

Factors Influencing Third Party Logistics Performance in Malaysia: The Role of Trust as a Mediator

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Abstract - This conceptual paper examines the influence of specific investments, opportunistic behavior, prior satisfaction, 3PL reputation, reciprocity and communication on outcomes of third-party Logistics 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 is believed can only derive short term benefits. Long terms success of 3PL by taking into consideration of relationship marketing has been neglected. 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.

Keywords: *Logistic, third party logistics, relationship marketing, performance and trust*

1. Introduction

The concept of Third-party logistics providers (3PLs) derived from the need of getting another party to manage the logistics task of certain organizations. The idea is to assign key logistics workloads to someone else who can do it in more effective and efficient manner. Meaning, manufacturers work on “core competency” and giving way for another company to get those products transported to the relevant customer. The outsourcing of logistic functions has been a great opportunity for many companies, which cite the operational efficiency, a greater flexibility, an enhanced service level and allowing manufacturers to focus on their primary business as the main benefits that can be obtained [15], [21]. 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.

Efficiency and effectiveness can be achieved through the development of relationships with 3PL service providers by avoiding additional investments [27]. Again, this allows the respective firm to focus on their core activity. Additionally, uncertainty and frequent change in the 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 [5].

It is also worth mentioning, handling of 3PL provider is not an easy task. Managing outsourcing partners are five times harder than managing respective organization employees [25]. The act of having another company doing everything will lead to complexity in 3PL relationships management, as such, both 3PL and manufacturing companies must have critical and innovative management skills to realize the potential benefits of such relationships [7], [16].

This research will close the gap of Supplier-Customer relationship and eventually justify for long-term ties and success of both parties in Malaysia.

1.1 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. High emphasis is given for transport and logistics sectors in the 11th Malaysia Plan (2016-2020). 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. The end in mind is to further improve Malaysia’s ranking in World Bank Logistics Performance Index in coming years, the ranking, which was done among 160 countries shows tremendous improvement from 2013 (29) to 2014 (25).

By 2020, Malaysia aims to achieve an annual growth of 8.5% for the transport and storage subsector, creating an

additional 146,000 jobs, mostly high-skilled. These aims will be met through the following strategies:

Strategy 1: Strengthening the institutional and regulatory framework through the National Logistics Task Force (NLTF) and regulating other functions such as off-dock depots, warehousing activities, and commercial vehicle registrations;

Strategy 2: Enhancing trade facilitation mechanisms through collaboration to reduce cargo clearance time and greater paperless trading;

Strategy 3: Building freight infrastructure efficiency and capacity by improving last-mile connectivity at Port Klang and expanding air and rail freight infrastructure;

Strategy 4: Deploying technology in the logistics chain through development of virtual selling platforms and supporting logistics infrastructure for e-commerce; and

Strategy 5: Strengthening the capabilities of logistics service providers through training and accreditation programmes.

In a survey conducted by Sohail and Sohal (2003) in Malaysia, it is evident that companies prefer to use contract logistics services where 67.7 percent of companies are in engagement with 3PLs, in this case, the focus is more towards domestic operations [30]. The focus is different for several other countries, where the 3PL industry is more internationally focused [31].

As the manufacturing companies grow, the need for Logistics support increases. Manufacturing companies in Malaysia (both local and multinational companies) are expected to experience high growth in the Asia Pacific region, at an annual compounded growth rate of 12.93%. This is what makes Malaysia Logistics industry grow at a significant level. According to a survey conducted by global growth consulting company, Frost & Sullivan (2006), it is evident that Malaysia is ranked at number four in the world Logistic Industry.

1.2 Problem Statement

Most of the firms talk about “bottom line”, the expectation is to fulfil a set of critical success indicators, but they fail to understand this effort will only give short term deliverables. This has motivated 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. There has been numerous studies done on 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 marketing/cost. Transaction costs refer to all activities and manpower required to obtain an 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. Transaction cost is firm's focus on minimizing its transaction and production costs [36]. 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 collaboration among the parties involved [36].

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 planning, investments in more sales and relationship management trainings among staff, increased 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.

Since most of the studies thus far only talk 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, it is evident that depending on transactional cost alone will not help in long term profitability and sustainability of customers-buyers relationship [16].

In 2001, C John Langley Jr et al, conducted a survey on customer's evaluation on third party logistics. Surprisingly, the customer satisfaction rating drops significantly in 2001 compared to the previous years [16].

Knemeyer and Murphy (2005) examine “relationship characteristics” using five constructs in the context of a third-party logistics arrangement [20]:

- (1) provider specific investments;
- (2) provider reputation;
- (3) communication with the provider;
- (4) opportunistic behavior by the provider, and

(5) satisfaction with previous outcomes.

To further enhance the construct of this study, reciprocity were included. The objective of this research was to evaluate long term value performance of Supplier-Customer Relationship, with the emphasis on trust

Trust takes on a key mediating role in the theoretical model [26]. There are other mediating variables which could be adopted (eg; Loyalty and Commitment). Loyalty and commitment are considered important to the logistics outsourcing relationship. Without commitment, the relationship and subsequent transactions become fragile and vulnerable [22]. Loyalty is conceptually very similar to commitment, some researchers argue that they are one and the same [4]. Commitment is often considered as a precursor to loyalty. Many researchers agree that loyalty and commitment are considered as consequences of trust, as such, trust is selected as the mediating variable for this study.

1.3 Research Questions

The focus will be 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?

1.4 Research Framework

The proposed research framework consists of Supplier-Customer Relationship with regards to the above, refer figure 1.1.

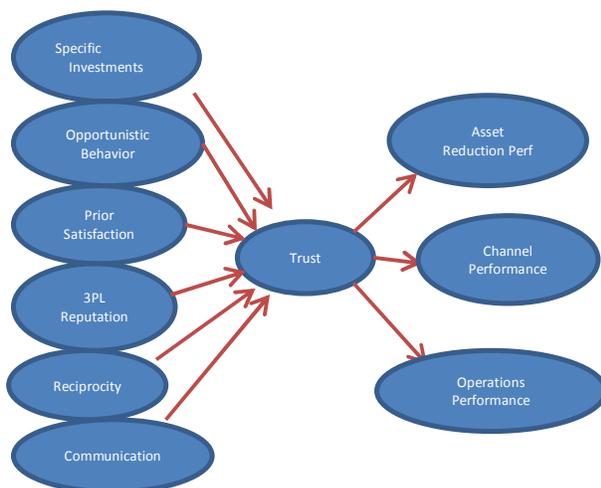


Figure 1.1: Research Framework

2.0 Literature Review

2.1 Trust and Performance

The aspect of trust has been an important topic since the infancy of US third-party logistics and today, trust continues to be the bedrock of many successful 3PL arrangements [2]. Researchers have identified an “inability to form meaningful and trusting relationships” as a leading area for improvement in 3PL arrangements [23]. Trust also improves creativity and interorganizational learning [2]. On a similar note, Corsten and Kumar (2005) stresses trust on building organizational capabilities [12].

Previous research in channel relationships has emphasized the importance of trust in fostering collaboration [1], [17]. Trust was characterized as an important lubricant of relationships, which binds parties and has an important future orientation [14]. The definition of trust defers in many instances. For this study, the meaning of trust has been limited to reliance on, and confidence on, one’s business partners. Trust is described as an dimension in many models of long-term business relationship and appears to be a cornerstone of successful logistics outsourcing relationships [7].

There are two benefits out of trust, besides providing a significant value on calculative economic feature, it can also touch the soft side by means of the affective and belief-based trust. Calculative dimension allows both supplier and customer predict the outcome of certain future events. Trust occurs because an emotional bond is created between people, enabling them to move beyond rational prediction to take a leap of faith that trust will be honored [34]. When a mutual understanding and trust is established, firms learn that coordinated, joint efforts will lead to performance that exceed what the firm would achieve if it acted solely in its own best interest [1].

With the above explanations, 3 hypotheses can be derived to denote trust in the 3PL relationship and performance.

H1: Trust of a 3PL service provider is positively related to the buyer’s perception of operations performance.

H2: Trust of a 3PL service provider is positively related to the buyer’s perception of channel performance.

H3: Trust of a 3PL service provider is positively related to the buyer’s perception of asset reduction.

2.2 Communication and Trust

Communication is the key component in any third party logistics relationship. Frequent communications and information sharing between the service provider and customers are crucial for effective management of 3PL relations and practitioner literature regularly extols the importance of communication for successful 3PL arrangements [36]. Information exchange is important even in the pre-contracting period, at the stage where the buyer attempts to assess the capabilities of the potential supplier. In many instances, joint meetings are also established to review the provider's performance and solve any arising problems [8].

As Information and Communication Technology (ICT) advances, the systems can be used to shorten the channel and reduce intermediaries, generating direct contact with customers in terms of information and communication. Besides that, it helps in speed of communication and reducing information transmission costs [11].

When there are frequent flows of information via effective communication, trust can be further enhanced.

H4: Effective communication with a 3PL service provider is positively related to the buyer's level of trust toward the service provider.

2.3 Communication and Performance

Communication is described as both formal and informal sharing of meaningful and timely information between firms [1]. Failed partnerships between 3PLs and their customers were more likely to be attributable to "soft" factors such as basic communication problems [35]. There are significant evidence of communication leads to trust, several studies on this area proves it well [1], [26]. When trust is built in a business partnership, performance of both parties can be enhanced. On another note, some scholars stressed on the importance of open disclosure among 3PL and customers for joint performance. Information exchange is crucial in ensuring both parties are synchronized [7]. As such, effective communication is one of the determinants of performance enhancement.

H5: Effective communication with a 3PL service provider is positively related to the buyer's perception of operations performance.

H6: Effective communication with a 3PL service provider is positively related to the buyer's perception of channel performance.

2.4 Opportunistic Behavior and Trust

When a customer notices opportunistic behavior on 3PL service provider, this will automatically lead to distrust. When there is an opportunistic behavior observed, it may produce substantial opportunity costs in the form of "valuable deals that won't be done" [9]. Opportunistic behavior in the 3PL context reflects provider behavior(s), such as broken or unfulfilled promises, that reduces a user's belief in the provider's trustworthiness [20].

H7: Opportunistic behavior by a 3PL service provider is negatively related to the buyer's level of trust toward the provider.

2.5 Reputation and Trust

In today's business world, suppliers have different set of pricing to their prospective customers. The higher the volume purchased or services contracted, the cheaper will be the price. But in certain cases, suppliers tend to have different prices to the same level of services purchased; this practice eventually could lead to reputation impact among the dissatisfied customers. The issue of reputation is not just limited to the aspect of pricing fairness, but also in terms of cooperative behavior, misbehavior during long-term relationships and etc [24], [28]. Partner reputation has a significant and positive influence on the level of trust among supply chain members [21].

H8: Reputation of a 3PL service provider is positively related to the buyer's level of trust toward the provider.

2.6 Satisfactory Prior Interactions and Trust

Trust can never be built if there is no relationship among 3PL and customers, as such; it is advisable for customers to give a small business deal to the 3PL as for trial reason. Eventually, if it's found satisfactory, bigger deals can be closed for a longer period of time. In this sense, as the experience with suppliers increase, the relationship would have undergone critical shakeout periods.

H9: A buyer's satisfaction with a 3PL service provider's past outcomes is positively related to the buyer's level of trust toward the provider.

2.7 Reciprocity and Trust

Reciprocity is also called as a mutual exchange between parties (buyers and service provider.), Sharing of risk, rewards, cost and revenue are among the common examples of reciprocity in 3PL settings [23]. In another word, the two-party relationships can be defined by what the two companies provide each other, the resources that they distribute, and the exchange that takes place.

H10: A Buyer's perception on 3PL service provider reciprocity is positively related to the buyer's level of trust toward the provider.

2.8 Relationship-Specific Investments and Trust

When a 3PL is willing to invest in items which could support customers specific need, this will eventually make the customer obligated with the supplier. With this in mind, a stronger long-term relationship can be built among the suppliers and customers. As an example, the supplier could build additional warehouse space to accommodate a particular customer product (isolating from other customer's product), providing special logistics information system for effective inventory management and etc. These aspects can affect the levels of trust among users of the service [10].

H11: A Buyer's perception on 3PL service provider relationship-specific investments is positively related to the buyer's level of trust toward the provider.

2.9 Relationship-Specific Investments and 3PL

As the relationship enhances through specific investments, the buyer could rely on the supplier by outsourcing certain. These investments could eventually allow reduction of assets at the buyer's end. Studies reported on strong and positive linkage from specific investment to trust among the customers and suppliers [21], [22], [33].

H12: A buyer's perception of 3PL service provider relationship-specific investments is positively related to the buyer's perception of asset reduction.

3.0 Discussion and Implication

It is anticipated, the result from this study could demonstrate the influence of trust on 3PL performance. The traditional role of manufacturing companies of either running their own logistics department or outsourcing without considering the aspect of trust should be eliminated.

'Cash is King' being ultimate slogan among the manufacturer under the current uncertainty condition. Therefore, companies holding higher cash reserve able to sustain and drive through longer, facing current challenging situation. Furthermore, this will enable them to strive higher when the economic recovery compared to those looking for financial assistance. As a result, cost controlling measurement involving 3PL function is important to align in mainstream of manufacturing strategies. 3PL strategies dominating the material management function in providing right material, in the right quantity at minimum cost addition with superb

quality, shorter time and high flexibility in meeting customer demands.

Building trust is a must for the both corresponding parties. Moving forward, 3PL performance should be able to drive and reserve buyers competitiveness and profitability. This required high integration of 3PL service providers and buyers in term of effective communication, collaborative supplier relationship, building trust, and etc. Therefore, part of the strategic integration of 3PL function into manufacturing strategic plan requires active involvement of Logistics and Supply Chain professionals into overall business strategic process. All information related to primary alignment in business strategic need to be properly communicated with Logistics and Supply Chain professional. These professionals should provide with adequate training plus rewards, in addition reorganization schemes should be focused to the achievement of manufacturing objective which will lead to overall business performance.

A 3PL can increase the depth of its partnerships with its customers by increasing customer dependence on its services. It was proven that when a customer perceives to be dependent on a 3PL, customer exhibits higher levels of trust. The level of a customer dependence on a 3PL will be a function of two main factors: a customer's logistics capabilities and the degree to which a 3PL invests in the relationship. The key idea is that a 3PL should carefully deliver new technologies to protect its core competencies and eventually create more values to the manufacturers.

Secondly, as counterintuitive as it may sound, a 3PL should invest in a relationship in order to increase customer trust. This might be either because the investments increase customer loyalty or because the customer perceives that no other 3PL may be willing to invest in the relationship.

4.0 Conclusion

The influence of the six independent variables (Communication, Reciprocity, 3PL Reputation, Prior Satisfaction, Opportunistic Behavior and Specific Investment) are important in creating positive impact on 3PL performance competitive priorities consists of asset reduction, channel and operations performance. In an increasing competitive business environment, the role of trust as mediator is crucial in creating alignment between those independent variables and 3PL performance in order to ensure logistic and supply chain purchasing function stays in tag with buyers end objective. The research could demonstrate that there exist a connection between several relationship marketing dimension and the level of perceived performance for the relationship. The findings able to offer support for the value of relationship

marketing efforts within the 3PL industry. This study could also reveal that trust as the mediating variables plays an important role in Third Party Logistics Performance in Malaysia

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