



Networks and capabilities as characteristics of logistics firms

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ARTICLE INFO

Article history:

Received 30 November 2010
Received in revised form 18 April 2011
Accepted 1 June 2011
Available online 16 July 2011

Keywords:

Network
Capability
Logistics firms
Service supply chain
Interaction

ABSTRACT

The research purpose of this paper is to describe and analyse how three basic types of logistics firms differ in terms of their core capabilities and network development as well as the effects of the difference. Based on the resource-based view and the industrial network approach, a conceptual framework is developed to differentiate logistics firms. Two case studies of logistics firms are used as examples to demonstrate how the framework can be used. Logistics firms have clear differences in capabilities and network focus. These firms follow different dominating logics of value creation that make them develop in different ways and think totally differently. This research enhances our understanding of the different logics of logistics firms and their interdependence. They are complementary and interacting in the logistics service supply chain. Moving between the basic types of logistics firms means changing the capabilities and network focus, which is costly and difficult. The conceptual framework can be used as a tool to comprehend multiple types of logistics firms. It also helps us to analyze related strategic moves.

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1. Introduction

Logistics is growing in importance due to globalization, trade growth, and worldwide deregulation of transportation (Lieb & Bentz, 2005). Many firms outsource logistics services to logistics firms in order to focus on their core business and enjoy cost reduction, capital reduction, and better flexibility (Bhatnagar & Viswanathan, 2000). The logistics industry has been growing constantly due to the growth of logistics firms and mergers and acquisitions in the market (Rushton & Walker, 2009). Some logistics firms are even among the biggest firms in the world today.

Studies of logistics firms and logistics service providers (LSPs) focus on the service offered, customer demands, skills needed, and the degree of integration in their relationships with their customers (Bagchi & Virum, 1998). However, the existing literature often discusses LSPs without differentiating their core competence and how they organize their core business. Meanwhile, according to Hertz and Alfredsson (2003), there has been little interest in the development of LSPs.

According to Stefansson (2006), LSPs can be categorized into three groups: sub-contract carriers, logistics service providers, and logistics service intermediaries. However, in reality, a wide range of names are used to denote an LSP and there is confusion about the different types of logistics firms in research (Fabbe-Costes, Jahre, & Roussat, 2009). Further, LSPs are often used to represent third party logistics firms

while in other cases LSPs are equal to all types of logistics firms. This research regards LSPs as all the firms that deliver logistics services and uses it interchangeably with logistics firms. It is argued that LSPs have different abilities to combine and develop resources. There are various logics of value creation behind different types of logistics firms (Huemer, 2006). Logistics firms differ in service capabilities and compete in several market segments. Besides, they obtain and develop knowledge regarding the coordination of customers in many ways. The development of logistics service providers has implications and challenges. However, neither executives nor researchers fully understand the differences and challenges. Therefore, it is necessary to clarify the differences and pinpoint the challenges.

The supply chain management and logistics management literature rarely deals with networks. When it does, the network is usually a vertical and hierarchical one defined by a set of connected actors (Jahre & Fabbe-Costes, 2005). The existing literature usually defines key supply chain members, such as suppliers, suppliers' suppliers and customers and customers' customers, from a focal actor's perspective (Harland, 1996; Cooper, Lambert, & Pagh, 1997; Mentzer et al., 2001). The focal firm is often a producer or manager of a strong brand within the supply chain. The indirect links with third-party logistics (TPL) firms are mainly disregarded (Jahre & Fabbe-Costes, 2005). Further, logistics service providers are not regarded as natural partners (Mortensen & Lemoine, 2008).

The concept of logistics management has been evolving for several decades. Recent literature often defines logistics management as part of supply chain management. This 'unionist' view is widely accepted (Larson & Halldorsson, 2004). In the emerging 'networked era', innovative ways to cooperate and collaborate with partners horizontally (Crujssen, Dullaert, & Fleuren, 2007; Mason, Lalwani, &

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Boughton, 2007) are driving the need to reconceptualize the domain and landscape of logistics and consequently the way modern logistics management should be defined (Mason, 2009). Therefore, it is argued that taking a logistics service provider as the focal firm may contribute to our understanding of logistics management. This research perceives a logistics service provider as the focal firm and tries to show that there is a logistics service supply chain.

Essentially, logistics firms are networking firms in the sense that their business idea is based on connecting organizations, coordinating activities, and combining the resources of different organizations (Hertz & Macquet, 2006). These tasks take place in different networks: networks of actors, networks of service systems, and networks of physical flows (Johanson & Mattsson, 1992). All logistics service providers are part of these three networks but the focuses of logistics service providers differ. In turn, how they focus on these three networks affects their investments, risks, and how they interact with other firms.

By drawing on the resource-based view and the industrial network approach, we want to show that logistics firms have different service capabilities and that their core business ideas shift with the network in focus. The research purpose of this paper is to describe and analyse how three types of logistics firms differ in terms of core competence and network development as well as the effects of the difference. This study seeks to address the following research questions: How do three types of logistics firms differ in terms of core competence and network? What are the effects of the difference? This paper presents a conceptual model of the logistics firms focusing on three types of networks and distinguishing different types of logistics firms. Based on the conceptual model, we use case studies as examples to illustrate different categories. We also exemplify through two case studies how the framework can be used when one type of logistics firm wants to develop into another type. Finally, implications for firms of the focus are provided.

2. Literature framework

2.1. Logistics service supply chain

Scholars usually treat logistics outsourcing as a focal firm in a supply chain outsourcing its logistics operations to third-party logistics firms (Selviaridis & Spring, 2007). This view is incomplete. In a recent study, Stefansson and Russell (2008) identify several supply chain interfaces and show how these interfaces play a role as buyers, receivers, carriers, third party logistics firms, and logistics service intermediaries all work together to achieve efficient supply chain management. Stefansson (2006) promotes three types of logistics service providers and maintains that all three types of providers need to be considered as part of the logistics service entity. However, to our knowledge, the existing literature has largely neglected the indirect connections among supply chain members and logistics service providers.

A focal industrial firm might outsource to a third-party logistics firm and build a relationship with it. In practice, the third-party logistics firm may not physically carry out all the logistics activities. Instead, it might further outsource certain activities to other logistics firms with different assets, components and networks such as various logistics intermediary firms and carriers. Logistics intermediary firms consolidate goods and outsource transport services from varieties of carriers. Meanwhile, the focal firm's suppliers and customers might also outsource to the same logistics firm. Therefore, there is a logistics service supply chain. Carriers, logistics intermediaries, and TPL firms are interdependent and they interact with each other in the logistics service supply chain forming a vertical network of different logistics firms. Fig. 2.1 illustrates the idea.

According to Fig. 2.1, all three types of LSPs cooperate horizontally with each other and with their own types. Crujissen et al. (2007) argue that this horizontal cooperation in logistics is gaining momentum quickly. They define horizontal cooperation as developing

win-win situations among companies that are active at the same level of the supply chain in order to increase performance (Crujissen et al., 2007). Mason (2009) suggests that modern-day logistics service provision involves managing many inter-business relationships: vertical up and down the supply chain with customers, customers' customers, suppliers, and suppliers' suppliers, and horizontally with other logistics service providers. Hertz and Alfredsson (2003) argue that logistics firms are urged to manage all of these relationships better in order to develop and sustain a competitive proposition.

The existing literature mainly distinguishes logistics firms in terms of service offerings, for instance different mode carriers, such as trucking firms and shipping lines. They provide a transport service and move material physically from point A to point B (Coyle, Bardi, & Novack, 2000). Logistics intermediary firms often perform freight forwarding activities and their major roles are consolidating physical products (Bowersox, Closs, & Cooper, 2010). There are many varieties of logistics intermediaries in the market. It can be divided into freight forwarder, consolidator, broker and other types (Coyle et al., 2000). Logistics intermediary firms are often non-asset based service providers and their business is to coordinate and connect different logistics actors and their activities. Third-party logistics firms act as a middleman between the buyer and the seller while they provide a bundle of services including warehousing, transportation, and value-added activities in an integrated way (Berglund, 2000). Third party logistics firms can be either asset based or non-asset based (Africk & Calkins, 1994). Asset based third party logistics firms offer dedicated physical logistics services primarily through the use of their own assets such as warehouses and IT systems. Non-asset based third party logistics firms rely heavily on their knowledge and expertise while they are often called knowledge based logistics service providers and lead logistics providers. Fourth-party logistics firms play a role as an integrator and orchestrate the supply chain (Huemer, 2006). This research regards fourth-party logistics firms as an advanced type of third-party logistics firm since their activities overlap with third-party logistics firms to a large extent. It is crucial to point out that all types of logistics firms can cover different geographical locations so they can be local, international and global.

However, the existing literature seldom focuses on the service capabilities and core competences of different types of logistics firms. Further, logistics firms are not often discussed from the network perspective. In essence, different types of logistics firms invest their resources in various areas and develop their capabilities in several ways. Besides, according to Lemoine and Dagnaes (2003), different logistics firms also develop their horizontal networks in order to obtain access to complementary resources and capabilities. Meanwhile, Mason (2009) argues that the exploitation of the network to improve the utilization of assets is a capability to which logistics firms are increasingly turning. We argue that it is crucial to understand the difference in capability of managing networks both in terms of efficiency and effectiveness. In order to fill this gap, this research combines the resource-based view and the industrial network approach.

Ford, Gadde, Håkansson, and Snehota (2003) argue that the myth of independence distinguishes the industrial network approach from the resource-based view. However, the industrial network approach and resource-based view have something in common if the relationships and networks of which the firm is a part are regarded as resources (Baraldi, Brennan, Debbie, Tunisini, & Zolkiewski, 2007). For instance, Foss (1999) attempts to combine the resource-based approach and the network theory by treating network capabilities as a straightforward analogy for firm capability.

2.2. Resource based view

According to the resource-based view, firms are bundles of resources (Wernerfelt, 1984). Differences in resources are causally related to competitive advantages and differences in performance

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