



# Explaining the competitive advantage of logistics service providers: A resource-based view approach

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## ABSTRACT

This article identifies strategic logistics resources acquired and bundled by logistics service providers (LSPs) to achieve competitive advantage. Based on a theoretical framework derived from the resource-based view (RBV) theory, contents of a database of company profiles of 15 selected LSPs are analysed. Results show that all LSPs have been acquiring physical, human, information, knowledge and relational resources and then bundling them together in various specific manners to create inimitable and firm-specific capabilities. However, only some of them performed well financially. The findings contribute to the conceptualisation and measurement of strategic logistics resources and the identification of resource bundling processes.

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## 1. Introduction

Since recognised as a new industry in the late 1980s, the logistics service industry has been experiencing growth (Sheffi, 1990). However, the reality is that not all logistics service providers (LSPs) manage to become competitive (Min and Foo, 2006). A recent survey conducted by Langley and Capgemini (2007) indicates that many users are, overall, dissatisfied with services provided by their LSPs. The survey reported that many LSPs failed to deliver the expected cost reduction, trustworthy relationship, and increasing needs for wider portfolio of logistics services and geographical coverage and advanced information technology (Langley and Capgemini, 2007). Consequently, logistics service contracts typically change hands every 2 years and many contracts are limited to only transport and warehouse services (Langley and Capgemini, 2007). The logistics service industry needs theories and solutions to achieve sustainable competitive advantage.

Some early logistics studies suggested that logistics performance can be explained by firms' resources including physical resources, technology resources, and manage-

rial competences (e.g. Chiu, 1995; Larson and Kulchitsky, 1999; Alshawi, 2001; Myers et al., 2004; Beinstock et al., 2008). However, these studies were predominantly concerned with the resources of users but ignored those of service providers (Gunasekaran and Ngai, 2003). Instead, some scholars have argued for the need for studies based on the perspective of provider resources in order to enhance the understanding of LSP competitive advantages (Gunasekaran and Ngai, 2003; Panayides, 2007; Ellinger et al., 2008). Such studies will contribute to the logistics industry because logistics service ability or competence could contribute to the market share of LSPs indirectly (Daugherty et al., 1998).

The role of resources in the competitive advantages of LSPs can be easily traced from the strategies of most LSPs. In the past decades many LSPs have been engaging in a mixture of organic expansion, merger, acquisition and alliance. Through these activities, LSPs acquire or gain access to resources such as logistics hubs, aircraft, skilled workforces, track and trace software, logistics expertise and knowledge in order to achieve growth and competitive advantage. Also, different LSPs have different portfolios of assets. Some LSPs are asset-heavy (property-based) whereas some are asset-light but knowledge-based (Das and Teng, 2000). Such behaviour can be explained by the resource-based view (RBV) theory. According to RBV

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theory, firms gain sustainable competitive advantages by ensuring appropriate access to a bundle of idiosyncratic resources which are valuable, rare, inimitable, and non-substitutable (Penrose, 1959; Wernerfelt, 1984; Barney, 1991; Eisenhardt and Martin, 2000). RBV theory appears to be able to provide a key theoretical foundation for explaining the competitive advantages of LSPs.

The main objectives of this article are to identify different types of logistics resources and their characteristics, and based on empirical evidence explore how different logistics resources can be bundled together to achieve LSPs' competitive advantages. It attempts to answer three questions: (1) what logistics resources are accessed by these LSPs? (2) How are different resources bundled together? (3) What are the characteristics of resources accessed by the successful LSPs? Answers for the first question will contribute to the development of the constructs of logistics resources as well as the establishment of the measurement scales for each of these constructs. Answers for the second question will further provide insights to logistics managers on how logistics resources may be bundled together to gain competitive advantages, knowing the fact that the possession of resources does not always warrant success (Rubin, 1973; Barney, 1991). Finally, answers for the third question are paramount to ascertain the specific characteristics of resources accessed by successful LSPs.

To answer the three research questions, comprehensive content analyses of company profiles of 15 LSPs are carried out. The protocol of the content analysis is established based on a theoretical framework of resource-based competitive advantages derived from the RBV theory and some recommended best-practices for content analysis (e.g. Barelson, 1952; Holsti, 1969; Krippendorff, 1980; Guthrie et al., 2004). The article is organised as follows. Section 2 develops a theoretical framework which tentatively explains the competitive advantages of LSPs based on RBV theory and some relevant logistics literature. Section 3 describes the chosen methodology. Section 4 analyses findings pertinent to the three research questions. Section 5 critically discusses the findings and their implications to theory and practice. Finally, Section 6 concludes the research and provides suggestions for further research.

## 2. Theoretical background

### 2.1. Resource-based view theory

Traditionally the competitive advantage of a firm has been explained by referring to the firm's strategies, process capabilities, and resources (Porter, 1985; Prahalad and Hamel, 1990; Barney, 1991; Persson and Virum, 2001). The asset-light and asset-based strategies (Murphy and Poist, 1998) applied by different LSPs indicate that resources (assets) can be one of the explanatory factors for the competitive advantages of LSPs. Edith Penrose was one of the first scholars who recognised the importance of resources in achieving a firm's competitive position (Penrose, 1959). She argued that a firm's resources may

only contribute to a firm's competitive position to the extent that they are exploited in such a manner that their potentially valuable services are made available to the firm.

In 1991, Barney published an influential article called "firm resources and sustained competitive advantage" in the *Journal of Management* to formalise resource-based (RBV) theory. This article put forward two fundamental assumptions for RBV theory: (1) resources (and capabilities) are heterogeneously distributed among firms and (2) resources are imperfectly mobile. These two assumptions conjointly allow for differences in firm resource endowments to both exist and persist over time, thereby becoming a resource-based competitive advantage (Barney, 1991). In this article, RBV theory is applied to explain the competitive advantages of LSPs because the above assumptions suggested by Barney (1991) reflect the actual business environment in the logistics service industry. In the logistics industry, resources are distributed heterogeneously across different LSPs, freight operators, forwarders, and users. Furthermore, these resources (especially knowledge resources) are often tacit and "sticky" (imperfectly mobile) and cannot be transferred from one LSP to another without cost. Even though RBV is not a prescriptive theory (Priem and Butler, 2001), it is useful in explaining how a firm may sustain its competitive advantage by acquiring and exploiting the "right" resources.

In addition to the above two assumptions, Barney argued that resources that are valuable (i.e., useful in exploiting opportunities and/or neutralising threats from the environment) and rare (i.e., uncommon) would attain a competitive advantage and enjoy improved performance in the short term. However, in order for a firm to sustain these advantages over time its resources must also be costly to imitate and difficult to be substituted (Barney, 1991). When there is causal ambiguity about the sources of competitive advantage, it becomes costly for other firms to imitate. High degrees of tacitness, complexity, or specificity will produce a high degree of ambiguity (Reed and DeFillippi, 1990). Valuable, rare, inimitable and non-substitutable resources are called strategic resources in this article.

The RBV literature recognises that resources are not of much use by themselves. Instead of merely possessing resources, Rubin (1973) argued that firms must process raw resources to make them useful. Mahoney and Pandian (1992) reminded scholars that "a firm may achieve rents (advantages) not because it has better resources, but rather the firm's distinctive competence involves making better use of its resources". The missing link between "resource possession" and "resource exploitation" is obvious (Barney and Arkan, 2001; Priem and Butler, 2001). Priem and Butler (2001) criticised RBV literature by arguing that the knowledge of where, when and how resources may be useful remains in a "black box". To unveil this black box, Teece et al. (1997, p. 516) put forward the concept of dynamic capability, which is defined as "the firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments". Their suggestion has led to further research to identify processes that are used to build resource configurations in dynamics markets (Eisenhardt and Martin, 2000).

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