

FACTORS INFLUENCING THIRD PARTY LOGISTICS PERFORMANCE
BASED ON MANUFACTURER'S PERSPECTIVE:
THE ROLE OF TRUST AS A MEDIATOR

By

GUNALAN NADARAJAH

Research Report in partial fulfillment of the requirement for the
“Degree” of
Doctor of Business Administration

ACKNOWLEDGEMENTS

Through the entire process of completing my dissertation, I had incredible support and help from many people, and to whom I would like to express my deep gratitude. First, I would like to express my whole hearted and sincere gratitude to Associate Professor Ramayah for his advice, guidance and patience for supporting me throughout the process of completing this dissertation.

My appreciation also goes to the 200 respondents who responded to my survey and made the process of data collection easier. This research would not have been possible without their data.

I am especially grateful to Sharadha – my wife – for being supportive and considerate in all the stages of this dissertation, and sons, Siddharth Gautham and Sacchin Gautham. It would have been difficult without their understanding, support and patience. Not forgetting my parents, for their encouragement and standing behind my decision to pursue DBA at USM. Finally thanks to all my friends who have given me the moral support and encouragement.

Table of Contents

ACKNOWLEDGEMENTS	i
TABLE OF CONTENTS	ii
LIST OF TABLES	iv
LIST OF FIGURES	v
APPENDICES	vi
ABSTRAK	vii
ABSTRACT	viii
CHAPTER 1 INTRODUCTION	
1.1 Introduction.....	1
1.2 Background of the Study.....	5
1.3 Research Problem.....	8
1.4 Research Objectives.....	14
1.5 Research Questions.....	15
1.6 Scope of Study.....	15
1.7 Significance of the Study.....	15
1.8 Definition of Important Terms.....	16
1.8.1 Logistics.....	16
1.8.2 Third Party Logistics.....	16
1.8.3 Relationship Marketing.....	17
1.8.4 Performance.....	17
1.8.5 Trust.....	18
1.8.6 Reputation.....	18
1.8.7 Specific Investment.....	18
1.8.8 Communication.....	19
1.8.9 Satisfaction Prior Outcome.....	19
1.8.11 Opportunistic Behavior.....	19
1.8.11 Reciprocity.....	19
1.8 Organization of Remaining Chapters.....	20
CHAPTER 2 LITERATURE REVIEW	
2.1 Third-Party Logistic.....	21
2.2 Third-Party Logistic in Malaysia.....	24
2.3 Literature on 3PL.....	29
2.4 Performance Management	34
2.5 Relationship Marketing	36
2.6 Underlying Theory	39

2.7 Conceptual Framework.....	43
2.8 Research Hypotheses 1, 2 and 3.....	45
2.8.1 Communication and 3PL Performance.....	45
2.8.2 Opportunistic Behavior and 3PL Performance.....	47
2.8.3 Reputation and 3PL Performance.....	47
2.8.4 Satisfaction Prior Interaction and 3PL Performance.....	48
2.8.5 Reciprocity and 3PL Performance.....	50
2.8.6 Specific Investments and 3PL Performance.....	51
2.9 Research Hypotheses 4,5 and 6.....	53
2.10 Conclusion.....	55

CHAPTER 3 RESEARCH METHODOLOGY

3.1 Introduction.....	57
3.2 Research Design.....	57
3.2.1 Nature of Study.....	57
3.2.2 Population and Framework.....	58
3.2.3 Unit of Analysis.....	60
3.3 Development of Questionnaires.....	61
3.4 Measurement of Variables.....	65
3.5 Data Collection.....	66
3.6 Data Analysis	67
3.6 Descriptive Statistics.....	67
3.6 Reliability Test.....	67
3.6 Correlation Analysis	68
3.6 Multiple Regression Analysis	68
3.7 Summary.....	71

CHAPTER 4 RESULTS AND DATA ANALYSIS

4.1 Introduction.....	73
4.2 Sample and Profile.....	74
4.3 Reliability Analysis.....	75
4.4 Descriptive Analysis.....	76
4.5 Correlation Analysis.....	78
4.6 Regression Analysis.....	80
4.7 Mediating Effect of Trust and the Performance.....	83
4.8 Summary.....	85

CHAPTER 5 DISCUSSION AND CONCLUSION

5.1 Introduction.....	89
5.2 Recapitulation of the study.....	89
5.3 Discussion on the Role of Trust as a Mediator in 3PL Performance.....	90
5.4 Implication of the Study.....	99
5.5 Managerial Implication	101
5.6 Limitation of this Study.....	104
5.7 Future Research.....	105
5.8 Conclusion.....	106

LIST OF TABLES

Table No	Description	Page
Table 3.1	Number of manufacturing firms	60
Table 3.2	Measures of 3PL Performance and Items	62
Table 4.1	Profile of Respondent	74
Table 4.2	Reliability Coefficient for the major variables	76
Table 4.3	Descriptive Analysis of study variables	77
Table 4.4	Pearson's Correlation Analysis	79
Table 4.5	Result of Regression Analysis for Step 1	82
Table 4.6	Result of Regression Analysis for Step 2	83
Table 4.7	Result of Regression Analysis for Step 3	85
Table 4.8	Result of the analysis	86

LIST OF FIGURES

Figure No	Description	Page
Figure 1.1	Relationship in Supply Chain	2
Figure 1.2	Customer Evaluation on 3PL	10
Figure 2.1	Malaysia 3PL Revenue Forecast	25
Figure 2.2	Malaysia Freight Traffic	26
Figure 2.3	Malaysia Freight Handling	27
Figure 2.4	Comparison of Malaysia Transportation Services Sub Sector with Selected Countries	29
Figure 2.5	Research Framework	44

APPENDICES

Appendix No	Description	Page
Appendix 1	Questionnaire	120
Appendix 2	REGRESSION: All IV with DV (Asset Reduction Performance)	127
Appendix 3	REGRESSION: All IV with DV (Marketing Channel Performance)	129
Appendix 4	REGRESSION: All IV with DV (Operations Performance)	131
Appendix 5	REGRESSION: All IV, Mediator to DV (Operation Performance)	133
Appendix 6	REGRESSION: All IV, Mediator to DV (Marketing Channel Performance)	135
Appendix 7	REGRESSION: All IV, Mediator to DV (Asset Reduction Performance)	137

ABSTRAK

Kajian ini meneliti pengaruh pelaburan tertentu, perilaku oportunistik, kepuasan dahulu, reputasi logistik pihak ketiga (3PL), resiprositi dan komunikasi pada hasil prestasi 3PL, dan sejauh mana kepercayaan mempengaruhi hubungan ini. Kajian yang dilakukan setakat ini lebih ke arah menilai prestasi 3PL melalui beberapa indeks kejayaan kritikal yang ditakrifkan, dengan penumpuan sebegini, saya yakin ianya akan hanya memberikan keuntungan jangka pendek. Beberapa kajian empirikal telah membincangkan kejayaan jangka panjang 3PL yang berkaitan dengan hubungan pemasaran di Amerika, Eropah dan beberapa negara di Asia tetapi tiada kajian sebegini di Malaysia. Kajian-kajian sebelum ini lebih berfokuskan pada kriteria pemilihan 3PL atau jurang antara perkhidmatan yang ditawarkan dan 3PL yang digunakan oleh pelanggan. Disebabkan kajian setakat ini hanya membincangkan prestasi berdasarkan prestasi jangka pendek dan sangat kurang pertimbangan yang diberikan pada prestasi jangka panjang, oleh yang demikian, kajian ini meneliti penilaian prestasi (Dependent Variable) dan aspek yang menyumbang kepada kejayaan jangka panjang melalui hubungan pemasaran. Sebanyak 750 borang soal selidik diedarkan kepada syarikat-syarikat perkilangan di wilayah utara, tengah dan selatan Semenanjung Malaysia. Analisis regresi berperingkat dan regresi mudah digunakan ke atas 200 soalselidik yang lengkap untuk menguji hipotesis-hipotesis yang telah dicadangkan untuk kajian ini. Penyelidikan ini telah menunjukkan bahawa terdapat hubungan yang signifikan di antara beberapa dimensi perhubungan pemasaran dan tahap prestasi yang dirasakan terhadap hubungan tersebut. Penemuan ini menawarkan sokongan untuk nilai usaha hubungan pemasaran dalam industri 3PL. Penyelidikan ini juga menunjukkan bahawa kepercayaan sebagai pembolehubah pengantaraan memainkan peranan penting dalam menyumbang ke arah prestasi Logistik Pihak Ketiga Di Malaysia.

ABSTRACT

This research examines the influence of specific investments, opportunistic behavior, prior satisfaction, third-party logistics (3PL) reputation, reciprocity and communication on outcomes of 3PL performance, and the extent to which trust affects these relationships. The studies undertaken thus far are more towards evaluating 3PL performance through some defined critical success indicators which I believe can only contribute to short term benefits. Few empirical studies have addressed the long term success of 3PL with regards to relationship marketing. Prior work on 3PL has focused on selection criteria, or the gap between 3PL services offered and those used by customers. Since most of the studies thus far only talks about performance based on short term achievements and very little consideration given on long term performance, thus this research looks into Performance evaluation (Dependent Variable) and aspects contributing to long term success via relationship marketing. A total of 750 questionnaires were distributed to manufacturing firms in Northern, Central and Southern region of Peninsular Malaysia. Multiple regressions and simple regressions were applied on 200 completed questionnaires to the hypotheses listed for this research. The research has demonstrated that there exist a connection between several relationship marketing dimension and the level of perceived performance for the relationship. The findings offer support for the value of relationship marketing efforts within the 3PL industry. This research also reveals that trust as the mediating variables plays an important role in Third Party Logistics Performance in Malaysia.

CHAPTER 1

INTRODUCTION

1.1 Introduction

The concept of a supply chain suggests a series of processes linked together to form a chain. Activities undertaken in an organization to promote effective management of its supply chain have been defined as supply chain management practices. Some of the key SCM practices consist of strategic supplier partnership, customer relationship, information sharing and quality of information sharing (Li et al, 2006). According to the Supply Chain Council (2003), the supply chain:

. . . encompasses every effort involved in producing and delivering a final product or service, from the supplier's supplier to the customer's customer. Supply chain management includes managing supply and demand, sourcing raw materials and parts, manufacturing and assembly, warehousing and inventory tracking, order entry and order management, distribution across all channels, and delivery to the customer.

According to Lambert et al (1998), Supply Chain Management (SCM) emphasizes on customer value deliverable via the development of relationships and business processes. Christopher et al (1998), further enhanced the statement by stressing value at each stage of the supply chain. In another word, supply chain management is considered as the alignment of upstream and downstream capabilities of supply chain

partners to deliver superior value to the end customer at less cost to the supply chain as a whole.

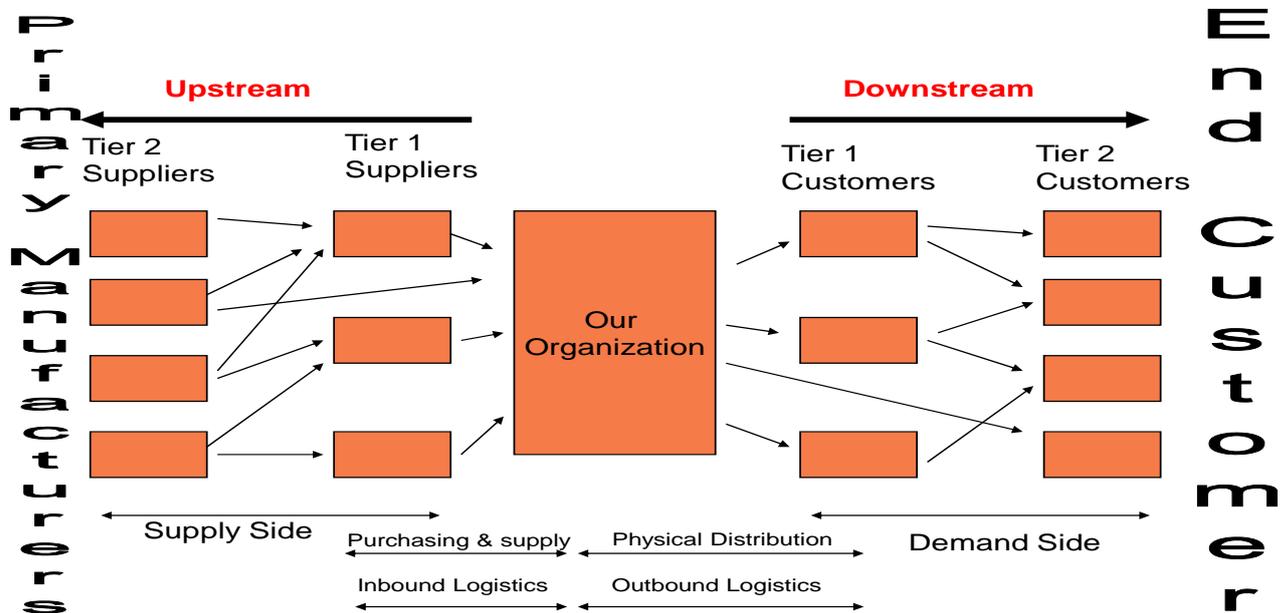


Figure 1.1: Relationship in the Supply Chain

Source: Slack et al, 1998

In Figure 1.1, the supply chain can be seen as a number of processes that extend across organizational boundaries. “Our Organization” is embedded within the chain, and our operational processes must coordinate with others that are part of the same chain. Materials flow from left (upstream) to right (downstream). End customer demand information, on the other hand, flows from right to left. If everything is as orderly as it seems, then only the end customer (to the extreme right of the chain) is free to place orders when he or she likes: after that, the supply chain takes over.

According to Slack et al (1998), the supply chain which is tiered in the supply side and demand side can be organized into groups of organizations with which we deal. Thus if we place an assembler as the “operation”, tier 1 comprises suppliers of major parts and subassemblies who deliver directly to the manufacturer, while tier 2 suppliers deliver to the tier 1s, etc. On the demand side, the manufacturer supplies to the national sales companies as tier 1 customers, who in turn supply to dealers as tier 2, and so on.

Supply chain management and various part-manifestations of supply chain management are placed at the bottom of the diagram, where;

- Purchasing and supply deals with the “organization’s” immediate suppliers.
- Physical distribution deals with tier 1 customer processes
- Logistics refers to management of materials and information. Inbound logistics deals with links between the organization and tier 1 suppliers, while outbound logistics refers to the links between the organization and tier 1 customers.

Logistics is considered part of the supply chain processes that plans, implements, and controls the efficient and effective forward and reverse flow and storage of goods, services, and related information between the point of origin and the point of consumption in order to meet customer requirements (The Council of Logistics Management, CLM). Traditionally, a manufacturer plays the main role in supply chain or distribution channels. With respect to the logistics management activities of inventory management, inbound/outbound transportation, warehousing, materials handling, logistics information system support and etc, outsourcing has become a prominent

strategy. Murphy and Poist (2000) and Knemeyer et al (2003) regards outsourcing as effective logistics integration by which inter- and intra-firm activities are integrated to enhance customer satisfaction and competitive advantage.

The outsourcing of logistic functions has become the obvious choice with the companies (henceforth referred to as shippers: the companies who are usually the suppliers or owners of commodities shipped) eyeing for cost reduction and value enhancement while distributing and transporting their products. Outsourcing all or part of logistics function in a logistical supply chain to Third Party Logistics (3PL) has now become the norm across the industry.

3PL has become a rapidly expanding source of competitive advantage and logistics cost savings (Mitra, 2006; Perrons and Platts, 2005). With increased global competition and higher customer expectations, an increasing number of companies are outsourcing their logistics activities to third-party logistic (3PL) firms so that they can concentrate on their core competencies (Vaidyanathan, 2005).

Outsourcing of logistics activities and the growth of 3PL providers is another trend present in Malaysia. In a survey conducted by Sohail and Sohal (2003) shows that 67.7 percent of companies in Malaysia uses the contract logistics services, with a primary focus on domestic operations. This differs to neighbouring Singapore, where the 3PL industry is more internationally focused (Sohail et al., 2006). Cost appears as the most

important factor for the 3PL selection, with greater benefits for cost and delivery lead time/time saving compared to relationship marketing.

1.2 Background of the Study

The objective of all manufacturing firms are to maximize profitability, the expectation is to fulfil a set of critical success indicators such as on-time delivery of shipments, productivity improvement, cycle-time improvements, cost savings and etc. These critical success indicators are very operational, in another word, the deliverables are considered short term. This has motivated to further study on how long term success can be achieved, the possible way is to look into Customer-Supplier relationship. It is also noted, there are very limited studies being conducted in this field. As mentioned, there has been numerous studies ((Kopczak, 1996; Laarhoven, et al. 2000; House and Stank, 2001) done on Third Party Logistics (3PL), especially on the area of short term profitability among the corresponding firms and the emphasis was more towards European-US context, studies relating to ASEAN countries is still a lack.

Though Malaysia is a center of many Multi National distribution & transportation companies, 3PL performance against relationship marketing was not stressed. The focus thus far has been more on transactional cost. Transaction cost refers to all activities and man power required to obtained end result in customer-supplier business proceedings. The emphasis is more on cutting cost which are allocated to supply chain processes, especially the logistics cost. Coase (1937) and Williamson (1975), describes transaction cost as firm's focus on minimizing its transaction and production costs. This is where the

additional cost may cause transactions to be shifted to a third party. The third party will then absorb the market transactions by signing long-term agreements and eventually creates a strong collaborations among the parties involved (Williamson 1985).

The studies undertaken thus far are more towards evaluating 3PL performance through some defined critical success indicators. Stewart (1995), outlined four main operational areas; on-time shipment delivery performance, flexibility and responsiveness, logistics cost, and asset management. Similarly, Franceschini and Rafele (2000) touch on lead-time, regularity, reliability, completeness, flexibility, correctness, harmfulness, and productivity. Morash et al (1996) suggested that logistics performance is determined by two types of capabilities, namely demand or customer-oriented and supply or operations-oriented capability. Again, these 2 capabilities talks about quality in delivery, customer service, distribution coverage and low total cost distribution. In summary, all those studies mentioned above are very much related to transactional marketing and very limited attention given to relationship-marketing.

In several proven cases, the primary motive for outsourcing diverted as cost savings were not derived as expected and there are also cases where cost shots up more than previous. A survey conducted in the United States by PA Consulting Group (PACG) on 1,000 worldwide managers revealed that only 5 percent of organizations gained high levels of economic benefit from outsourcing (PA Consulting Group (PACG), 1996) and that 39 percent of organizations admitted “mediocre” economic benefit. In this

case, when a 3PL partner is selected, 2 way information flow and risk sharing among the corresponding parties are crucially required.

Generic 3PL study was undertaken in the Malaysian context (Sohail and Sohal, 2003). Several studies were also conducted in Hong Kong, Southern China, Japan and South Korea (Millen and Sohal, 1996). In Australia, there were some studies done on the extent and usage of 3PL and longitudinal measures (Dapiran et al., 1996; Sohal et al., 2002). However, very minimal study has been done in India.

In Singapore, Sum and Teo (1999) uses Porter's competitive framework to analyze the strategic posture of 3PL service providers. Whereas Bhatnagar *et al.* (1999) studied on the use of 3PL services in Singapore. To date, no academic study has been done on 3PL performance evaluation on customer-supplier relationship in Singapore.

Relationship marketing is totally a different approach compared to Transactional marketing in managing 3PL operations. Relationship marketing pays additional attention on regular operations review, collaborative transportation planning, co-development of supply chain management capabilities, investments in more sales and relationship management trainings among employees, more customer involvement in analytical projects, more aggressive linkages in sales & customer service activities, commitment towards continuous evaluation of customer requirements, increased focus on value creation and etc.

Under the Interorganizational exchange theory, it is evident that the successful relationships rely heavily on social exchange behavior such as trust and relationship commitment (Blau, 1964; Arrow, 1974; Williamson, 1975; Macneil, 1980; Parkhe, 1993; Ring and Van de Ven, 1994). The corresponding parties in the successful relationships has a great deal of understanding in terms of benefits obtained will be continual. It is through these reciprocating actions that parties demonstrate their trustworthiness, fairness, and commitment.

1.3 Research Problem

Traditional relationships between suppliers and customers are often described as “arm’s-length” market relationships, characterized by nonspecific asset investments, minimal information exchange, and separable technological and functional systems within each firm (Dyer and Singh, 1998). Recent studies indicate the need for shifting the view of interorganizational relationships from arm’s-length to long-term, collaborative relationships (Johnson and Sohi, 2003; Liker and Choi, 2005).

As mentioned, the traditional form of business exchange has been based on transactional relations focusing on the single product transaction with limited information sharing (Jagdev and Thoben, 2001). The 1970s and 1980s were characterized by such trade exchanges, which, due to the recession and oil crisis, involved tough price negotiations where seller and buyer looked at their customers and suppliers as adversaries that had to be squeezed as much as possible to increase the individual company’s profit

margin. These trading relations, also known as “arm’s-length” relations, are often characterized by distrust and competition.

At the end of the 1980s and 1990s, a significant change in trading relations took place. With companies such as Wal-Mart and Proctor & Gamble at the forefront, new Japanese-inspired trading relations entered the world trade. The previous “arm’s-length” relations were replaced by “durable arm’s-length” relations and “strategic partnerships” (Dyer et al., 1998) characterized by a high degree of information exchange. The idea was to create more streamlined business processes through an open exchange of information, which, in turn, would lead to large cost reductions.

Since most of the studies thus far only talks about performance based on short term achievements and very little consideration given on long term performance, thus this research will look into Performance evaluation (Dependent Variable) and aspects contributing to long term success via relationship marketing. From past studies (eg; Langley et al, 2001), it is evident that depending on transactional cost alone will not help in long term profitability and sustainability of customers-buyers relationship.

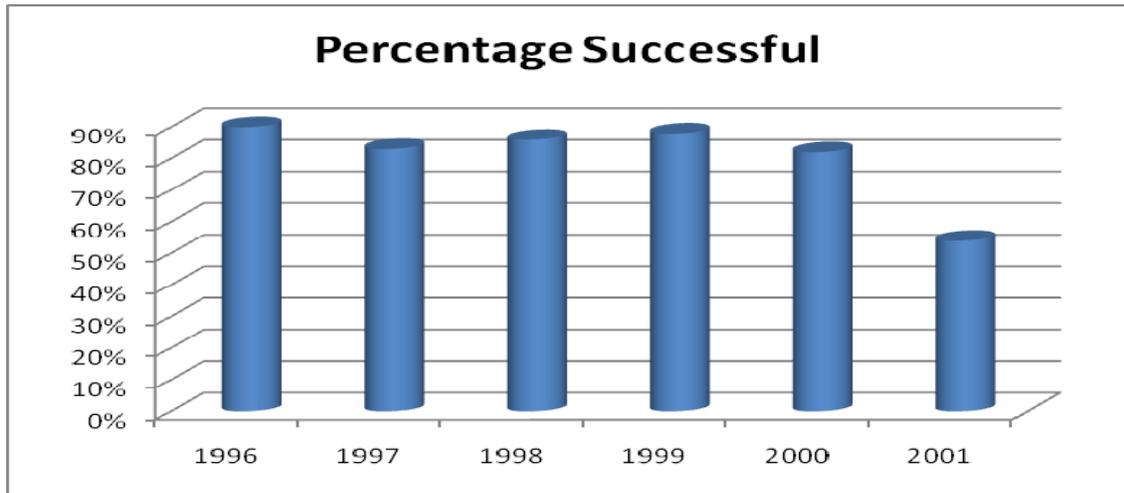


Figure 1.2: Customers evaluation on 3PL, adapted from Langley et al (2001), Third-Party-Logistics Services: Views from the Customers

In 2001, Langley et al conducted a survey on customer's evaluation on third party logistics. Surprisingly, the customers satisfaction rating drops significantly in 2001 compared to the previous years (Figure 1.2). The result is an indicative of increasing customer expectations of 3PL services. When the standards for success are increased, it would be expected that fewer provider relationships would be viewed as extremely successful.

When the reported problem areas are narrowed down, the customers' responses are mainly focused on relationship marketing;

- Service level commitments have not been realized
- Strategic management skills are lacking
- Costs “creep” and price increases occur once relationship has commenced
- Continuous, ongoing improvements and achievements in offerings are lacking

- Control over the outsourced function (s) has diminished
- Consultative, knowledge-based skills are lacking
- Technology capabilities are available but are not being delivered to the client
- Time and effort spent on logistics have not been reduced

Skjoett-Larsen (2000), argues that 3PL incorporates strategic and not just tactical dimensions. In another word, a more narrow approach is required in evaluating 3PL performance. Similarly, Stock (1997;2002), agrees on the possible benefits from incorporating relationship marketing theory into the study of third party logistics. Relationship marketing is perceived as the opposite of transactional marketing in the sense that transactional marketing is focused on a single short-term exchange between buyer and seller (Gundlach and Murphy 1993). According to Christopher et al (1991), relationship marketing is concerned with multiple exchanges over time between buyer and seller. This research could address Stock's challenge (2002) to broaden the scope of logistics literature by incorporating relationship marketing.

The relationship marketing literature provides a theoretical base to help understand the relationships between 3PL service providers and users. Morgan and Hunt (1994) defined relationship marketing as the collection of activities directed toward establishing, developing, and maintaining successful relational. Palmatier et al.'s (2006) meta-analysis of the relationship marketing literature supports the fundamental premise that relationship marketing and strong inter-organizational relationships positively affect performance. Their research, along with many other studies in relationship marketing, helped to

identify key factors that can lead to greater levels of commitment between service providers and their customers.

The relationship marketing framework suggests that firms should strive to attain commitment from their channel partners as commitment has consistently been linked to greater performance (Palmatier et al. 2007a). Anderson and Weitz (1992) identified relationship-specific investments, i.e. idiosyncratic investments, as strong signals of commitment to channel partners. Training and dedication of personnel to a specific relationship is an example of such an investment (Anderson and Weitz 1992). Consistent with this, the current research examines relationship marketing to determine long term success of buyers and 3PL service providers.

In determining 3PL performance, there are factors to investigate. Yet, there is a lack of empirical research that examines the relationship marketing dimensions, trust and performance in the business-to-business setting especially focusing on third party logistics companies. Prior work on 3PL has focused on selection criteria (Menon *et al.* 1998) or the gap between 3PL services offered and those used by customers (Murphy and Poist 2000). As pointed out by Keller *et al.* (2002) less attention has been given to the 'soft' concept such as customer relationship satisfaction and customer loyalty. Therefore, to bridge this gap, this research aims to investigate the relevant factors which are deemed to contribute to the customer relationship satisfaction focusing on third party logistics companies.

The few studies with theory-testing in the 3PL literature have also emphasized that relational elements are important for satisfactory logistics outsourcing relationships, and ultimately for achieving higher performance. Customers whose relationships with 3PLs involve higher operational and strategic integration, exhibit higher levels of key relationship marketing elements, such as trust in the partner, commitment with the relationship, and dependence on the partner (Knemeyer et al, 2003). These “closer relationships” also exhibited higher levels of relationship marketing outcomes, such as customer retention, and referrals of the 3PLs to other potential customers. Knemeyer and Murphy (2004) complemented their previous findings, showing that relationship marketing elements had a stronger impact on marketing outcomes than the effects of firm characteristics, such as size and number of functions outsourced. Panayides and So (2005) concluded that positive effects are also found from the engagement in relationships with 3PLs. They found that firms that engaged in relationships with 3PLs with higher levels of trust, bonding, communication, shared value, empathy, and reciprocity, developed higher levels of key organizational capabilities, such as organizational learning and innovation, promoting an improvement in supply chain effectiveness and performance. Sinkovics and Roath (2004) also found a positive effect of customer collaboration with 3PLs on a customer’s market and logistics performance. Besides that, Stank et al (2003) showed a positive impact of relational performance between a 3PL and its customer on the customer’s market share. From the examples above, it can be noted that, closer relationships lead to greater benefits to the parties involved.

1.4 Research Objectives

Research in the field of 3PL is not something new but there is a great lack seen in addressing the issue of Customer Relationship Marketing. Moore and Cunningham (1999) conducted a study by linking 3PL and key dimensions from relationship marketing, which refers to all marketing activities directed at establishing, developing and maintaining successful relational exchanges (Morgan and Hunt 1994). Kalwani and Narayandas (1995) concluded, customer retention and increased profitability can be obtained via relationship marketing compared to transactional approach, besides knitting long term relation among the customers & suppliers.

The research will be undertaken to fulfill the followings objectives;

1. To examine the relationship and performance among 3PL service providers and their customers.
2. To understand the significance of trust in 3PL performance.
3. To empirically investigate the 3PL performance.
4. To provide a foundation for organizational performance measurement to enhance the academic study of 3PL in Malaysia.

1.5 Research Questions

This research will be focusing on answering the following questions:

1. Does 3PL relationship (eg; communication, satisfaction prior outcome, 3PL reputation, reciprocity, specific investments and opportunistic behavior) relate to 3PL Performance?
2. Does trust affect performance of a 3PL firm?

1.6 Scope of Study

The focus of this study is to empirically investigate the organizational performance in outsourcing and 3PL providers in Malaysia. To avoid misleading research findings, “third party logistics (3PL)” and “logistics outsourcing” refer to companies that provide professional logistics services to their customers, whereas a 3PL “customer” refers to a company that uses 3PL or logistics outsourcing services (such as suppliers, shippers, and upstream and downstream partners) within a supply chain.

1.7 Significance of the study

This study conceptually and empirically provides key insights into 3PL performance measurement. The six relationship marketing dimensions and three performance measures are identified and have practical significance, and can serve as a basis for further studies. The analysis results provide practical guidelines and indicators of how to determine and actualize the important factors to attain good 3PL organizational performance. This is the first attempt to study Malaysia 3PL organizational performance basing relationship marketing dimensions and trust as mediator.

As many studies of 3PL have been conducted in America and Europe, this study paves the way for a new direction in Asian studies to examine the local relevance of 3PL organizational performance. Based on the results of the study, some practical implications for 3PL practitioners are provided. These allow management to employ appropriate strategies for the effective enhancement of 3PL organizational performance.

As mentioned, there are no researches conducted in Malaysia with regards to Relationship marketing linked with 3PL performance. This study will help companies thinking of using 3PL services, to consider the aspect of relationship upfront. This research reveals that Relationship Marketing basing on trust supports the business current and future profitability of Buyers & 3PL service providers.

1.8 Definition of important terms

1.8.1 Logistics

Logistics is the process of strategically managing movement and storage of material or products and related information from any point in the manufacturing process through consumer fulfilment.

1.8.2 Third Party Logistics

McGinnis and colleagues (1995) indicated that 3PL involves offering one or more logistics activities that could be provided by either a buyer or a seller. In a similar vein, Sink and Langley (1997) described third-party logistics as a

situation where a company utilizes “. . .the services of an external supplier to perform some or all of a firm’s logistics functions.” These and similar definitions/interpretations of 3PL appear to view any logistics activity that is not performed “in house” as being representative of third-party logistics.

1.8.3 Relationship Marketing

Morgan and Hunt’s (1994) define relationship marketing as activities directed at establishing, developing, and maintaining successful relational exchanges. Relationship marketing focuses on the interaction between buyers and sellers and is concerned with multiple exchanges between them over time (Christopher et al., 1991). The goal of relationship marketing (Gronroos, 1990) “. . .is to establish, maintain, enhance... relationships with customers and other partners at a profit, so that the objective of the parties involved are met. Leonidou (2004) believes, establishing long-lasting relationships can help supplier and customer to create higher value than can be mutually beneficial. Similarly, Vargo and Lusch (2004) stressed that marketing thought is shifting away from tangibles and toward intangibles, and from a transaction focus to a relationship focus.

1.8.4 Performance

Performance is related to perceived logistics operational performance improvements on the customer side resulting from the outsourcing relationship with the third-party logistics provider.

1.8.5 Trust

Mayer, Davis, and Schoorman (1995, p. 712) define trust as the "willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party".

1.8.6 Reputation

Fombrun and Shanley (1990) claimed reputation to be the outcome of information that stakeholders accumulate about a firm through different signals: market signals (with respect to market performance and dividend policy); accounting signals (accounting profitability and risk); institutional signals (institutional ownership, social responsibility, media visibility, and firm size) and strategy signals (differentiation and diversification). Weigelt and Camerer (1988) viewed reputation as a set of attributes that is ascribed to a firm that can be inferred from its past actions and that produces rent.

1.8.7 Specific Investments

Specific investments are defined as the one party's perception of the extent to which an investment was made specifically for the transaction with another company (Heide and John, 1992).

1.8.8 Communication

Mohr and Nevin (1990) defined communication as “the glue that holds together a channel of distribution”. Communication can also be described as the formal as well as informal sharing of meaningful and timely information between firms (Anderson and Narus 1990)

1.8.9 Satisfaction prior outcome

In a long term relationship, satisfaction with past outcomes indicates equity in the exchange. Such equitable outcomes provide confidence that parties are not being taken advantage of in a relationship and that both parties are concerned about the other’s welfare in the relationship (Ganesan 1994)

1.8.10 Opportunistic Behavior

The concept of opportunistic behavior from the transaction cost analysis literature is defined as “self-interest seeking with guile” (Williamson 1975). As such, the essence of opportunistic behavior is deceit-oriented violation of implicit or explicit promises about one’s appropriate or required role behavior” (John 1984).

1.8.11 Reciprocity

Reciprocity is based on mutually beneficial goals or interests and is grounded in exchange theory; it involves cooperation, collaboration, and coordination between companies (Cooper and Gardner 1993). An example of

reciprocity in logistics is the frequent use of cost-sharing between buying firms and third-party logistics suppliers (Langley et al, 2001).

1.9 Organization of Remaining Chapters

This research consists of five chapters. Chapter two follows on from the Introduction by describing third party logistics, performance management and relationship marketing literature and will discuss proposed research framework and hypotheses. Chapter three discusses methodology proposed for this research. Chapter four outlines the results and the analysis. Chapter five provided a discussion on the findings and implication that is derived from this research.

CHAPTER 2

LITERATURE REVIEW

2.1 Third-party Logistics

The concept of Third-party logistics providers (3PLs) derived from the need of getting another party to manage the logistics task of certain organization. The idea is to assign key logistics tasks to outside firm that specializes in logistics services. Meaning, manufacturers work on “core competency” and letting an outside firm to get those products delivered to the customer. The outsourcing of logistic functions have been a great opportunity for many companies, which cite the operational efficiency, a greater flexibility, an enhanced service level and a better focus on their core business as the main benefits that can be obtained (Rabinovich et al., 1999; Gol and Catay, 2007). The 3PL concept has been adopted by many companies but there is a lack seen in Face to Face discussion on 3PL activities among suppliers and customers. There are still rooms for improvement in terms of relationship marketing which could contribute to a long term success of both the 3PL Service provider and Customer.

Terms such as “logistics outsourcing” “logistics alliances” “third party logistics” “contract logistics” and “contract distribution” have been used interchangeably to describe the organizational practice of contracting-out part of or all logistics activities that were previously performed in-house (Aertsen, 1993; Bowersox, 1990) Different definitions tend to emphasize different aspects of outsourcing arrangements such as the

service offering, nature and duration of relationships, performance outcomes, extent of third party responsibility over the logistics process and position/role in the supply chain.

Outsourcing of logistics in general, also referred to as third party logistics (3PL), has received considerable attention in the literature (Marasco, 2008). It involves the use of external companies – generally referred to as 3PL providers – to perform logistics functions, which have traditionally been performed by the company itself (Selviaridis and Spring, 2007). The majority of research in this area has centered on the type of activities outsourced, the reasons behind these decisions, and on benefits of logistics outsourcing (Power et al., 2007). Examples of outsourced logistics activities described in the literature are order intake data typing, procurement, inventory management, fleet management, warehousing, and distribution (e.g. Chopra and Meindl, 2007), as well as the entire logistics function (e.g. Jaeger et al., 2007). However, there also exist narrower definitions, which link the 3PL concept to some distinctive functional and/or inter-organizational features of the logistics outsourcing relationship (Marasco, 2008).

Lieb et al., 1993; Bhatnagar et al., 1999; Coyle et al., 1996 collectively describes 3PL as the utilization of external companies to perform some or all of the logistics activities which was typically performed within an organization . Additionally, Stock and Lambert (1992) stresses the cost aspect of managing logistics operations, it is proven that companies focusing on core-competencies and outsourced other functions derive better value compared to those companies operating their overall functions. Besides that, globalization has cleared boundaries among countries, many developing countries,

including Malaysia, are increasingly getting international attention due to the geographical locations, labour cost and great extension prospects.

According to Persson and Virum (2001) and Stank and Maltz (1996), efficiency and effectiveness can be achieved through the development of relationships with 3PL service providers by avoiding additional investments. Again, this allows the respective firm to focus on their core activity. Additionally, uncertainty and frequent change in business environment, stiff competition, the need for continuous cost cutting leads to overall restructuring of supply chain strategies. This eventually supports the motive for 3PL alliances (Bagchi and Virum, 1996; Van Laarhoven and Sharman, 1994).

According to Bendor-Samuel (1998), the reason for this adaptation is mainly due to certain power hold by outsourcing companies compared to of what readily available at a respective organization. It was also further emphasized, the 3PL could derive economies of scale, poses several unique expertise, great technology know-how, etc. Besides that, according to Carlson (1989) and Harrison (1994) outsourcing provides companies with strong degree of flexibility via keeping up with new technologies and complex systems.

In another note, outsourcing could also be described as an agreement of supplying resource (Hobbs 1996) in which the service provider prepares a venue for the service offering, and at times provides supervision and feedbacks to the relationship with the logistics service provider. It is also worth mentioning, a resource-based view is equally

important for examining logistics outsourcing due to certain strategic plan for gaining access to other firms' valuable resources (Madhok 1997; Ramanathan et al. 1997). This will eventually creates an avenue for mutual adaption among the corresponding firms (Teece 1987).

Nevertheless, handling of 3PL provider is not an easy task. Malhotra (2002) considers managing outsourcing partners are five times harder than managing respective organization employees. Bowersox et al. (2003) argues that the act of one stop shopping (Gooley, 2002), makes the management of 3PL relationships more complex, as such cross-company management skills is essentially crucial to realize the potential benefits of such relationships.

2.2 Third Party Logistic in Malaysia

Malaysia's move towards realizing the country as a regional hub for integrated logistics services will definitely boost the logistics industry. The outline of this effort can be clearly seen in the Ninth Malaysia Plan, the area of focus are mainly on further developing the transport, logistics and supply chain management industry to improve its productivity, efficiency and performances at the local ports and the chain of logistics activities. Besides that, there have been some massive allocations to further enhance the information systems to support the industry.

In a survey conducted by Sohail and Sohal (2003) in Malaysia, shows that 67.7 percent of companies use the contract logistics services, with a primary focus on