

# *Logistics Outsourcing: Lessons from Case Studies*

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This paper investigates key success factors in logistics outsourcing. A model is used to illustrate outsourcing relationships and then applied to three examples from the logistics sector. The model is presented as a tool which can help managers to minimize the chance of failure by explicitly addressing key issues prior to the implementation of a partnership. In order to fully capture the complexity of the outsourcing process, the model is refined by the analysis of implementation of outsourcing methodology and the analysis of the presence of outsourcing myths in each case. We find that the implementation of outsourcing methodology is critical to successful outsourcing. Overall, we find that the main common factors leading to logistics outsourcing success, after the right third party service provider has been selected, are improved service levels and commercial viability for both parties, joint vision and objectives of the partnership, clear roles, top management commitment and support, communication and trust. The results of the case analysis shed light on what is the key to a successful outsourcing relationship and indicate how the architecture of logistics outsourcing can be analyzed and improved.

*Key Words:* third-party logistics, outsourcing, transportation service, service provider, partnership

*JEL Classification:* L24

## **Introduction**

In the global economy, every company must compete against customer choices coming from everywhere and anywhere. The single most visible result of this hyper-competitive environment is rapid commodization. Growth and profitability are expected and increased shareholder value is demanded. Doing the right thing is becoming more important than doing everything. Therefore, organizations are becoming better focused and more specialized. They evaluate each activity to determine if and how it provides a unique competitive advantage. The ar-

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eas that provide an advantage are likely to receive increased internal investment, while those that do not are likely to be either eliminated entirely or put in competition with an ever-expanding marketplace of external service providers, that is, they are considered for outsourcing. According to Corbett (2004), outsourcing is a management tool which is used to move an organization away from the traditional vertically integrated, self-sufficient structure; one that is increasingly ineffective in today's hyper-competitive, performance-driven environment. Through outsourcing, the organization moves toward a business structure where it is able to make more focused investments in the areas that provide its unique competitive advantage.

Logistics outsourcing is one of the fastest growing areas. The number of outsourcing companies and logistics service providers has increased dramatically and competition has intensified. Both, outsourcing companies and service providers, face great challenges in their outsourcing venture. A better understanding of success and failure factors and the concerns involved is needed so that outsourcing companies can take better advantage of the outsourcing opportunity. Since the early 1990s, there has been a significant increase in the number of organizations that have decided to outsource all or some aspects of their logistics function. As a result, research into logistics outsourcing has also increased. A careful review of existing literature reveals a mismatch between theory and practice in outsourcing. Collectively, these studies suggest that outsourcing companies should take great care in what, how and whom they choose to outsource an activity. Such research papers have limitations and are not useful to everyone, as organizations have their own unique circumstances. There is a need to gain insight into the key success factors to logistics outsourcing so that others can learn from their experiences.

Different authors (Ellram 1995; Lambert, Emmelhainz and Gardner 1999; Tate 1996; Greaver 1999; Mayer Brown 2003; Cohen and Young 2006) ascribe different importance to key success factors. Successful outsourcing does not relate only to financial and business goals. As outsourcing may have considerable impact on a company's competitiveness over time, it is a comprehensive vision of managing the relationship that demands careful consideration. Without an understanding of different participants' perspectives on those involved and affected in the process, measuring the success of outsourcing is not possible. Furthermore, outsourcing companies need conceptual tools to evaluate their outsourcing case in order to understand which key success factors must be consid-

ered for their outsourcing opportunity, especially during the preparation phase.

Therefore, this paper seeks to enrich this research by examining the ways in which the identification of key success factors in outsourcing occurs. The content of the study provides a brief description of outsourcing and logistics outsourcing. The literature relevant to outsourcing is then reviewed. A set of outsourcing key success factors that are considered by different authors are proposed and a 'Partnership Model' is used to illustrate factors which need to be present in outsourcing relationships. Three case studies examples from the logistics industry are used to show the application of the 'Partnership Model.' This includes a discussion of how outsourcing companies might better define and develop successful logistics outsourcing relationships.

### **Theory and Hypotheses**

It is important to understand why some logistics outsourcing relationships work well and why others fail. A careful review of existing literature reveals a mismatch between theory and practice in outsourcing. In order to help minimize the chance of failure in an outsourcing relationship, the 'Partnership Model' was developed (Lambert, Emmelhainz and Gardner 1999). While this model cannot guarantee that all partnerships are successful, it can serve as a powerful tool for logistics managers to develop and maintain effective relationships. Other authors (Greaver 1999) have proposed the implementation of 'The Seven Steps to Successful Outsourcing.' Methodology, which, in their opinion, is critical to successful outsourcing (Planning Initiatives, Exploring Strategic Implications, Analyzing Cost/Performance, Selecting Providers, Negotiating Terms, Transitioning resources, Managing relationships). Others (Mayer Brown 2003) state that outsourcing companies should streamline operations and fix the problems before outsourcing the process. They should not transfer key employees to the vendor. It is also important that they manage the relationship, plan adequately for the co-management process and establish control points.

Rosenthal (2000) discovered that logistics service providers are often too rigid when it comes to change. They do not put enough emphasis on pricing strategies and they have to learn how to build alliances and be frank about them. They put too much focus on service levels and not enough on strategy. Reagan and Chauanxu (2002) advise outsourcing companies to pay attention to identifying hidden risks and preventive

measures. Preventive measures can help build successful logistics outsourcing partnerships. Different potential risks in third party logistics can result in inefficient management, loss of internal logistics management capability, latent information asymmetry, reduced contact with the final customer, loss of logistics innovative capacity, hidden costs, coordination costs, dependence on the third party logistics provider, loss of control over the third party logistics provider, problems of evaluating and monitoring provider performance and conflicts of culture.

Mayer Brown (2003) define a number of key factors for customer success in outsourcing. Those factors are: top management commitment and support, the right people on the outsourcing team, clear objectives, fully defined scope, established financial baseline, rational process, the right vendor selection, an agreed contract and definition of outsourced services, acceptance of responsibilities, managing the transition phase as a project, maintaining competitive pressure, open and honest information flow, support and respect to individuals and personal development opportunities for any staff who transfer, improved service levels and commercial viability for both parties. While the KPMG study (2000) identified the most important factor for success of the partnership as improved service levels, the second and third most important success factors are support and commitment from top management and a contract specifying responsibilities and agreement on key performance indicators.

Gartner sourcing experts Cohen and Young (2006) argue that yesterday's ad hoc sourcing approaches are ineffective in today's complex world. They have introduced a new operational model called 'Multi-sourcing,' a model in which internally and externally delivered services are blended seamlessly, governed closely, and evaluated continuously for effectiveness and efficiency. They state that the root of the disconnection between theory and practice in outsourcing can be traced to eight myths that pervade current outsourcing management approaches: the myth of sourcing independence, the myth of service autonomy, the myth of economies of scale, the myth of self-management, the myth of the enemy, the myth of procurement, the myth of the steady state, and the myth of sourcing competency. Moving beyond outsourcing to multisourcing requires dispelling these myths and taking a new approach to all sourcing initiatives and actions.

Collectively, these studies suggest that outsourcing companies should take great care in what, how and whom they choose to outsource an activity. As outsourcing may have considerable impact on a company's

competitiveness over time, it is a comprehensive vision of managing the relationship that demands careful consideration. The first critical step is how to select the third party logistics provider (how to outsource logistics service providers). Based on Aghazadeh's view (2003), there are five steps of the logistics outsourcing process (Making the Decision, Evaluating the Operations and Developing Criteria and Objective, Making the List and Sending Letters, Consideration and Selection, Beginning the New Partnership), while Greaver (1999) proposes seven steps of the logistics outsourcing process. The number of outsourcing steps is not as important as their method. Therefore, we propose the following hypothesis:

H1 *The implementation of outsourcing methodology is critical to successful outsourcing.*

The second factor which helps companies to be successful in outsourcing is to know the key success or management techniques to operate the outsourcing successfully and maintain that success. Managers need a systematic, replicable method of partnership development and implementation. Lambert, Emmelhainz and Gardner (1999) developed the 'Partnership Model,' which provides explicit methods for dealing with problems that may lead to partnership failure. The analysis and discussion of drivers and facilitators greatly minimizes the likelihood of mismatched perception between the parties. An understanding of the drivers ensures that both organizations have to benefit from the partnership and that each knows what is motivating the other. The analysis of facilitators identifies potential conflicts between the two organizations.

The model has three major elements: drivers, facilitators, and management components. Drivers are compelling reasons to partner. They are strategic benefits that will result from strengthening a relationship: asset/cost efficiencies, enhanced customer service, marketing advantage, and profit/growth stability. In order for a partnership to succeed, each party must have sufficient drivers, but not all need to be present. The drivers do not need to be the same for each party. If both parties do not perceive and do not have a realistic chance of obtaining significant benefits from the relationship, then it will fail. In using the model, each party should first independently determine its own drivers. A joint session is then held at which the parties share their expected drivers; this aligns expectations and identifies potential conflicts in desired benefits from the partnerships. Facilitators provide a supportive environment for growth and maintenance of a relationship. The four primary facilitators in ev-

ery relationship are corporate compatibility, similar managerial philosophy and techniques, mutuality, and symmetry. Five additional facilitators exist that cannot be expected in every relationship but when present will strengthen it. These situations or specific facilitators are exclusivity, shared competitors, physical proximity, a prior history of partnering, and a shared end user. Facilitators reflect the degree of compatibility between the two firms and indicate the likelihood of partnership success. Facilitators should be assessed jointly by the two parties, since this measures the compatibility of the environments of the two organizations. Within the partnership context, there can be a varying degree of integration. The combined strength of drivers and facilitators determines the potential for partnership integration. While the level of drivers and facilitators determines the most appropriate degree of integration, whether that integration is achieved depends upon management components. Drivers and facilitators only establish the potential for a relationship; management components determine how it is achieved. Even with strong drivers and facilitators, a partnership can still fail if the components are not implemented appropriately. The way in which they are put into place and managed will determine how the partnership operates. Management components are joint activities and processes used to build and sustain a partnership (planning, joint operating controls, communication, risk/reward sharing, trust and commitment, contract style, scope and financial investment).

If appropriately established and effectively managed, a partnership should improve performance for both parties. Outcomes include profit enhancement, process improvements, and increased competitive advantage. The outcomes achieved by each party should reflect the drivers that motivated the development of the partnership. For this reason, it is important to establish specific targets for each driver. Therefore, we propose the following hypothesis:

- H2a *The analysis and discussion of drivers and facilitators before the formalization of the partnership greatly minimizes the likelihood of mismatched perceptions between the parties.*

Gartner sourcing experts Cohen and Young (2006) argue that ad hoc sourcing approaches are ineffective in today's complex world. A new operational model-multisourcing-is introduced as a model in which internally and externally delivered services are blended seamlessly, governed closely, and evaluated continuously for effectiveness and efficiency. In or-

der to ensure the success of outsourcing initiatives, organizations need to adopt a more holistic and strategic approach to sourcing as a whole. A new approach requires that the selection of the 'right' sources for business services – whether internal or external – be an integral part of the enterprise strategy. It requires identifying the desired business outcomes and creating contracts, relationships, measurement, and governance that support and enable those outcomes. According to them, organizations and executives vastly underestimate the complexity of managing and integrating multiple outsources. Compulsive outsourcing and outsourcing for cost reasons without an integrated planning strategy and ongoing management has masked the rapidly changing complexity of the services outsourcing world. Outsourcing companies are striving to standardize their services so that these companies too can grow rapidly while keeping costs under control. This has often created huge tensions between the expectations of service recipients and the needs of service providers.

The experiences of many firms show that the current state of chaotic and compulsive outsourcing creates as many challenges as it solves. And the problems are more often not with the external provider; they lie within the organization itself and in the shortcomings of their sourcing practices: miscommunication, misalignment, poor governance, and a lack of coordinated management. The root of the disconnection between theory and practice in outsourcing can be traced to the following eight myths that pervade current outsourcing management approaches: The myth of (1) sourcing independence; (2) service autonomy; (3) economies of scale; (4) self-management; (5) the enemy; (6) procurement; (7) steady state; and (8) the myth of sourcing competency. Therefore, we propose the following hypothesis:

H2b *Successful outsourcing requires dispelling outsourcing myths.*

Some key success factors are identified in relation to the specific outsourcing situation, while others are common for all circumstances. According to different authors (e. g. Schwartz 2003; Murphy and Poist 2000; Whipple and Frankel 2000; Howarth, Gillin and Bailey 1995; Jonsson and Zineldin 2003; Tate 1996; Moore 1998), the keys for success in logistics outsourcing after selecting the third service provider are trust, performance evaluation, sharing information and communication, top management support, clear goal, vision and roles.

Trust is the first and one of the most significant factors for succeeding in outsourcing logistics as the companies have to share information,

benefits, and risks with each other (Tate 1996). Because of trust, the logistics company gains a chance to improve its service level and develop the relationship for a longer period of time, especially strategic alliance and 4PL. Performance measurement is one of the major factors to measure the success and maintain the achievement after outsourcing starts; this factor is also among the top five key success factors identified in the KPMG study (2000). Companies outsource logistics services to improve their operations and service or to reduce the cost. If the performance is not satisfied, the outsourcing can be ceased or fails because the objective of outsourcing is not achieved. To maintain the alliance and succeed in the long term, it is necessary to measure or evaluate the performance regularly (Jonsson and Zineldin 2003; Whipple and Frankel 2000; Murphy and Poist 2000; van Laarhoven, Berglund and Peters 2000). Sharing information and communication leverages the efficiency and effectiveness in logistics outsourcing because both partners know what they want and provide the relevant information. Lack of information and communication can fail the outsourcing especially in strategic alliance (Murphy and Poist 2000; Whipple and Frankel 2000). Top management can help the staff to overcome initial resistance by identifying the concrete goal and offering support. Lack of support from top management will discourage the operational level's decision in management, sharing information, and communication (Whipple and Frankel 2000; Murphy and Poist 2000; van Laarhoven, Berglund and Peters 2000). According to the KPMG study (2000), support and commitment from top management is the second most important success factor. Top management commitment and support is considered important, since they can make the necessary funds and resources available for the project as well as provide strategic direction and offer solutions for overcoming obstacles. The goal, vision and roles are required to prevent confusion among staff and organizations (van Laarhoven, Berglund and Peters 2000; Whipple and Frankel 2000; Murphy and Poist 2000). Contract specifying responsibilities are the third important success factor according to the KPMG study (2000). A contract is perceived as a success factor, as it specifies costs and responsibilities and provides guidelines for the execution of the partnership as well as the resolution of issues. Moreover, other key success factors can be relationship commitment (Moore 1998; Tate 1996), sharing benefits and risks (Murphy and Poist 2000; Tate 1996), flexibility (Tate 1996), etc. Both sides may have to adopt these issues in their considerations or improved service level (KPMG 2000).

In addition to the abovementioned success factors, we can add some others as a result of own experience and literature review:

- Rational process;
- The right people on the outsourcing team;
- Managing the transition phase as a project;
- Fully defined scope;
- Established financial baseline;
- Maintaining competitive pressure (the option to move to another provider at reasonable cost and risk, the ability to require a provider to offer market-value prices and terms);
- Frank, open and honest information flow (communication);
- Commercial viability for both parties.

It can be concluded that, according to different research studies on logistics outsourcing, the hypothesis of this study is that some factors leading to outsourcing partnership success are common for all circumstances, while other key success factors are related to the specific outsourcing situation in each case. We propose the following hypothesis that is directly related to logistics outsourcing:

- H3 *The main common factors leading to logistics outsourcing success (after the right third party service provider is selected) are: improved service levels and commercial viability for both parties, joint vision and objectives of the partnership, clear roles (contract specifying responsibilities and agreement on key performance indicators), top management commitment and support, communication (open and honest information flow) and trust.*

## Methodology

Case studies are widely used in organizational and across the social sciences, for example, in sociology, organizational psychology, employment relations, political science. There are some suggestions that the case study method is increasingly being used (for example Yin (1994), Robson (2002) and a number of publications examine the approach (for example Yin (1994), Stake (1995), Eisenhardt (1989), Abrahamson (1992), and Hamel, Dufour and Fortin (1993)). There is growing confidence in the case study as a rigorous research strategy in its own right.

This exploratory study utilized the case study method to develop an understanding of a successful outsourcing relationship and indicate how

the architecture of logistics outsourcing can be analyzed and improved. Most studies on logistics outsourcing have been conducted using surveys, a methodology that seeks to obtain generalizations about a specific population. By conducting three exploratory case studies, the researchers sought to gain further insight into logistics outsourcing relationships in a given context. The relationship of each case was believed to be unique, based upon the context of each partner in the specific case. Case study as a research method was selected to develop an understanding of the details of a particular factor from the viewpoint of the participants by using multiple sources of data.

#### SAMPLING

The emphasis of the research work was placed on understanding processes within the organizational and the relationship contexts. For this reason, we strove to find typical medium to large size organizations in different industries in order to present the contrast between the chosen cases.

We have chosen to study a combination of more traditional firms and firms operating internationally. All three examples of logistics service providers developed from being freight forwarders and transport companies, entering the field from a more traditional and standardized transport firm perspective. However, they differ considerably in size and type of resources. In all three cases, the logistics service providers are logistics service integrators and as such have a service developer perspective. In this respect, the three examples illustrate different types of logistics firms.

According to research criteria, medium to large size outsourcing and logistics service providers operating internationally in different industries fit the criteria for research. The cases chosen are appropriate for this study because they offered an examination of processes related to outsourcing as a part of the logistics function, and because the management of outsourcing companies and logistics service providers were willing to disclose their outsourcing relationships.

Three case studies were selected arbitrarily within Slovenian large manufacturing companies to verify the proposed hypothesis. The companies were export oriented, had higher value added per employee than average in industry and a large network of subcontractors, which enabled us to explore the selected relationship. Following is a description of each selected company and their relationship with the outsourced logistics service provider.

*Case 1 description.* Outsourcing Company 1 / Logistics Service Provider 1: The core business of the Outsourcing Company 1 (OC1) is the production and sales of large household appliances. The company is one of the eight largest manufacturers of household appliances in Europe. Logistics Service Provider 1 (LSP1) is a Denmark based logistics company specializing in the transport of packages rather than bulk goods. The company has several distribution terminals located throughout Denmark and operates its own trucks. Customer service and competitive prices had become a key competitive differentiator, and LSP1 saw a clear opportunity to gain an advantage by providing a better service at competitive prices to foreign producers and importers of household appliances such as OC1. The relationship between OC1 and LSP1 is one of the relationships with third parties for warehousing and distribution of OC1 appliances to all retailers (customers) of OC1 in Denmark. LSP1 is a logistic company in Denmark that offers logistics services (warehousing and transportation) to several producers/importers of household appliances in Denmark. In the analyzed case, the logistics company LSP1 provides transportation of goods and storage services for two Italian, one French and one Slovene producer of household appliances. The transportation of goods is usually executed for all producers simultaneously on the same transport route, as the supply is being delivered to the end users, who are mainly the same for all the producers (retailers-distribution centres). Both OC1 and LSP1 obtained a number of positive outcomes from this relationship. For OC1 there has been significant improvement in customer service levels. OC1 customers reported satisfaction. For LSP1 the most significant outcomes have been profit stability and a competitive advantage.

*Case 2 description.* Outsourcing Company 2 / Logistics Service Provider 2: Outsourcing Company 2 (OC2) is part of a well-known French car manufacturer and acts as a retail sales outlet in Slovenia. Logistics Service Provider 2 (LSP2) is a prime contractor offering logistics services to the whole organization (parent company) and to the market at large. LSP2 is a single provider that manages service delivery to the parent company. It is an external service provider that delivers a set of services by engaging other service providers to provide best-in-class capabilities. LSP2 is one of Europe's leading logistics groups and one of the top ten in the worldwide logistics industry. LSP2 engaged 'LSP2 subcontractor,' which is an internationally active family business, whose core service is vehicle logistics. The company specializes in the preparation and distribution of finished vehicles from production to delivery to the dealer. Within 50 years, LSP2 subcontractor developed into an international specialist

in the field of vehicle outbound logistics. Releasing Agent responsibilities are one of the main pillars of the LSP2 subcontractor's international range of services, in addition to vehicle transportation and a great variety of Pre-Delivery Services. LSP2 subcontractor carries out the OC2 vehicle distribution from the main branch in France to its distributors in Slovenia. This service includes the collection of vehicles from the main branch. The contractual capacity includes vehicle inspection (detection of damage – visual inspection); transportation of vehicles to the warehouse in Slovenia; storage of vehicles in LSP2 subcontractor's warehouse; repair of potential minor transportation damage; vehicle modification from private vehicles to cargo carriers (owing to tax benefits); and distribution (transport) of vehicles to authorized dealers. The full extent of these services has been carried out since 2005 by LSP2, the authorized company for the organization and transportation of vehicles for the OC2 parent group. Both companies (and subcontractor) benefit from this business relationship. OC2 improved its service level for customers and the reclamation amount declined. LSP2 subcontractor profit margin increased as well as their operating range and stability, as did their competitive position in the market with the incorporation of additional services for their clients.

*Case 3 description.* Outsourcing Company 3 / Logistics Service Provider 3: Outsourcing Company 3 (OC3) has been manufacturing stone wool thermal insulation and has more than 30 years of tradition in the manufacture of sealants. The company earns more than 70 percent of its turnover in Western European markets. Logistics Service Provider 3 (LSP3) offers customers a variety of logistics solutions in the area of continental, sea and air transport, in terminal services and in customs broking. They organize door-to-door transport, express delivery and courier services, warehousing and distribution. They also offer shipping agency services and border dispatch in their range. OC3 is a successful player in more complex logistics projects and the realization of entire logistics services-logistics outsourcing. LSP3 has been given the task of acting as a logistics service provider to perform the organization and transportation required by OC3. LSP3 assumed control over the following activities in the OC3 logistics process: the registration of orders and coordination with the sales/purchase department of OC3; the selection of transporting agents and transportation methods; and the implementation of transportation in synch with the given disposition. Regardless of LSP3 improved level of services and transport optimiza-

tion, OC3 evaluated their business interaction with LSP3 as financially unsound and terminated the contract, so this case is a case of outsourcing failure.

#### DATA COLLECTION AND ANALYSIS

The survey in this paper is based on semi-structured interviews (all face to face) with buyers and suppliers of logistics services in Slovenia. The choice of semi-structured interviews was deliberate since open-ended questions allow interviewees to develop their views and ideas and also lead to the identification of unforeseen research dimensions. The chosen design enabled the researchers to collect in-depth information on buyers and suppliers' perceptions and concerns regarding logistics outsourcing.

The interviews were conducted in 2006 over a period of 6 months. Interviews with logistics and supply chain directors/managers of 3 companies (6 interviews, 3 hours each), all operating in Slovenia, were conducted. An interview guide was developed with the purpose of exploring a number of themes identified in the literature. Contextual information was gathered regarding key success and failure factors, specific factors relating to each outsourcing case and information regarding drivers, facilitators, management components and presence of outsourcing myths.

Case studies were analyzed by applying the 'Partnership model' (Lambert et al. 1999) to the relationship between three outsourcing and logistics service providers. Each case study was analyzed regarding the use of appropriate outsourcing methodology according to Greaver (1999) and to Cohen and Young (2006) when developing and implementing the outsourcing relationship. Additionally, each case was examined in terms of possible outsourcing myths (Cohen and Young 2006). The specification of questions posed to managers of the outsourcing companies and logistics service provider firms included 21 open questions (specified in the Appendix), which had previously been used by other researchers in the 2000 KPMG study and research study (Boyson et al. 1999).

#### Findings

Our first hypothesis was that the implementation of outsourcing methodology is critical to successful outsourcing. It was found that in two relationships (Case 1 and 2), managers had been using outsourcing methodology, but not all necessary steps were developed and/or implemented. In Case 3, which is a failure, essential elements in the outsourcing process were missing, such as established baseline, sourcing governance models,

evaluation model and scoring system, communication plan, transitioning plan and measurement of progress.

Companies that enter outsourcing contracts must have a coherent plan for the ongoing management of the relationship and the services that are provided. It is evident that OC3 did not develop any plan. In order to ensure success, outsourcing companies need to have required management competencies in house to perform all steps according to outsourcing methodology. Therefore, we can conclude that the first hypothesis, that the implementation of outsourcing methodology is critical to successful outsourcing, can be supported.

Hypothesis H2 proposed that the prior analysis and discussion (of drives and facilitators) to the formalization of the partnership is critical and increases the likelihood of the outsourcing success. We have found that the partnership reasons are well-defined in all three cases, while the partners realized their partnership drivers in two cases only, which is why they were successful. In the third case, the outsourcing company did not experience the full benefit and therefore the relationship was not successful. Facilitators were present in Cases 1 and 2, ensuring a suitable growth environment for the partnership. In Case 3, facilitators were not as prominent as in the other two cases. Management components as joint planning and joint operating controls were recognized in two successful cases as the key element of successful partnership.

Good communication was noted among the partners in Case 2. In Case 3, one could detect a two-way multilevel communication, however, it was not balanced. In Case 3, performance measures were not discussed, agreed upon or suitably defined. This was also the reason for unsuitable evidencing of transport expenses. In Case 3, the following elements of a successful partnership were especially lacking: failure of financial expectations to materialize, an agreement on key performance indicators, communication, lack of trust and lack of top management commitment. The relationship between OC3/LSP3 encountered a lack of top management support. This reason for failure could have been eliminated during the phase where both parties defined varied factors to facilitate the partnership. The official reason for their contract termination was the increase in transportation costs, which was denied by LSP3. In the event that the two companies had suitably defined their extent of mutuality, trust and commitment, they would have come to an arrangement over their disagreement and maintained their working relationship. This supports the hypothesis that companies which use a method for partnership

development and implementation have a better chance for success. It is evident that in the two cases where drivers for partnering were achieved relationships are successful, whereas in the failed third case, drivers and facilitators were not properly discussed and management components were not implemented.

The evidence of the myth of self-management and the myth of sourcing competency was found in all three cases. In Case 3, management had entered the outsourcing contract with no plan for the ongoing management and the relationship. With regard to the myth of sourcing competency, in all the three cases the management believed that they already had the required management competencies in house to perform the necessary governance. Unfortunately, these companies did not recognize that managing external services requires different competencies than managing the same internally provided services.

The case analysis findings confirm that the success of logistics outsourcing agreements depends heavily upon the management skills (internal capability to manage the outsourcing process) of the firms engaging the services of third party logistics providers. Since most of the myths of outsourcing were evident, and some of them also lowered the potential success of the outsourcing partnership, our findings also give support to Hypothesis H2B.

Moreover, we have found support for the third hypothesis, since in Cases 1 and 2 most success factors for logistic outsourcing success were identified, while in Case 3 the following elements of a successful partnership were especially lacking: failure of financial expectations to materialize, an agreement on key performance indicators, communication, lack of trust and lack of top management commitment.

It is essential that all parties understand each other's expectations, and that there is a solid contractual basis on which to work with the new partner. It is critical to manage the relationship, which means managing the contract, measuring performance, collecting the service level credits, paying the bills, dealing with disputes, escalating severe problems, and making sure the logistics service provider provides the resources that it promised to provide. Failure in outsourcing is seldom caused by the inability to perform. Rather, poor relationship management causes a mismatch in results and expectations. This causes a breakdown in communications, which leads to dissatisfaction or an inability to recognize a cultural gap. Open and honest communication goes hand in hand with mutual trust and accepted responsibility. In Case 3, the outsourc-

ing company also faced the failure of financial expectations to materialize.

In addition to common factors leading to logistics outsourcing success, some specific key success factors have been found in each case. For instance, Case 1 and 2 companies enjoyed the benefits of economies of scale as they allowed servicing providers to provide standardized services. Furthermore, we have found that each case needs to be examined carefully to understand the real reasons for outsourcing success, the importance of each success factor and the importance of specific key success factors relevant for each case.

### **Conclusions, Implications and Limitations**

One of the main findings of the case analysis is that in two relationships managers had been using outsourcing methodology, but not all the necessary steps were developed and/or implemented as proposed by (Greaver 1999) and (Cohen and Young 2006). In Case 3, which is a failure, essential elements in the outsourcing process were missing.

The next important finding is that companies which use a systematic method for partnership development and implementation (e. g. Partnership Model) have a better chance for success. It is evident that in two cases where drivers for partnering were achieved, relationships are successful, whereas in the third case, which is a failure, drivers and facilitators were not properly discussed and management components were not implemented. By applying the 'Partnership Model,' the interviewed companies would have minimized their chances of failure by addressing key issues prior to the implementation of the partnership. In order for a partnership to succeed, outsourcing companies and third party service providers must have sufficient drivers, facilitators and management components.

Successful outsourcing relationship practice needs to dispel myths that pervade current outsourcing management approaches. The evidence of the myth of self-management and the myth of sourcing competency was found in all three cases, while the unsuccessful case reveals that the management had entered the outsourcing contract with no plan for the ongoing management and the relationship. With regard to the myth of sourcing competency, in all three cases the management believed that they already had the required management competencies in house to perform the necessary governance. The case analysis findings confirm the assumption that the success of logistics outsourcing agreements depends

heavily upon the management skills of the firms engaging the services of third party logistics providers.

The main common factors leading to logistics outsourcing success, after the right third party service provider has been selected, are improved service levels and commercial viability for both parties, joint vision and objectives of the partnership, clear roles (contract specifying responsibilities and agreement on key performance indicators), top management commitment and support, communication (open and honest information flow) and trust.

In addition to common factors leading to logistics outsourcing success, some specific key success factors have been found in each case and need to be taken into consideration for successful outsourcing.

In all three cases, the interviewees identified a number of potential future key success factors and/or failure factors. For managers it is important to perform a realistic assessment of the problems and opportunities. Risk management must take account of differences which can result from differing perceptions and conflicting objectives between outsourcing companies and logistics service providers. In the analyzed cases, the results indicated an obvious difference in perception between the outsourcing company and the logistics service provider with respect to the extent of the logistics function to be outsourced, service implementation and issues related to prices. The outsourcing company must have confidence in the logistics service provider's capabilities and needs to develop clear specifications as well as share with them all information crucial to successful outsourcing. Different potential problems and opportunities for logistics outsourcing success have been identified within each case. The research findings show that in order to develop an understanding of key success and failure factors of logistics outsourcing, it is necessary to seek different views relating to those factors. There is a need to gain an understanding about which factors need to be taken into consideration. Different authors ascribe different importance to key success factors. It is obvious that successful outsourcing does not relate only to financial and business factors.

Findings also uncovered some conflicting objectives of the parties that may hinder the development of successful logistics outsourcing relationships, such as a preference for a short-term contract, which according to the service provider's opinion limits the extent of outsourcing success. It was found that each of the three cases discussed is unique and complex, and thus has specific factors which are important for successful

outsourcing. Case studies offer a learning opportunity for other organizations facing similar difficulties.

This paper has reviewed and analyzed three case studies, and in doing so, complemented the normative literature and also made a distinct contribution towards the outsourcing debate.

Managers need conceptual tools to identify key issues prior to the implementation of a partnership, such as the presence of outsourcing myths and implementation of all phases of outsourcing methodology. Such a 'refined model' is presented in this paper and can be a useful tool for logistics managers to set up an appropriate structure of their logistics outsourcing relationship, as all aspects related to the success of logistics outsourcing are taken in consideration.

This research was undertaken to improve the understanding of key success factors in logistics outsourcing. By analyzing the factors to a successful outsourcing relationship and ways, how the architecture of logistics outsourcing can be analyzed and improved, this research sought to help logistics managers from different industries and logistics service provider managers to become more effective in their tasks related to their outsourcing case and thus improve firm performance through the engagement of their knowledge and skills.

Overall, there are limits to the generalization of the conclusions on key success and failure factors and suggestions with regard to the proposed vision of key success factors due to the limited cases studied in this paper. We need to conduct more case studies and to test the hypotheses empirically in a larger survey in order to fully understand the practices of logistics outsourcing. Furthermore, some limitations in regard to the case selection should be considered. Namely the potential bias in results may arise from all interviews being conducted just in Slovene companies. In an effort to establish the degree to which logistics operations are successfully outsourced, a systematically yearly survey on logistics outsourcing should be conducted. Such systematic data collection would help researchers to continue their study of the partnering phenomenon, which could benefit both practitioners involved in partnerships as well as academics.

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## Appendix

The research is based on the interview data collected about the case. The semi-structured interview included the following questions:

- Which logistics function is currently outsourcing;
- Geographical scope of logistics partnerships;
- Why was the decision to use third party provider made;
- Objectives of logistics outsourcing;
- Which methods have been used for identifying a third party logistics firm;
- The effectiveness of various methods for evaluating a potential third party firm;
- The importance of various characteristics when choosing a third party logistics provider;
- How necessary is the inclusion of individual provisions in contracts with third party logistics providers;
- Perceived effectiveness of corporate entities at managing the relationship with a third party logistics provider;
- Perceived effectiveness of monitoring methods in a logistics relationships;
- How do outsourcing companies set up the management and control structure for their logistics partnerships;
- What is the average length of contract for logistics partnerships;
- On which price structure is the outsourcing based;
- Which performance indicators do they use for measuring the performance of the partnership, what is the relative frequency of performance measurement;
- Which competencies do they require from a transport and logistics company;

- Which difficulties do they encounter when building (designing) outsourcing relationships, which difficulties do they encounter when implementing the partnerships;
- Which are the most important factors for success of the partnership (key success factors), which are the most important key failure factors in partnerships;
- Perceived effectiveness of logistics outsourcing to contributing to competitive advantage, perceived effectiveness of logistics outsourcing to contributing to the improvement of customer service level;
- The percentage reduction in total logistics costs during the first year of outsourcing;
- The average reduction experienced in the second, third, and fourth years;
- Overall logistics cost savings from the outsourcing of logistics functions.