers, and regulators, is not passive but actively shapes organizational behavior through resource constraints. RDT provides a lens to analyze how organizations manage environmental uncertainty and maintain strategic leverage in the pursuit of long-term sustainability (Ondemo & Nyang'au, 2023). This theory was used to determine the influence of contract outsourcing on the financial performance of flour milling firms in Kiambu County, Kenya.

Conceptual Framework

A conceptual framework is a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation (Neuman, 2019). In this study, the independent variables are logistics outsourcing and contract outsourcing while the dependent variable is financial performance of flour milling firms in Kiambu County, Kenya.

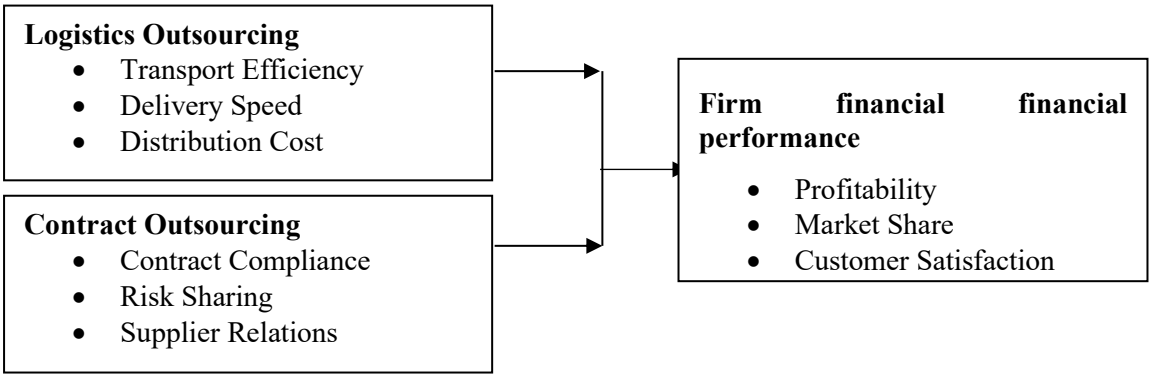


Figure 2.1: Conceptual Framework

Logistics Outsourcing

Logistics outsourcing refers to the strategic practice whereby an organization delegates logistics-related functions to an external service provider with specialized expertise in managing the flow of goods, information, and related activities (Mathien, 2020). This includes the transfer of responsibilities such as transportation coordination, warehousing, inventory management, and distribution planning to a third party. The objective of logistics outsourcing is to enhance operational efficiency, improve service delivery, and optimize resource utilization by leveraging the capabilities, infrastructure, and experience of external providers while allowing the organization to concentrate on its core competencies (Son, Müller & Djuatio, 2020). Transport efficiency refers to the effective utilization of available transport resources to ensure the smooth, reliable, and optimal movement of goods from one point to another. It involves minimizing delays, reducing empty mileage, improving route planning, and maximizing vehicle capacity utilization (Kithuka, 2023). In logistics outsourcing, transport efficiency is enhanced through the use of specialized providers who apply advanced tracking systems, optimized routing techniques, and well-maintained fleets. This leads to improved

coordination of transport activities, reduced wastage of resources, and better alignment between supply and demand requirements (Njagi, 2020).

Delivery speed refers to the time taken for goods to be transported from the point of origin to the final destination in a timely and consistent manner. It is a critical aspect of logistics financial performance as it directly influences customer satisfaction and operational continuity (Joto & Odock, 2020). Through logistics outsourcing, delivery speed can be improved by leveraging established distribution networks, experienced personnel, and technology-enabled tracking systems. Faster delivery is achieved through efficient scheduling, reduced handling time, and improved coordination across the supply chain, ensuring that products reach their intended destination within expected timeframes (Mathien, 2020). Distribution cost refers to the total expenses incurred in the Business process of moving and delivering goods to end users or distribution points. These costs include transportation expenses, warehousing charges, handling fees, fuel costs, and administrative expenditures associated with logistics operations. Logistics outsourcing contributes to the reduction of distribution costs by enabling economies of scale, shared infrastructure, and specialized operational expertise (Son, Müller & Djuatio, 2020). External providers are often able to manage logistics more cost-effectively due to their established systems and networks, thereby helping organizations achieve more efficient allocation of resources while maintaining service quality (Kithuka, 2023).

Contract Outsourcing

Contract outsourcing refers to a formal procurement arrangement in which an organization assigns specific tasks, services, or operational responsibilities to an external provider under clearly defined contractual terms and conditions. It involves establishing a legally binding agreement that specifies the scope of work, financial performance standards, duration, pricing structure, responsibilities, and compliance requirements for both parties. The primary purpose of contract outsourcing is to ensure accountability, manage risks, and secure consistent delivery of services while enabling the organization to access specialized capabilities and improve operational efficiency through structured and enforceable service agreements. Contract compliance refers to the extent to which both the organization and the outsourced supplier adhere to the agreed contractual terms, conditions, and financial performance standards. It involves ensuring that all obligations outlined in the contract are fulfilled as specified, including quality requirements, delivery schedules, pricing agreements, and reporting procedures. Effective contract compliance is supported through monitoring systems, financial performance audits, and regular reviews that help detect deviations and enforce accountability. Strong compliance practices enhance reliability in service delivery, reduce disputes, and ensure that outsourcing arrangements operate within the agreed legal and operational framework.

Risk sharing refers to the distribution of potential operational, financial, and financial performance risks between the organization and the outsourced supplier as defined in the contractual agreement. It ensures that both parties assume responsibility for specific uncertainties such as supply disruptions, cost fluctuations, quality failures, or logistical challenges. Through well-structured outsourcing contracts, risks are allocated to the party best positioned to manage them effectively, thereby reducing the overall exposure of the organization. Effective risk sharing promotes stability, encourages collaboration, and enhances resilience in procurement and operational Business processes. Supplier relations refer to the ongoing interactions, communication, and collaborative engagement between an organization and its contracted suppliers. It focuses on building trust, mutual understanding, and long-term cooperation to ensure smooth service delivery and continuous improvement. Strong supplier relations are supported by clear communication channels, financial performance feedback mechanisms, and joint problem-solving initiatives. In contract outsourcing, effective supplier relations contribute to improved coordination, higher service quality, and sustained partnership

value, which ultimately supports organizational financial performance and strategic procurement objectives.

Empirical Review

Logistics Outsourcing and Firm Financial Performance

Mathien (2020) conducted a study on an examination of current logistics outsourcing services in U.S. and Canada. Based on 197 responses from practitioners, this research provides an empirical and comprehensive analysis of logistics practices, while examining the competence level of current outsourcing of these practices. The findings for this research can be broken down into five major areas: logistics outsourcing priorities, domestic logistics practices, warehousing logistics practices, technology logistics practices, and international logistics practices, assessing the percentage of logistics functions that are currently handled in-house versus outsourced and the financial performance level of the internal operations and the logistics service providers. The study concluded that the results in this study support the findings of several previous studies on outsourcing, indicating that transactions costs are the main impetus to outsourcing non-core functions.

Son, Müller and Djuatio (2020) conducted a study on the effect of logistic outsourcing risks management and financial performance under the mediation of customer service in agribusiness in Cameroon. After a pre-survey on supply chain managers using individual interviews, quantitative data were collected on a sample of agribusiness managers. The study found that the logistic outsourcing risks management is not significantly related to trade financial performance. The study concluded that the empirical analysis shows that outsourcing risk management does not have a direct impact on business financial performance.

Kithuka (2023) conducted a study on the effect of logistics outsourcing risks and financial performance of manufacturing firms in Kenya. The study relied on both primary and secondary data which was collected through structured questionnaires that were administered to administrators charged with the management of supply chain within the selected firms. The results showed that logistics outsourcing risks influence financial performance of manufacturing firms in Kenya. It was concluded that through a surge in logistics outsourcing risks such as contractual risk cost risk, supplier relationship risk and management risk, the financial performance of the manufacturing firms is negatively affected.

Njagi (2020) conducted a study on the effect of outsourcing logistics to third party providers on financial performance of manufacturing firms in Kenya. The study's sample, whose target population was manufacturing firms based in Nairobi and its environs, was generated using cluster sampling. The firms were clustered into groups based on sectors. As indicated by the results, all the four components of logistics outsourcing sought by this study have a positive effect on Firm financial performance. First, the study concludes that outsourcing logistics from Third Party Companies has a positive effect on Firm financial performance.

Joto and Odock (2020) conducted a study on the effect of logistics outsourcing on the financial performance of dairy Business processing firms in Kenya. The population of study in this research was 28 dairy Business processors in Kenya and the study was a census survey of all these firms. The results established that the concept of logistics outsourcing has not been fully adopted. The firms opted to outsource services like warehouse management only during high seasons. Based on the findings, the study concluded that dairy Business processing firms in Kenya were practicing logistics outsourcing so as to minimize costs and this had an effect on firms' financial performance.

Contract Outsourcing

Khan and Khan (2020) conducted a study on the effect of solutions for critical challenges in offshore software outsourcing contract in Pakistan. Questionnaire survey is an empirical

method use for collecting qualitative data from industry experts about some specific research area. In this section, the study has discussed our findings of the SLR for identification of practices for mitigation/avoidance of the critical challenges faced by vendors in OSDO contract. The study concluded that the identified challenges can influence the financial performance of outsourcing contract management of both the parties.

Anoke *et al.* (2023) conducted a study on the effect of contract outsourcing and organizational financial performance in Nigerian investment banks. The population of the study was 280 staff from three investment banks in Nigeria. Using a purposive sampling technique, a sample size of 258 senior, medium, and junior staff of the sampled investment banks were selected as respondents. The study found that contract outsourcing has developed into a practical strategy and instrument for corporate organizations, particularly for Nigerian investment banks that are constantly looking to improve their firms' financial performance in the financial industry. The study concludes that contract outsourcing is a valuable tool for corporate organizations, especially for Nigerian investment banks that are looking to improve their financial performance in the Nigerian financial sector.

Kitigin (2022) examined on the relationship between contract outsourcing and business financial performance among small and medium enterprises in Eldoret Town, Kenya. The study adopted an expost-facto research design. It targeted all the SMEs in Eldoret town. Systematic sampling technique was adopted to select a sample of 100 SME owners/managers to be involved in the study. The study found that there is a strong positive correlation between contract outsourcing and business financial performance of SMEs in Eldoret town. The study concluded that contract outsourcing result in increased returns and market share for the business.

Kosgei and Gitau (2021) researched on the effect of contract outsourcing on organizational financial performance: a case study of Kenya Airways Limited. The research involved a cross sectional study design that was carried out in Kenya Airways, where a sample of 82 respondents was selected from a target population of 272 KQ employees. The study found that contract outsourcing is an essential prerequisite for staying competitive and enhancing profitably in the market. The study concluded that there was a great opportunity for organizations to improve its financial performances through contract outsourcing.

RESEARCH METHODOLOGY

This study used descriptive research design. Mugenda and Mugenda (2019) explained the descriptive design as a process of collecting data in order to answer the questions of the current status of the subject under study. Its advantage is that it is used extensively to describe behavior, values, attitude and character. The descriptive research design attempts to provide more details and insights from the respondents on how the independent variables impact on the dependent variable. This descriptive research design enables the researcher to analyze the findings and draw informed conclusions.

The target population of this study comprised all registered flour milling firms operating in Kiambu County, Kenya. According to county business records and industry estimates, Kiambu County hosts 71 registered flour milling firms, according to Kenya Association of Manufacturers (KAM) annual report 2025. The study specifically targeted key personnel involved in procurement and supply chain functions within these firms, as they are directly responsible for outsourcing decisions and financial performance outcomes. The total target population was 202 employees, comprising 30 procurement managers, 69 supply chain managers, 58 operations managers and 45 finance managers.

The study employed a combination of stratified sampling and simple random sampling techniques to select respondents. First, stratified sampling was used to divide the population into homogeneous groups based on departments such as procurement, finance, logistics, and

operations. Thereafter, simple random sampling was applied within each stratum to select respondents. To obtain a representative sample, the study adopted the Yamane formula (1967), which generated a sample size of 135 respondents using a margin of error of 5%.

The data was collected from a systematically selected sample of respondents from the population of study using a structured questionnaire. The concepts derived from the literature review was employed to develop structured questionnaire. The data collection process followed a systematic and ethical approach. First, an introduction letter was obtained from the relevant academic institution to authorize the research process. Permission was then sought from the management of the selected flour milling firms in Kiambu County before administering the questionnaires. The researcher employed a drop-and-pick-later method to distribute the questionnaires to the targeted respondents. Respondents were briefed on the purpose of the study and assured of confidentiality and anonymity of the information provided. Participation was voluntary, and respondents were required to give informed consent before completing the questionnaire.

Quantitative data was coded then analyzed using Statistical Package for Social Sciences (SPSS) computer software version 28. Descriptive statistics was used to analyze the data in frequency distributions and percentages which was presented in tables and figures. The study also analyzed the data using inferential statistics which comprised of correlation analysis and regression analysis. Correlation analysis was used to test the strength and the direction of the relationship between the independent variables and the dependent variable. Multiple regression analysis comprised of the model summary, the analysis of variance and the beta coefficients.

RESEARCH FINDINGS AND DISCUSSION

The researcher administered 135 questionnaires. A total of 111 questionnaires were correctly completed and returned, representing a response rate of 82.2%. Mugenda and Mugenda (2003) consider response rates of 70% and above adequate for survey research.

Presentation of Descriptive Statistics

Logistics Outsourcing

The study sought to establish respondents' level of agreement with statements measuring the effect of Logistics Outsourcing on the financial performance of flour milling firms in Kiambu County, Kenya. Responses were measured on a five-point Likert scale ranging from 1 = Strongly Disagree to 5 = Strongly Agree. The findings are presented in Table 1.

Table 1: Respondents' Level of Agreement on Logistics Outsourcing

Statements	SD (%)	D (%)	N (%)	A (%)	SA (%)	Mean	S. Dev.
Outsourcing logistics services improves the efficiency of transportation operations.	20.0	27.5	13.8	31.3	7.5	2.79	1.28
The firm's outsourced logistics providers optimize routes to reduce delays and fuel consumption.	4.8	4.8	9.6	28.6	52.2	4.19	1.10
The firm's logistics partners consistently meet delivery timelines.	10.0	5.0	13.7	45.0	26.2	3.72	1.19
Customers receive orders within the expected time due to efficient outsourced logistics services.	8.8	2.5	6.2	37.5	45.0	4.07	1.18
The firm benefits from cost-effective distribution through third-party logistics providers.	7.5	2.5	7.5	55.0	27.5	3.93	1.06
The firm regularly evaluates and controls distribution costs associated with outsourced logistics.	31.6	24.1	19.0	22.8	2.5	2.41	1.22
Aggregated score						**3.52**	**1.35**

The findings in Table 1 indicate that logistics outsourcing was generally perceived positively by respondents, although the results reveal substantial variation across the individual dimensions of logistics outsourcing. The overall aggregated mean of 3.52 (Standard Deviation = 1.35) suggests moderate agreement that outsourced logistics services contribute to the operations and financial performance of flour milling firms in Kiambu County. However, the relatively high standard deviation indicates considerable variation in respondents' perceptions, suggesting that the effectiveness of outsourced logistics may differ across firms.

The statement that outsourcing logistics services improves the efficiency of transportation operations recorded the lowest positive mean among the operational efficiency items, at 2.79 (Standard Deviation = 1.28). Only 38.8% of respondents agreed or strongly agreed, compared with 47.5% who disagreed or strongly disagreed. This finding suggests that outsourcing logistics does not automatically translate into improved transportation efficiency. The result contrasts with the argument by McKinnon (2006) that third-party logistics providers can improve transport efficiency through consolidation, better vehicle utilization, route optimization and specialized logistics expertise. The relatively low score in the present study may indicate that some flour milling firms do not obtain these benefits consistently, possibly because of inadequate coordination between the firms and their logistics providers.

The finding on route optimization presents a markedly different picture. The statement that outsourced logistics providers optimize routes to reduce delays and fuel consumption recorded a high mean of 4.19 (Standard Deviation = 1.10). A combined 80.8% of respondents agreed or strongly agreed with the statement. This suggests that route optimization is one of the more strongly implemented aspects of logistics outsourcing among the sampled firms. The finding supports Hsiao et al. (2010), who observed that third-party logistics providers can improve logistics financial performance by leveraging specialised knowledge, information systems and transportation capabilities. It is also consistent with the broader logistics outsourcing literature, which identifies transport optimisation and improved resource utilisation as important potential benefits of using specialised logistics providers.

Similarly, respondents expressed relatively strong agreement that logistics partners consistently meet delivery timelines. This statement recorded a mean of 3.72 (Standard Deviation = 1.19), with 71.2% agreeing or strongly agreeing. The finding indicates that outsourced logistics providers generally contribute to delivery reliability. This supports Selviaridis and Spring (2007), who noted that third-party logistics arrangements can improve logistics financial performance through specialised capabilities and service flexibility. It is also consistent with Aguezzoul (2014), whose review of third-party logistics research identified improved service financial performance, including delivery financial performance, as one of the principal motivations for logistics outsourcing.

The finding that customers receive orders within the expected time because of efficient outsourced logistics services recorded a high mean of 4.07 (Standard Deviation = 1.18). A combined 82.5% of respondents agreed or strongly agreed. This provides relatively strong evidence that outsourced logistics contributes to customer-facing delivery financial performance. The result is consistent with Aguezzoul (2014), who identified improved customer service as an important expected outcome of third-party logistics outsourcing. It also supports the argument of Sink and Langley (1997) that firms outsource logistics activities partly to obtain specialised capabilities and improve service financial performance that may be difficult to develop internally.

The statement concerning cost-effective distribution through third-party logistics providers also received relatively strong support. It recorded a mean of 3.93 (Standard Deviation = 1.06), with 82.5% of respondents agreeing or strongly agreeing. This suggests that respondents generally perceive third-party logistics providers as contributing to more economical distribution. The finding is consistent with Boyson et al. (1999), who identified cost reduction

as one of the major motivations for logistics outsourcing. Similarly, Aguezzoul (2014) reported cost reduction and improved operational financial performance among the frequently cited reasons for outsourcing logistics activities.

However, the findings on cost control present an important contradiction. The statement that firms regularly evaluate and control distribution costs associated with outsourced logistics recorded a low mean of 2.41 (Standard Deviation = 1.22). Only 25.3% of respondents agreed or strongly agreed, while 55.7% disagreed or strongly disagreed. This indicates that although respondents perceive outsourced logistics as cost-effective, many firms may not systematically monitor and control the distribution costs associated with these arrangements. The distinction is important: perceived cost effectiveness does not necessarily mean that firms have effective cost-monitoring systems.

This finding is not fully consistent with the strategic outsourcing literature. McIvor (2009) argues that outsourcing decisions should involve systematic assessment of costs and supplier financial performance rather than simply assuming that external providers will generate savings. Similarly, Aguezzoul (2014) identifies cost reduction as a potential benefit of third-party logistics but notes that outsourcing outcomes depend on how the relationship is structured and managed. The present finding therefore suggests that some firms may be benefiting from the cost efficiencies of third-party logistics without having sufficiently developed mechanisms for measuring and controlling those costs.

There is also an interesting contrast between transportation efficiency and route optimisation. While respondents strongly agreed that outsourced providers optimise routes to reduce delays and fuel consumption (Mean = 4.19), they were less likely to agree that logistics outsourcing improves overall transportation efficiency (Mean = 2.79). This may indicate that individual logistics practices are functioning effectively without necessarily producing a consistently strong overall transportation outcome. In other words, route optimisation alone may not be sufficient to improve transportation efficiency if other factors—such as vehicle availability, loading practices, coordination, scheduling, infrastructure or communication—remain problematic.

Overall, the findings provide moderate support for the contribution of logistics outsourcing to the financial performance of flour milling firms in Kiambu County. The strongest areas were route optimisation (Mean = 4.19), timely customer delivery (Mean = 4.07), and cost-effective distribution through third-party logistics providers (Mean = 3.93). These findings are broadly consistent with the literature identifying improved service delivery, transport optimisation and cost efficiency as potential benefits of logistics outsourcing. However, the low scores for overall transportation efficiency (Mean = 2.79) and particularly the evaluation and control of distribution costs (Mean = 2.41) demonstrate that outsourcing does not automatically produce superior logistics financial performance. The evidence therefore suggests that the benefits of logistics outsourcing depend not only on engaging third-party providers but also on effective monitoring, coordination, financial performance evaluation and cost control.

The findings are broadly comparable with the Kenyan manufacturing context reported by Chepwogen and Moronge (2019), who found that procurement outsourcing practices were associated with the financial performance of manufacturing firms in Nairobi County. However, the present results add an important qualification: outsourcing may provide operational benefits while weaknesses in monitoring and cost control remain. This distinction is important for interpreting the subsequent inferential analysis because the descriptive mean of 3.52, by itself, does not establish that logistics outsourcing has a statistically significant effect on Firm financial performance. That conclusion should be based on the regression or correlation result.

Contract Outsourcing

The study sought to establish respondents' level of agreement with statements measuring the effect of Contract Outsourcing on the financial performance of flour milling firms in Kiambu County, Kenya. Contract outsourcing was assessed using statements relating to contract compliance, risk sharing and supplier relations. Responses were measured on a five-point Likert scale ranging from 1 = Strongly Disagree to 5 = Strongly Agree. The findings are presented in Table 2.

Table 2: Respondents' Level of Agreement on Contract Outsourcing

Statements	SD (%)	D (%)	N (%)	A (%)	SA (%)	Mean	S. Deviation
The firm ensures that outsourced suppliers adhere strictly to contractual terms and conditions.	2.6	7.8	20.8	51.9	16.9	3.727	0.921
There are effective monitoring mechanisms to track supplier compliance with contracts.	4.1	2.7	6.8	55.4	31.1	4.066	0.922
Outsourcing contracts clearly define how risks are shared between the firm and suppliers.	1.3	2.6	7.8	63.6	24.7	4.078	0.735
The firm collaborates with suppliers to manage and mitigate operational risks.	5.2	5.2	10.4	61.0	18.2	3.818	0.964
The firm maintains strong and long-term relationships with outsourced suppliers.	5.1	2.6	15.4	56.4	20.5	3.846	0.948
There is open and effective communication between the firm and its suppliers.	7.7	17.9	16.7	48.7	9.0	3.334	1.106
Aggregated score						**3.812**	**0.933**

Source: Survey Data (2026).

The findings indicate that effective contract management, risk management and supplier relationships are important aspects of outsourcing arrangements. The aggregated mean of 3.812 (Standard Deviation = 0.933) demonstrates an overall tendency towards agreement across the six statements. The discussion below focuses particularly on respondents who agreed and strongly agreed, since these categories demonstrate positive perceptions of contract and supplier management.

Regarding the statement that the firm ensures that outsourced suppliers adhere strictly to contractual terms and conditions, 51.9% of respondents agreed and 16.9% strongly agreed, giving a combined agreement of 68.8%. This was substantially higher than the 10.4% who disagreed or strongly disagreed, while 20.8% remained neutral. The mean of 3.727 (Standard Deviation = 0.921) indicates that respondents generally perceived the firms as enforcing contractual obligations. The finding suggests that clearly defined contractual requirements provide a basis for controlling supplier financial performance and ensuring that outsourced providers deliver according to agreed standards. This is consistent with Handley and Benton (2009), who argue that effective outsourcing relationships require appropriate governance and management mechanisms to ensure that suppliers meet contractual and financial performance expectations. The relatively high level of agreement in the present study therefore suggests that contractual compliance is an important mechanism through which firms manage outsourced activities.

On whether there are effective monitoring mechanisms to track supplier compliance with contracts, 55.4% of respondents agreed and 31.1% strongly agreed, resulting in a combined agreement of 86.5%. Only 6.8% were neutral, while 6.8% disagreed or strongly disagreed. The mean of 4.066 (Standard Deviation = 0.922) further demonstrates strong agreement. This was one of the more strongly supported statements and indicates that respondents considered

monitoring to be an established feature of supplier management. The finding agrees with Kithinji, Rotich and Kihara, who found that outsourcing strategy and associated management practices influence the financial performance of large manufacturing firms in Kenya. It also supports the argument by Handley and Benton (2009) that active management of supplier relationships, rather than reliance solely on contractual arrangements, is necessary for successful outsourcing. Effective monitoring can enable firms to identify deviations from contractual requirements and take corrective action before supplier problems affect operations.

The statement that outsourcing contracts clearly define how risks are shared between the firm and suppliers attracted the highest level of agreement. Specifically, 63.6% agreed and 24.7% strongly agreed, giving a combined agreement of 88.3%. Only 3.9% disagreed or strongly disagreed, and 7.8% were neutral. The mean of 4.078 (Standard Deviation = 0.735) confirms strong agreement and relatively low variation in responses. This finding suggests that respondents generally perceive risk allocation to be clearly incorporated into outsourcing contracts. The result is consistent with Lacity, Khan and Willcocks (2009), whose review of outsourcing research identified governance, contractual arrangements and management of inter-organizational relationships as important considerations in outsourcing outcomes. Clear allocation of risks can reduce ambiguity regarding which party is responsible for particular operational, financial or service-delivery risks.

Similarly, respondents generally agreed that the firm collaborates with suppliers to manage and mitigate operational risks. 61.0% agreed and 18.2% strongly agreed, producing a combined agreement of 79.2%. In contrast, 10.4% were neutral and 10.4% disagreed or strongly disagreed. The mean of 3.818 (Standard Deviation = 0.964) indicates a positive perception of supplier collaboration in risk management. This finding supports the relational view of outsourcing, in which firms and suppliers work jointly rather than treating the outsourcing arrangement as a purely transactional relationship. Kern and Willcocks (2000) similarly emphasise the importance of relationship management, trust and coordination in achieving successful outsourcing relationships. The relatively high agreement in this study indicates that collaborative risk management is perceived as a mechanism for addressing operational uncertainties associated with outsourced activities.

With respect to whether the firm maintains strong and long-term relationships with outsourced suppliers, 56.4% of respondents agreed and 20.5% strongly agreed, representing a combined agreement of 76.9%. A further 15.4% were neutral, while 7.7% disagreed or strongly disagreed. The mean of 3.846 (Standard Deviation = 0.948) indicates general agreement. The finding suggests that firms tend to recognise the importance of maintaining continuing relationships with suppliers rather than frequently changing outsourcing providers. This is consistent with Kern and Willcocks (2000), who emphasize relationship management as an important component of outsourcing governance. Long-term relationships can facilitate familiarity with operational requirements, coordination and mutual understanding between the firm and its suppliers.

The statement concerning open and effective communication between the firm and its suppliers recorded the lowest level of agreement. Nevertheless, 48.7% of respondents agreed and 9.0% strongly agreed, giving a combined agreement of 57.7%. However, 16.7% were neutral and 25.6% disagreed or strongly disagreed. The mean of 3.334 (Standard Deviation = 1.106) was also the lowest among the six indicators and had the highest standard deviation. This indicates that although more respondents agreed than disagreed, perceptions of communication effectiveness were considerably less consistent. The finding is important because it reveals a potential weakness in supplier relationship management. While firms appear to have relatively clear contracts, monitoring systems and risk-sharing arrangements, communication between firms and suppliers may not be equally effective. This contrasts somewhat with the broader

relational outsourcing literature, which identifies communication and coordination as important conditions for maintaining effective inter-organizational relationships.

Financial Performance of Flour Milling Firms

The study sought to establish respondents' level of agreement with statements measuring the financial performance of flour milling firms in Kiambu County, Kenya. Responses were measured on a five-point Likert scale ranging from 1 = Strongly Disagree to 5 = Strongly Agree. The findings are presented in Table 3.

Table 3: Respondents' Level of Agreement on Financial Performance of Flour Milling Firms

Statements	SD (%)	D (%)	N (%)	A (%)	SA (%)	Mean	S. Deviation
The firm effectively controls costs to enhance overall profitability.	22.8	26.6	15.2	30.8	5.1	2.70	1.26
The firm has experienced growth in its market share within the flour milling industry.	10.3	14.1	15.4	39.7	20.5	3.47	1.25
The firm has successfully expanded its customer base in recent years.	20.3	20.3	13.9	10.1	35.4	3.20	1.59
Customers are satisfied with the quality of the firm's flour products.	3.8	8.9	17.7	57.1	13.9	3.68	0.94
The firm effectively responds to customer needs and complaints.	1.3	7.6	15.2	41.8	34.2	4.00	0.96
Aggregated score						**3.41**	**1.20**

Source: Survey Data (2026).

The findings indicate varying perceptions regarding the financial performance of the flour milling firms. For the statement that the firm effectively controls costs to enhance overall profitability, 35.9% of the respondents agreed or strongly agreed, compared with 49.4% who disagreed or strongly disagreed, while 15.2% remained neutral. The mean of 2.70 and standard deviation of 1.26 further indicate relatively low agreement with the statement. This suggests that a substantial proportion of respondents did not perceive cost control as an effective contributor to the firms' profitability. The relatively high level of disagreement may indicate challenges in managing production, procurement, logistics and other operating costs.

Regarding growth in market share within the flour milling industry, 60.2% of respondents agreed or strongly agreed, with 39.7% agreeing and 20.5% strongly agreeing. In contrast, 24.4% disagreed or strongly disagreed, while 15.4% were neutral. The mean of 3.47 and standard deviation of 1.25 indicate a generally positive perception of market-share growth. The findings therefore suggest that, despite the reported concerns regarding cost control, a majority of respondents perceived their firms as having strengthened their position within the flour milling market.

For the statement that the firm had successfully expanded its customer base in recent years, 45.5% of respondents agreed or strongly agreed, while 40.6% disagreed or strongly disagreed and 13.9% were neutral. Although the proportion agreeing was slightly higher than the proportion disagreeing, the relatively close distribution indicates mixed perceptions regarding customer-base expansion. The mean of 3.20 and standard deviation of 1.59 reinforce this mixed assessment. The relatively high standard deviation suggests considerable variation among respondents, implying that customer-base expansion may have differed across firms or respondents' experiences.

The findings on customer satisfaction with the quality of the firms' flour products were more positive. A combined 71.0% of respondents agreed or strongly agreed that customers were satisfied with the quality of the firms' flour products, compared with 12.7% who disagreed or strongly disagreed and 17.7% who were neutral. The mean of 3.68 and standard deviation of 0.94 indicate relatively strong agreement and comparatively low variation in responses. This suggests that product quality was generally perceived as a positive aspect of Firm financial performance.

Similarly, 76.0% of respondents agreed or strongly agreed that their firms effectively responded to customer needs and complaints, comprising 41.8% who agreed and 34.2% who strongly agreed. Only 8.9% disagreed or strongly disagreed, while 15.2% were neutral. The mean of 4.00, which was the highest among the reported financial performance indicators, indicates strong agreement with the statement. The standard deviation of 0.96 also suggests relatively consistent responses. This finding indicates that responsiveness to customers was perceived as one of the stronger aspects of Firm financial performance.

Correlation Analysis

Correlation analysis is used to examine the strength and direction of relationships between variables prior to regression analysis (Gujarati & Porter, 2009). In this study, Pearson's correlation coefficient (r) was applied to assess the association between logistics outsourcing, contract outsourcing, and financial performance of flour milling firms. The coefficient ranges from -1 to +1, where values closer to +1 indicate a strong positive relationship, values closer to -1 indicate a strong negative relationship, and values near 0 indicate a weak or no relationship (Hair et al., 2019). Statistical significance was assessed using the p-value (Sig.), with values below 0.05 considered significant. The correlation matrix is presented in Table 4.

Table 4: Correlation Matrix

Variables	Statistic	Logistics Outsourcing	Contract Outsourcing	Financial Performance
Logistics Outsourcing	Pearson Correlation	1	.250**	.595**
	Sig. (2-tailed)	—	.006	.000
	N	111	111	111
Contract Outsourcing	Pearson Correlation	—	1	.399**
	Sig. (2-tailed)	—	—	.000
	N	—	111	111
Financial Performance	Pearson Correlation	—	—	1
	Sig. (2-tailed)	—	—	—
	N	—	—	111

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

Source: Survey Data (2026).

Multiple Regression Analysis

The regression coefficients were used to determine the unique contribution of each procurement outsourcing strategy to Firm financial performance while statistically controlling for the other predictors in the model. The unstandardized coefficient (B) indicates the expected change in Firm financial performance associated with a one-unit increase in a predictor, holding the other predictors constant. The standardized beta coefficient (β) facilitates comparison of the relative strength of the predictors because the variables are expressed on a common standardized scale. This subsection presents the contribution of the selected independent variables to the dependent variable, controlling for the effects of other variables in the model presented in Table 5.

Table 5: Regression Coefficients

Model	Variable	B	Std. Error	Beta (β)	t	Sig.
1	Logistics outsourcing	.427	.061	.370	6.983	.000
	Contract outsourcing	.277	.032	.324	8.583	.000

Dependent Variable: Financial performance of flour milling firms.

Source: Survey Data (2026).

Logistics outsourcing also had a positive and statistically significant effect on the financial performance of flour milling firms ($\beta = 0.370$, $t = 6.983$, $p < 0.001$). The unstandardized coefficient of 0.427 indicates that a one-unit increase in logistics outsourcing was associated with a 0.427-unit increase in Firm financial performance, holding the other variables constant. The standardized beta of 0.370 indicates that logistics outsourcing made a substantial contribution to financial performance relative to the other predictors. The statistically significant p-value demonstrates that logistics outsourcing was significantly associated with the financial performance of flour milling firms.

Contract outsourcing had a positive and statistically significant effect on the financial performance of flour milling firms ($\beta = 0.324$, $t = 8.583$, $p < 0.001$). The unstandardized coefficient of 0.277 indicates that a one-unit increase in contract outsourcing was associated with a 0.277-unit increase in Firm financial performance, holding the other predictors constant. The standardized beta of 0.324 indicates a relatively substantial contribution to Firm financial performance within the regression model. The p-value below 0.001 confirms that the relationship was statistically significant.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The study concludes that procurement outsourcing strategies have a positive and statistically significant relationship with the profitability performance of flour milling firms in Kiambu County, Kenya. The findings demonstrate that logistics outsourcing and contract outsourcing are important procurement practices associated with variations in firm performance. This suggests that effective implementation and management of procurement outsourcing strategies can contribute to improved organisational efficiency and overall firm performance.

Logistics outsourcing exhibited a positive and statistically significant relationship with firm performance. This implies that outsourcing transportation, distribution and delivery activities is an important consideration in managing supply chain operations. Effective coordination and management of external logistics providers can support timely delivery, improve distribution efficiency and help firms manage logistics-related costs.

Furthermore, contract outsourcing was found to have a positive and statistically significant relationship with firm performance. This underscores the importance of effective contractual arrangements in managing outsourced services. Clearly defined contractual obligations, performance standards, communication mechanisms and risk-sharing provisions are relevant in promoting accountability, strengthening service delivery and ensuring that outsourcing arrangements meet organisational expectations.

Recommendations

Based on the findings of the study, the following recommendations are made to enhance the implementation of procurement outsourcing strategies and improve the financial performance of flour milling firms in Kiambu County, Kenya.

Logistics Outsourcing

Flour milling firms should strengthen the management and monitoring of outsourced logistics services to ensure that transportation, warehousing and distribution activities contribute to operational efficiency and cost reduction. Management should establish clear service-level agreements with logistics providers, specifying expected delivery timelines, transportation costs, product-handling standards and service quality requirements.

Particular attention should be given to delivery reliability, route optimisation, fuel consumption, transportation costs, inventory handling and response time. Firms should also undertake regular evaluations of logistics providers to determine whether outsourced services deliver the expected operational and financial benefits. Where inefficiencies are identified, management should initiate corrective measures, renegotiate service agreements or consider alternative providers to minimise unnecessary logistics expenditure and improve profitability.

Contract Outsourcing

Flour milling firms should strengthen contract management practices by ensuring that outsourcing agreements contain clearly defined responsibilities, deliverables, service standards, performance indicators, reporting requirements, risk-sharing provisions and dispute-resolution mechanisms. Contracts should also incorporate appropriate cost-control measures, quality requirements and accountability provisions to protect the interests of the firms.

Management should undertake regular contract performance reviews to assess provider compliance, service quality, cost effectiveness and adherence to agreed timelines. Effective communication and continuous engagement between the firms and contracted service providers should also be maintained to address emerging operational challenges, manage contractual risks and ensure continuity of outsourced services. These practices would enhance accountability, minimise contractual disputes and support the effective management of outsourced services.

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