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Generic balanced scorecard framework for third party logistics service provider

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ABSTRACT

To provide valuable support for successful decision-making, managers needs a balanced set of financial and non-financial measures that represent different requirements, strategic goals, strategies, resources, and capabilities and the causal relationships between these domains. The balanced scorecard (BSC) is such a measurement system. Although much discussion has taken place in industries and academia circles for the development of BSC for third party logistics (3PL) service provider, little research exists which studies and develops BSC strategies for 3PL service providers. This study proposed a set of strategies for BSC of 3PL service providers. We devised a strategies framework for all the four BSC perspectives of the various functions of 3PL service providers and the weightages for the different strategies are evaluated using Delphi analysis. The implementation of the proposed framework in a 3PL company is also discussed.

1. Introduction

In this intensive and competitive environment that we live in, many firms are considering the logistics outsourcing option, in order to streamline their value chains. Third party logistics (3PL) service providers are typically addressed in the context of long term outsourcing of logistics activities by a manufacturer (Sink et al., 1996; Razzaque and Sheng, 1998). We define 3PL service providers as companies, which perform the various logistics activities of a customer either completely or only in part (Delfmann et al., 2002; Lai et al., 2004). These functions can include traditional activities such as transporting, warehousing, packaging, etc. but could also include some conventional activities such as customs clearance, billing as well as tracking and tracing. In the last decade, the development of 3PL service providers has gained importance. The increasing importance of efficiency and a focus on core competencies opened up many business opportunities for 3PL service providers (Christopher, 1998a, b). The expectation of customers on shorter delivery times and more accurate services has increased considerably. As a result, the control complexity of logistics service providers has also increased significantly.

Performance indicators can support the management of complex systems. It is to be observed that no single performance indicator can give a full picture regarding performance. Each indicator presents a partial view from a specific viewpoint and is therefore not enough to serve as a basis for management decisions. Historically, companies concentrated on financial indicators. Nowadays, it is widely recognized that non-financial and even intangible indicators can give valuable information as well (Brewer and Speh, 2000). But, such indicators are more difficult to measure and compare (Kleijnen and Smits, 2003). In recent years, both practitioners and researchers have emphasized the need to move beyond the financial measures of an operation and to incorporate a much wider variety of non-financial metrics in an organization's performance reporting and reward systems (Kaplan, 1998). A popular performance measurement scheme suggested by Kaplan and Norton (1992) is the balanced scorecard (BSC) that employs performance metrics from financial, customer, internal processes and growth perspectives. By combining these different perspectives, BSC helps managers to understand the inter-relationships and tradeoffs between alternative performance dimensions, thus leading to improved decision making and problem solving.

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Logistics operations, the core of 3PL industry, can be very volatile, which is why there is always a need to be constantly updated with tools and development strategies that keep it sustainable. The balanced scorecard is a useful performance tool that ensures a method for determining initiatives for strategic planning support, systematic updates, and developments on initiatives and metrics, as well as a balanced measurement for internal and external aspects. The use of a balanced scorecard helps in examining all the areas in 3PL operations that may affect results and it can also help in improving efficiency and effectiveness in 3PL operations management, thus promoting better structure, management and success. The performance measurement and metrics pertaining to 3PL providers have not received adequate attention from researchers or practitioners, though the metrics of measuring the performance on logistics services of 3PL providers have an important role to play in setting objectives, evaluating performance and determining future plans of actions. Olson and Slater (2002) showed that the competitive strategy and the BSC have a significant relationship on firm's performance. So, the BSC has been well accepted as a reliable tool for business operations, but the difficulty in the implementation of BSC is, the identification of strategies which represent the most critical performance aspects of corporate operations. This paper develops a framework and a model for the identification of a set of strategies for all the perspective levels of the BSC of 3PL service providers. The intention is to provide a ready-reckon framework and model which can be used as a base to develop and implement a customized BSC for any 3PL service provider.

2. Research background

2.1. Performance measurement and balanced scorecard

The BSC is a high-profile model which has attracted much attention from both practitioners and academics. The BSC is a performance measurement system that allows managers to look at the business from four divergent important perspectives, thus balancing as well as linking the financial and non-financial, tangible and intangible, internal and external; customers and internal business, innovation and learning factors (Kaplan and Norton 1992). The BSC approach is introduced by Kaplan and Norton in 1992 and has been developed for strategic management. The BSC is a measurement and management system which helps organizations to translate their vision and strategy into action, and provides a comprehensible overview for managers of the organization's performance. By providing feedback on both, the internal business processes and the external outcomes of those processes as well as strategic performances can be continuously improved. The BSC does not only focus on financial outcomes, but also on the human issues which generate those outcomes in order to ensure better performance in the long-term. The BSC system is intended to make managers focus on the key performance metrics within a business that generate success. Kaplan and Norton (1996) describe the idea behind the BSC as follows (Arveson, 1998) "The BSC retains traditional financial measures. But financial measures tell the story of past events. But, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships was not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make in order to create future value by investing in their customers, suppliers, employees, processes, technology, and innovation". There are four perspective levels in BSC such as Financial, Internal, Customers and Learning and Growth (Reader can refer Kaplan and Norton, 1996) and the focus on only four areas forces managers to concentrate on the most critical measures.

Many companies have started adopting BSC as the foundation for their strategic management system. Some managers have used it as they align their business to new strategies, moving away from cost reduction and towards growth opportunities based on more customized, value-adding products and services (Martinsons et al., 1999). The balanced scorecard has evolved from its early use as a simple performance measurement framework to a full strategic planning and management system, and it enables executives to truly execute their strategies (Miyake, 2002).

The concept of balanced scorecard is very relevant in the present era of emerging intense global competition where the organizations are facing increasingly knowledgeable and demanding customers and activist shareholders which have changed the competitive environment from competition based on ability to invest in and manage physical (or tangible) assets to competition based on knowledge and the ability to exploit intangible and soft assets (like human capital, information systems, intellectual capital, brand development, research and development etc.). In this changed business paradigms, the BSC throws an insight into an organization's performance by integrating financial measures with other key performance indicators around customer perspectives, internal business processes and organizational growth, learning and innovation thus enabling organizations to track short-term financial and operating results while monitoring progress for future growth, development and success (Ghosh and Mukherjee, 2006).

2.2. Balanced scorecard and 3PL service providers

One area that the world's most successful companies attribute their success to is, outsourcing their logistics and supply chain activities/operations to a third party logistics (3PL) service providers. Faced with increasing competition in the global marketplace of the 21st century, many companies worldwide are turning to logistics outsourcing as a way to increase their profitability and gain a sustainable competitive edge. 3PL companies offer services that can allow businesses to outsource part of their routine logistics and supply chain management functions. In responding to global outsourcing needs, 3PL companies have been transitioning from basic commodity-service (transportation and warehousing) to a more comprehensive service offering. The increasing focus on core competencies opened up many business opportunities for logistics service providers (LSP) (Christopher, 1998a, b). 3PLs carry out the logistic activities for one or more companies within the supply chain; functioning as an intermediary (Lai et al., 2004). The functions of 3PLs or LSPs can be divided into: warehousing, transportation, customer service, and inventory and logistics management (Sink et al., 1996; Vaidyanathan, 2005a, b). Lieb and Kendrick (2003) have identified the following as significant outsourcing functions for 3PL service providers and it needs to be accounted for performance management: transportation, warehousing, freight consolidation and distribution, product marking, labeling and packaging, inventory management, traffic management and fleet operations and management, freight payments and auditing, cross docking, product returns, order management, carrier selection, rate negotiation and logistics information systems.

In the literature, we identified two major perspectives. First of all, there is a clear split between performance indicator related research that focuses on internal operations of a 3PL provider, versus literature that takes the supply chain perspective and seeks to optimize inter-organizational performance. The second perspective relates to the use of performance indicators; in