Logistics Outsourcing Process in Pakson International

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Examiner: Helena Forslund
Summary

**Degree Project in Business Process and Supply Chain Management (4FE06E)**

**School of Business and Economics at Linnaeus University**

**Author:** Bilal Riaz  
**Tutor:** Petra Anderson  
**Examiner:** Helena Forslund

**Title:** Logistics Outsourcing Process in Pakson International

**Background:**

In the contemporary business world, manufacturing concern companies are becoming more efficient in production process. Outsourcing is a process in which companies or producers get the service or produced product or portion of the finished product from other company. Logistics is a functional system which is important for the improvement of efficiency, both in the flow of goods and information and to meet low-cost, reliable delivery, and fast objectives within a company and throughout a network of companies. The outsourcing of logistics activities to Logistics Services Providers or Third Party Logistics (3PL) companies has become a common practice in current business world. Logistics outsourcing is the use of external companies to perform logistics functions that have traditionally been performed within an organisation and the functions performed by the third party can encompass the entire logistics process or selected activities within that process. This thesis or research has been conducted on a manufacturing sector’s company which is located and working in Pakistan. This company is working with the name of Pakson International. Company has outsourced three logistics activities which are freight forwarding, transportation and warehouse management. In this thesis, there is focus on the comparison of the logistics outsourcing process inside the Pakson International and in literature.

**Research Questions:**

*RQ # 1: What sort of gaps are there between the logistics outsourcing process adopted by the company and suggested in the literature?*

*RQ # 2: Why there are gaps between the company’s logistics outsourcing process and described in the literature?*
RQ # 3: What improvements in the logistics outsourcing process of Pakson International can be suggested based on a comparison between current state in the company and process described by the experts or in the literature?

Purpose of the study:
To see the practical approach of a manufacturing concern company for logistics outsourcing process, to compare it with the prescribed processes in the literature, and to suggest improvements in the process for the excellence of company.

Methodology:
For this thesis, qualitative and quantitative research methods are employed. This thesis is written from a positivistic perspective with a deductive approach. For empirical data collection semi-structured interviews are used.

Conclusion:
Pakson International does not have any structured logistics outsourcing process. There are gaps between the logistics outsourcing process in Pakson International as compared to suggested in the literature Company is following its own process that is influenced by various cultural and management personal characteristics or factors. Substantially, there are certain steps which are missing or not part of the Pakson International’s logistics outsourcing process. The top management tends to make the final decision in Pakson International. In the company, hierarchical structure is followed strictly. Pakistanis favour to do business with close people. In Pakson International, top management always prioritizes to work with the person whom they know very well. There are different suggestions for improvements in the company’s logistics outsourcing process like it should focus on the continuous review and improvement of the third party logistics provider. Company should check out whether they need to go for new 4PL (fourth party logistics provider) or they want to continue 3PL after supplier’s evaluation. If they want to continue or pursue 3PL provider then they should focus on their performance improvement by utilizing the force of relationship. They should have proper performance evaluation system. They can utilize statistical tools for this purpose. In the selection of third party logistics service provider, market research is important for the company.
Acknowledgement

I am very thankful to the management of company who helped me to pursue this research and contributed a lot in the completion of the thesis in right direction. I am humbly thankful to the examiner Helena Forslund who substantially helped me to learn the research skills and contributed to my knowledge. She helped me in all possible ways to complete this task. I am also thankful to my tutor Petra Anderson who guided me in the whole thesis and provided me a base to complete this in the best possible way.

_______________________
Bilal Riaz
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1. Introduction

This chapter involves brief background knowledge and problem discussion about the selected topic: logistics outsourcing in Pakson International. There are research questions and purpose of the research. Disposition and Delimitation of research are also part of this chapter.

1.1 Background:
With the passage of time, business is becoming more complex. In the contemporary business world, manufacturing concern companies are becoming more efficient in production process. Outsourcing is a process in which companies or producers get the service or product or portion of the finished product from other company. The intensified competition in emerging global economy has caused manufacturing and retailing industries to outsource their logistics functions to third party companies. According to Goddard (2005), the third party logistics industry has been growing at a steady rate, and it’s clear that more and more industry verticals are seeing real benefits from outsourcing their logistics operations to a third party.
Goddard describes that manufacturers and retailers are continually pressured to reduce transportation costs which has created an opportunity for companies that are able to provide more favourable rates and increase overall supply chain efficiency. Outsourcing is focused in many areas such as strategic management, information systems, human resource management, manufacturing, and also in logistics (Mello, 2008). The outsourcing of logistics activities to Logistics Services Providers or Third Party Logistics (3PL) companies has become a common practice in current business world. Different companies try to achieve different results through outsourcing. A current survey (Richards, 2009) ranks the main objective of logistics outsourcing in this sequence: Access to greater expertise; Cost reduction; Flexibility; Concentration on core competency; Low capital expenditure; Variable costs; Less risk; Access to new technology; Effective resource management; Improved service; Consolidation; More professional (Richards, 2009). A number of studies (e.g. Richards, 2009; Biederman, 2009, Langley, 2009) provide empirical evidence of increasing trend of logistics outsourcing and use of 3PLs, all around the world.

1.1.1 What is Logistics?

Logistics is defined as part of supply chain that plans, implements, controls the efficient and effective forward and reverse flow, storage of goods, services and related information between the points of origin and the point of consumption in order to meet customer’s requirement (Vitasek, 2011). Logistics is a functional system which is vital for enhancing efficiency, both in the flow of goods and information and to meet low-cost, fast, and reliable delivery objectives within a company and throughout a network of companies. Logistics significantly contributes to company’s competitive advantage in both efficiency and effectiveness.

1.1.2 The concept of Logistics Outsourcing

According to Lieb (1992, pp. 29), logistics outsourcing is “the use of external companies to perform logistics functions that have been performed within an organization and the functions performed by the third party can encompass the entire logistics process or selected activities within that process.” According to Parashkevova (2007), the concept of logistics outsourcing suggests the use of external partner for organizing the necessary logistics operations. Parashkevova describes that some companies distrust the possibilities for switching to production outsourcing. Parashkevova gives the reasons because they are anxious about the loss of intellectual capital, know-how and gained experience. They are dubious about
production quality and delivery reliability and they select with difficulty a qualified servicing company. Author says that they are afraid to transfer their expertise (basic competencies) and technologies to another organisation. Yet, when the company uses outsourcing in order to fulfil its logistics functions, such fears are ungrounded because logistics is not a basic activity of the company and could be realized more effectively by a specialized servicing organisation (Parashkevova, 2007).

1.1.3 What is logistics outsourcing process?

Logistics outsourcing process is comprised on different steps, phases or factors which companies considers in the perspective of organizational strategic and operational goals. In literature, these factors, steps, or phases help a company in developing and implementing an effective outsourcing process. This thesis or research has been conducted on a manufacturing sector’s company which is located and working in Pakistan.

1.2 Company Introduction

Pakson International was founded in 1991, and has been working to produce high quality moulded furniture, plastic steel furniture, households & moulded flower pots, etc with the brand name “BOSS” in Pakistan. According to the company’s website, these years of experience, BOSS has earned good business reputation. Pakson International, (BOSS) has good quality production, technical, and better marketing networks in the country and as well as other countries. Products are manufactured by “100% Pure Furniture Grade Resin” which is imported from Australia, Korea, Thailand, Hong Kong and Saudi Arabia and colour Master batches are very high quality. Brand’s Policy: “BOSS” insists on basic principles of honesty and clear target as ultimate goal, “plastic steel furniture & households and a better coordinated moulded furniture etc” In order to guarantee the manufacturing of the finest quality products in Pakistan. Pakson International has selected “BOSS” as her brand name and it provides a really tough but beneficial decision for company and company’s customers. The steady management has made “BOSS” prominent in all over the country’s market as well as other countries of the world concerning to plastic furniture. The choice of raw material cent percent Pure Furniture Grade Resin for production system to a rigorous quality control procedure and has accordance with international standard. “BOSS” is the largest moulded furniture manufacturing company in the local market and it has a production on 15 plants and rate of production 3.6 million units per year. BOSS is the leading moulded furniture manufacturer in Pakistan. Moulded furniture manufactured by Pakson International. has
dominated in Pakistan’s domestic market. Pakson International, (BOSS) has been exporting internationally since 1998 and is exporting high quality products. Currently, Pakson International has its production and marketing networks all over the country (www.bossplas.com, 2011).

1.2.1 List of Products

- Full Plastic chairs
- Public sofa
- Steel plastic study chair
- House Hold
- Tables
- Baby range & school Furniture
- Executive Computer & Revolving chair
- Snack Tables
- Study chair & Desks

1.3 Problem Discussion

The decision of Outsourcing is part of any company’s strategic management. Outsourcing has great impact on the value or quality of product or service. A company has to take this decision very carefully. Outsourcing strategy is adopted by those companies which have lake of required technology, finance, or expertise to produce the outsourced product or service. Logistics outsourcing is not a single or one time step that company takes whereas it’s an on-going process. According to literature, Logistics outsourcing is not a single step of transferring the responsibilities of any in-house logistics function or a part of function to a 3PL service provider but it is a continuous process, including different aspects, phases or steps (Sink and Langley, 1997; Razzaque and Sheng, 1998; Mello et al., 2008). There are different steps in outsourcing process. In these steps, some are less frequent and some are more frequent to happen. For instance, starting steps or phases selection and signing the contract with the logistics provider is less frequent and performance evaluation, coordination, relationship building, exchange of information are more frequent. So, third part of logistics work like a supplier and you have to focus on supplier and buyer relationship for improved working relationship and to stay away from inadequate business conditions. According to literature, there is identification of different important aspects such as motivation for outsourcing, evaluation and selection of 3PLs, contract design, relation building and
integration etc. Literature provides empirical evidence that companies are successfully developing and implementing performing logistics outsourcing as a process and getting positive result from it. Different scholars (e.g. Sink and Langley, 1997; Bagchi and Virum, 1998; Mello et al., 2008) also suggest complete models or processes for logistics outsourcing by including all necessary aspect as a guideline so companies can perform this process in a much efficient and effective way.

There are different cultural factors which have influence on the business. Pakistani business management is strongly influenced by the culture. There is directive style of management in the companies. Mostly small size companies they have same approach in doing business. There is highly low degree of tendency for employee’s participation in strategic decision making, team building, and strong distance in the management levels. Top management make decisions and flow them to the downstream. Managers in Pakistan try to have an autocratic management style. At the same time, the boss is seen as a paternalistic figure and is expected to assist subordinates with personal problems.

In this thesis, Pakson International has been selected for the research and it is outsourcing logistics and working with DMK Logistics. There is comparison in this report of Logistics outsourcing process suggested or described in the literature and practically adopted by the Pakson international. There is difference between both. After comparison, there is suggestion of different improvements in Logistics outsourcing process for the company. Company is working in a typical business environment and it needs to improve its logistics outsourcing function. This research helps company to improve its logistics outsourcing process.

1.4 Research Questions

*RQ # 1:* What sort of gaps are there between the logistics outsourcing process adopted by the company and suggested in the literature?

*RQ # 2:* Why there are gaps between the company’s logistics outsourcing process and described in the literature?

*RQ # 3:* What improvements in the logistics outsourcing process of Pakson International can be suggested based on a comparison between current state in the company and process described by the experts or in the literature?
1.5 Purpose of the Study
To see the practical approach of a manufacturing concern company for logistics outsourcing process, to compare it with the prescribed processes in the literature, and to suggest improvements in the process for the excellence of company.

1.6 Limitations
This study is limited to the logistics outsourcing process in a company which is located in Pakistan and its comparison with the models given in the literature to see the gaps or difference. There is no study on any other dimension of logistics rather only on its outsourcing process.

1.7 Disposition
The disposition of the thesis is given in the figure 1.1:

![Diagram: The disposition for this research](source: Author)

2. Methodology
This chapter describes the scientific perspective and approach. It describes the complete discussion of research method, research strategy and data collection. It narrates about the selection of scientific approach, research method, analysis method and strategy of research of this thesis. There is detail of scientific credibility and structure of the thesis.

Research is a systematic investigation to answer a question. Gratton and Jones states the definition of research that it is a systematic process of discovery and advancement of human knowledge (Gratton and Jones, 2004).
2.1 Scientific Perspective
Scientific research is a way of thinking. In some ways it is similar to everyday thought, but it is much more formalized, more deliberate, and therefore, more accurate and reliable (Graziano and Raulin, 2005). According to authors, there are two main scientific perspectives; positivism and hermeneutics.

2.1.1 Positivism
According to Gilje & Grimen (2004) positivism is related to natural science and advocators consider that science can only be generated through such events that one can observe with his senses or reckon logically. Furthermore, positivism is about creating objective knowledge, which gives information about relations and causality. According to positivists, a theory has to be testable or it will lose its value, an idea and theory that cannot be investigated or measured serves no value. The positivistic school wants to protect science from the impact of the scientist’s own values and experiences, giving no room for interpretation (Dahlberg, 2006). The positivism is a school of thought that the only ‘true’ or valid form of knowledge is the one which is “scientific”, objective and tangible in nature (Gratton and Jones, 2004).

2.1.2 Hermeneutics
According to Gratton and Jones (2004), the limitations of the positivist approach are evident, and from these limitations an alternative perspective, or more accurately now a collection of related perspectives those of interpretivism have developed. The interpretivism /hermeneutic is based on a personal interpretative process to understand reality.

2.1.3 Thesis Perspective
Positivistic perspective has been utilized as scientific perspective for this thesis. The theoretical framework is developed by theoretical models and other information available in secondary sources about logistics outsourcing process. Through this theoretical framework, we evaluate our empirical findings.

2.2 Scientific Approach
According to Ghauri and Gronhaug (2005), there are two research approaches which are the deductive and the inductive approach. A researcher observes and faithfully records what is seen without any prejudice. Some of these statements of observation are established as true and serve as the basis for theories and laws. There are two ways of establishing what is true or false and to draw conclusions: induction and deduction (Ghauri and Gronhaug, 2005).
2.2.1 Deduction

Deduction is based on logic. In this approach, there are conclusions through logical reasoning, in this case, it need not to be true in reality, but its logical. The researcher in this type of research deduces/builds hypotheses from the existing knowledge (literature), which can be subject to empirical scrutiny(testing) and thus can be accepted or rejected. According to Merton, 1967; Chalmers, 1982; Bryman and Bell, 2003 (as cited in Ghauri and Gronhaug, 2005), researcher main job is not only to build hypotheses from existing knowledge but also to present them in operational terms(operationalization), to show how information can be collected to test these hypotheses and the concepts being used.

2.2.2 Induction

Induction is based on empirical evidence. According to Bryman (as cited in Ghauri and Gronhaug, 2005), through induction we draw general conclusions from our empirical observations. In this type of research the process goes from observations→findings→theory building, as findings are incorporated back into existing knowledge(literature/theories) to improve theories. In this search, thus, theory is the outcome of research.

2.2.3 Thesis Approach

For this research we have selected deductive approach. In this research, the research process begins from theoretical evaluation and on the bases of existing theory we have developed our theoretical framework. The theory of this research is analyzed and with the help of interviews, we respond to our research questions.

2.3 Research Method

There are two research methods have been given in the literature which are quantitative and qualitative research methods. A lot has been written about the between qualitative and quantitative research. Some authors refer to the type of questions addressed, others to the type of data collected, to the analysis methods used, or to the whole research approach. Frankfort-Nachmiyas and Kelle (as cited in Lucienne and chakrabarti, 2009) links qualitative and quantitative research directly to the theory-driven and data-driven approach, respectively.

2.3.1 Quantitative Method

Quantitative research uses deduction by deriving hypotheses from theory and analysing the data they collect to statistically test the hypotheses (Blessing and Chakrabarti, 2009). A quantitative approach is applied to investigate or measure the degree in which phenomena
occur. Methods used are experiments, observations, closed questionnaires, etc. These methods are generally well formulated and based mainly on statistics.

2.3.2 Qualitative Method

According to Frankfort-Nachmias and Kelle (as cited in Lucienne and chakrabarti, 2009), Qualitative field research moves in the opposite direction, using a process called analytic deduction: collect data formulate hypotheses based on data, test hypotheses using data and attempt to develop theory. This theory is called grounded theory. A qualitative approach is applied to investigate the nature of phenomena. Methods used are interviews, observation and written documents, such as open-ended items on questionnaires and diaries.

2.3.3 Selected Research Method

Increasingly, both qualitative and quantitative approaches are combined to obtain a full picture of the object of study. According to Kelle (as cited in Lucienne and chakrabarti, 2009) the theoretical knowledge of the qualitative researcher does not represent a fully coherent network of explicit propositions from which precisely formulated and empirically testable statements can not be deducted. Rather it forms a loosely connected heuristic framework of concepts which helps the researcher to focus his or her attention to certain phenomenon in the empirical field. So, its the combination that provides the richest picture, addressing the various factors involved in the phenomenon of design using the method that is most suitable for each of these.

For this research thesis, both methods have been selected to make the results more reliable and valid. But there is difference in the usage degree of both methods. Qualitative method is more dominant in usage as compare to quantitative.

2.4 Research Strategy

In the field of research, problems vary in structure. Based on problem structure, we may distinguish between the three main classes of research design in table 2.1 (Ghauri and Gronhaug, 2005):

<table>
<thead>
<tr>
<th>Research Design</th>
<th>Problem Structure</th>
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<tbody>
<tr>
<td>Exploratory</td>
<td>Unstructured</td>
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<tr>
<td>Descriptive</td>
<td>Structured</td>
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<tr>
<td>Causal</td>
<td>Structured</td>
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*Table: 2.1* research design and problem structure  
*Source: Ghauri and Gronhaug, 2005*
According to Yin (2003), a case study is one of five different research strategies (the survey, experiment, the archival analysis, the history, case study) that a researcher can adopt when conducting a study. Yin defines case study that “A case study is an empirical inquiry that investigates a contemporary phenomenon within its real life context are not clearly evident” (Yin, 2003, pp.13). Ghauri and Gronhaug (2005), describes that case-based research can be Exploratory, Descriptive and Causel/explanatory. When the research problem is badly understood, a (more or less) exploratory research is adequate. An exploratory case study defines the questions and hypotheses or determines the feasibility of the desired research procedure. A descriptive case study presents a complete description of an event or issue within its context. In descriptive research the problem is structured and well understood. An Causel/explanatory case study presents the date based on cause-effects relationship i.e. explains which causes produce or can produce which effects (Yin, 2003). In causel research the problems under scrutiny are structured as well. However in contrast to descriptive research, the researcher is also confronted with cause-effect problems.

2.4.1 Comprehensive Descriptive Study
A Comprehensive Descriptive involves a literature review as well as one or more empirical studies. The empirical studies take place when the literature review shows a lack of understanding about the chosen topic, or when particularly relevent links in the initial reference or impact models are still poorly understood.

![Figure: 2.1 Main steps in a Comprehensive Descriptive study](Source: Lucienne and chakrabarti, 2009)
2.4.2 Selected Research Strategy
In this thesis, the descriptive case study has been selected. A medium size company in Pakistan has been selected for research. This company is working in manufacturing sector and using logistics outsourcing strategy to have better operations. Descriptive study is selected for the coherent picture of research and to get more reliable and valid results. The problems of research are also structured and well understood.

2.5 Probability and Non-Probability Selection of Respondents
The term probability sampling is used when the selection of the sample is purely based on chance. The human mind does not have control on selection or non-selection of the units for the sample and every unit of the population has known nonzero probability of being selected for the sample (Robert, 2004). According to Ghauri and Gronhaug (2005), probability samples allow for assessment of the amount of sampling error. Probability sampling has characteristic that sample is selected by chance. And population members have a known, and equal probability of selection. There are different type of Probability sampling which are as follows:

- Simple Random Sampling
- Systemetic Random Sampling
- Startified Random Sampling

The sample is not based on chance in the non-probability sampling. Whereas it is determined by any person. The probability of being selected in the sample cannot be assigned to an element of population. Someone may use his personal judgment in the selection of the sample. In this case the sampling is called judgment sampling (Robert, 2004). Non-probability techniques are as follows:

- Quota Sampling
- Judgment Sampling
- Convenience Sampling

For this thesis, we have selected non-probability sampling to study the target population. We have selected here Pakson International. This company is outsourcing logistics activities. There are total three third parties involved. There is selection of a few people who are playing very active role in management of Pakson International. These people have been selected for interview to respond the questions. So, there is our involvement in the selection of people and to get answers.
2.6 Data Collection

According to Lucienne and Chakrabarti (2009), Real-time methods (Table: 2.2) can produce unadulterated, direct and potentially very rich descriptions of events and their context, because data is captured when the phenomena occur. Retrospective methods (Table: 2.3) usually summarise events and rely upon memory or documentation, which may be very selective.

<table>
<thead>
<tr>
<th>Observation (no involvement of the researcher):</th>
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<tbody>
<tr>
<td>• Taking fields notes;</td>
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<td>• Recording activities against time;</td>
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<td>• Counting occurrences and contents of particular events;</td>
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<tr>
<td>• Measuring values and occurrences;</td>
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<tr>
<th>Participant observation (the researcher as participant):</th>
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<tr>
<td>• Several of the other techniques have been used to collect the data;</td>
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<table>
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<tr>
<th>Simultaneous verbalisation (audio or video taped):</th>
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<tbody>
<tr>
<td>• Thinking aloud;</td>
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<td>• Introspection (comenting on one’s own mental activity);</td>
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<td>• Interviewing during the actual process;</td>
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<td>• Talking aloud/recording team discussions;</td>
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<table>
<thead>
<tr>
<th>Diary keeping (designer as observer, or observing participant):</th>
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<tbody>
<tr>
<td>• Keeping a dairy of the type instructed by a researcher;</td>
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<tr>
<td>• Keeping a dairy as designer/researcher;</td>
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<table>
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<tr>
<th>Recording the evolution of documents through snapshots;</th>
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<tbody>
<tr>
<td>• Photographing sketches, drawings at regular intervals;</td>
</tr>
<tr>
<td>• Videoing the evolution process of a document;</td>
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<tr>
<td>• Keeping computer logs;</td>
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<tr>
<th>Computer simulation;</th>
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<tbody>
<tr>
<td>• Spatial visualisation tasks</td>
</tr>
<tr>
<td>• Computer games to obtain information about specific behaviour.</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Table: 2.2 real time data-collection methods used in design research</th>
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<tbody>
<tr>
<td>Source: Lucienne and Chakrabarti, 2009</td>
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<table>
<thead>
<tr>
<th>Documents (case history compilation, archival analysis):</th>
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<tbody>
<tr>
<td>• Collecting formal project and product documentation;</td>
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<tr>
<td>• Collecting notebooks (informal documentation);</td>
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<table>
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<tr>
<th>Product data (product family data):</th>
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</thead>
<tbody>
<tr>
<td>• Functional data;</td>
</tr>
<tr>
<td>• Service and maintenance data;</td>
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<table>
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<tr>
<th>Questionnaires;</th>
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</thead>
<tbody>
<tr>
<td>• Open-ended questions;</td>
</tr>
<tr>
<td>• Multiple choice;</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Interviewing;</th>
</tr>
</thead>
</table>
There are two types of data collection. First is called primary data collection which is based on the empirical study. The second is secondary data collection which is also called theoretical data collection.

### 2.6.1 Theoretical Data Collection (Secondary Data)

Secondary data is useful not only to find information to solve our research problem, but also to better understand and explain our research problem. In most research, there is need to begin with a literature review: earlier studies on and around our topic of research. They include books, journal articles, on line data resources such as WebPages of firms, governments, semi-government organizations and catalogues (Ghauri and Gronhaug, 2005). For the purpose of secondary data collection in this research, different published books and articles, company internal sources, general statistics, research reports, on-line sources, etc have been read in depth.

![Diagram of types of secondary data](image-url)

**Figure: 2.2 Types of secondary data**  
Source: Ghauri and Gronhaug, 2005
### 2.6.2 Empirical Data Collection (Primary Data)

Ghauri and Gronhaug (2005), illustrates different sources of primary data collection in figure 2.3:

![Primary Data Diagram](image)

**Figure: 2.3 Sources of primary data**  
*Source: Ghauri and Gronhaug, 2005*

According to Graziano and Raulin (2010), there are three types of interviews which are structured, unstructured, and semi-structured. In this report semi-structured interviews have been conducted. The main point of using semi-structured interviews is to have detailed empirical data so we can better understand the process of logistics outsourcing practiced by Pakson International. The list of interviews is as follows:

<table>
<thead>
<tr>
<th>Company</th>
<th>Contact Person</th>
<th>Job Position</th>
<th>Type of Interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pakson International</td>
<td>Shahid Ahmed</td>
<td>Marketing Manager</td>
<td>Direct interview and telephonic interview</td>
</tr>
<tr>
<td></td>
<td>Saleem Butt</td>
<td>Import and Export Manager</td>
<td>e-mail and telephonic</td>
</tr>
<tr>
<td></td>
<td>Farooq Khan</td>
<td>Accounts &amp; Finance Manager</td>
<td>e-mail and direct interview</td>
</tr>
<tr>
<td></td>
<td>Shabeer shah</td>
<td>Production Manager</td>
<td>Telephone and e-mail</td>
</tr>
</tbody>
</table>

**Table: 2.4 List of Interviews**  
*Source: Author*
2.7 Analysis Method

According to Yin (2003), pattern matching is a technique which is used to compare two or more than two different studies or patterns. In this research, pattern matching as the analysis method has been used. There is comparison of logistics outsourcing process which is given in the literature with the company’s logistics outsourcing process. This analysis produce the best available process for the company to improve its performance.

2.8 Scientific Credibility

2.8.1 Validity

This refers to how well a scientific test or piece of research actually measures what it sets out to, or how well it reflects the reality it claims to represent. According to Ghauri and Gronhaug (2005), there are three types of validity construct validity, internal validity, external validity. According to Ghauri and Gronhaug (2005), construct validity is the extent to which an operationalization measures the concept which it purports to measure. Construct validity is that how to translate the theoretical framework into operational and measurable questions and variables. Theoretical chapter describes the outsourcing, logistics outsourcing, aspects of outsourcing, and logistics outsourcing process of companies through existing theories and textbooks. Interview questions have been formed with the help of theory. To build up internal validity, effort has been put to compare theoretical framework with empirical finding to see the difference. Ghauri and Gronhaug (2005), describe that external validity relates to what extent the findings can be generalized to particular persons, settings and times, as well as across type of persons, settings and times. The external validity is considered as high if the results can be used and implied at other cases with similar circumstances. In this thesis, only one company has been focused and results are in real form. These results also could be compared by conducting analysis or research on other Pakistani medium sized companies to see the difference or to check out the external validity.

2.8.2 Reliability

Good measures produce consistent results. To have the reliability in this research, complete data analysis have been conducted and interview questions have been shuffled and asked twice or thrice to single person. Interviews are semi-structured but the selection of variables or factors to be asked are very significant and effective. For the reliability of empirical data
information has been shared with the all responsible people of the company. For the reliability of secondary data different source references have been given.

2.9 Overview of Thesis Research Methodology

Figure 2.4 presents an overview of this research methodology.

<table>
<thead>
<tr>
<th>Scientific Perspective</th>
<th>Positivistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scientific Approach</td>
<td>Deductive</td>
</tr>
<tr>
<td>Research Method</td>
<td>Qualitative &amp; Quantitative</td>
</tr>
<tr>
<td>Empirical Data Collection</td>
<td>Semi-structured interviews</td>
</tr>
<tr>
<td>Prob and Non-prob Selection</td>
<td>Non-probability sampling</td>
</tr>
<tr>
<td>Scientific credibility</td>
<td>Validity/Reliability</td>
</tr>
<tr>
<td>Analysis method</td>
<td>Pattern Matching</td>
</tr>
</tbody>
</table>

*Figure: 2.4 overview of research methodology
Source: Author*

3. Theory

This chapter involves brief knowledge of the Logistics outsourcing Process. In this chapter, complete explanation of different concepts like logistics, logistics outsourcing, third party logistics providers, their services, and different key drivers of selecting third party logistics providers have been given with detailed references of Literature. Different prescriptive and descriptive models have been given and explained significantly with the help of literature. The gaps between different models have been narrated in this chapter as well.
Chapter 3: Theory

3.1 Logistics Outsourcing and Third-party Logistics provider

3.2 Selection Factors in Logistics Outsourcing

3.3 Logistics Services Provided By 3PLs

3.4 Outsourcing Processes

3.5 Prescriptive Model Approach for Outsourcing Process

3.6 Descriptive Models

3.7 Discrepancy between the Prescriptive and Descriptive Outsourcing Models

3.8 Comparison of Models

3.9 Impact of culture on Business

3.10 Structure and Hierarchy in Pakistani companies

Research Question # 1
what sort of gaps are there between the logistics outsourcing process adopted by the company and suggested in the literature?

Research Question # 2
why there are gaps between the company's logistics outsourcing process and described in the literature?

Research Question # 3
What improvements in the logistics outsourcing process of Pakson International can be suggested based on a comparison between current state in the company and process described by the experts or in the literature?

Figure: 3.1 Theoretical Framework for This Research

Source: Author

Above figure 3.1 presents the structure of theoretical framework developed in this chapter. It also shows how this theoretical framework is connected with different research questions in order to answers them.

3.1 Logistics Outsourcing and Third-Party Logistics Provider

According to Berglund (1997), the term, third party logistics is quite carelessly used. Depending on where you are and whome you speak to, the meaning of the term can differ widely. there are other terms that basically represent the same thing, like contract logistics, or partner logistics. In literature different terms are used for logistics outsourcing such as logistics alliance, logistics partnership, contract services, 3PL buying etc and different
scholars define logistics outsourcing in different ways. For example Andersson (1997, p. 22) provides a very basic definition of logistics outsourcing: “a generic term for buying logistics services (e.g. transportation and warehousing services), in any kind of relationship with a producer of logistics services”.

Virum (1993), has described that the third party logistics is a phenomenon which in simple words can be described as the outsourcing or subcontracting of logistics operations to external service suppliers. A provider of the third party logistics is an organization that provides logistic services to producers. Virum states the definition of third party logistics that the services offered by a middleman in the logistics channel that has specialized in providing, by contract, for a given time period, all or a considerable number of the logistics activities for other firms (Virum, 1993).

According to Lieb (1992, pp. 29), logistics outsourcing is “the use of external companies to perform logistics functions that have traditionally been performed within an organization. The functions performed by the third party can comprise the whole logistics process or selected activities within that process.”

There are different advantages of logistics outsourcing. According to Persson and Virum (2001), these advantages are the elimination of infrastructure investments, access to world class process, products services, technology, improved ability to react quickly to changes in business environments, risk sharing, better cash flow, reducing operation costs, exchanging fixed costs with variable costs, access to resources not available in the organization.

According to Muller (as cited in Komla, 2010), appears to be the first to propose two basic types of logistics outsourcing service providers, i.e., operations-based and information-based third-party logistics vendors. Muller modified this classification scheme by suggesting the following four types of vendors:

- **Asset-based vendors:** Companies which offer physical logistics services via the use of their own assets, for instance a truck fleet or group of warehouses or both.

- **Management-based vendors:** Muller describes this class that vendors involved in offering logistics management services via systems databases and consulting services, acting as a subcontracted traffic department, either for part, or all, of a client’s business segments. These firms do not possess transportation or warehouse assets.

- **Integrated vendors:** According to Muller, these companies own assets like warehouses, trucks or combination of both.
• Administration-based vendors: Firms which provide administrative management services like freight payment.

3.2 Selection Factors in Logistics Outsourcing

According to Hoiland (2004), logistics and supply chain management have often been among the first functions to be outsourced. This has moved beyond the warehousing and trucking functions and spread to ancillary services such as light assembly. However, once a manufacturer or retailer makes the business decision to outsource its logistics function, what are the primary factors that influence its choice of third party logistics (3PL) provider? To answer this question, the International Warehouse Logistics Association (IWLA), the leading trade association dedicated to logistics outsourcing, commissioned a study in early 2003. The study, conducted by Dr Dale S Rogers, Professor of Logistics at the University of Nevada, Reno, was an update of similar studies conducted in 1994 and 1999. The subjects were the IWLA’s membership of more than 550 logistics companies. The study included follow-up interviews with several customers of 3PL providers. The study discovered a number of interesting trends and changes in the practice of logistics outsourcing, not least of which is the change in factors that customers use when selecting an outsourcing partner.

All the third party selection factors have been given in Table 3.1. All these factors have been given in the table according to their level of importance. The level of importance shows the factor importance or priority amongst other factors.
Table: 3.1 3PL Selection Factors


<table>
<thead>
<tr>
<th>Factors</th>
<th>Level of Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>1</td>
</tr>
<tr>
<td>Reliability</td>
<td>2</td>
</tr>
<tr>
<td>Service quality</td>
<td>3</td>
</tr>
<tr>
<td>On-time performance</td>
<td>4</td>
</tr>
<tr>
<td>Cost reduction</td>
<td>5</td>
</tr>
<tr>
<td>Flexibility</td>
<td>6</td>
</tr>
<tr>
<td>Good Communication</td>
<td>7</td>
</tr>
<tr>
<td>Management quality</td>
<td>8</td>
</tr>
<tr>
<td>Location</td>
<td>9</td>
</tr>
<tr>
<td>Customize service</td>
<td>10</td>
</tr>
<tr>
<td>Speed of service</td>
<td>11</td>
</tr>
<tr>
<td>Order cycle time</td>
<td>12</td>
</tr>
<tr>
<td>Easy to work with</td>
<td>13</td>
</tr>
<tr>
<td>Customer support</td>
<td>14</td>
</tr>
<tr>
<td>Vendor reputation</td>
<td>15</td>
</tr>
<tr>
<td>Technical competence</td>
<td>16</td>
</tr>
<tr>
<td>Special expertise</td>
<td>17</td>
</tr>
<tr>
<td>Systems capabilities</td>
<td>18</td>
</tr>
<tr>
<td>Variety of available services</td>
<td>19</td>
</tr>
<tr>
<td>Decreased labour problems</td>
<td>20</td>
</tr>
<tr>
<td>Personal relationships</td>
<td>21</td>
</tr>
<tr>
<td>Decreased asset commitment</td>
<td>22</td>
</tr>
<tr>
<td>Early notification of disruptions</td>
<td>23</td>
</tr>
<tr>
<td>Increased competition</td>
<td>24</td>
</tr>
</tbody>
</table>
3.3 Logistics Services Provided By 3PLs

According to 2001 survey conducted by Lieb and Schwarz (2001), the range of services provided by 3PLs (Third party logistics providers) are shown in Table 3.2. The most used logistics functions provided by 3PLs are: direct transportation services, warehouse management/operations, shipment consolidation services, freight forwarding, carrier selection, inventory replenishment, customs brokerage, and carrier performance measurement.

<table>
<thead>
<tr>
<th>Logistic Function</th>
<th>Logistic Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Transportation Service</td>
<td>Rate negotiation</td>
</tr>
<tr>
<td>Warehouse management</td>
<td>Product returns</td>
</tr>
<tr>
<td>Shipment consolidation</td>
<td>Fleet management/operations</td>
</tr>
<tr>
<td>Freight forwarding</td>
<td>Relabeling/repackaging</td>
</tr>
<tr>
<td>Freight payment</td>
<td>Contract manufacturing</td>
</tr>
<tr>
<td>Tracking/tracing</td>
<td>Order fulfilment</td>
</tr>
<tr>
<td>Customs brokerage</td>
<td>Assembly/installation</td>
</tr>
<tr>
<td>Design of IT systems</td>
<td>Order processing</td>
</tr>
<tr>
<td>Selection of software</td>
<td>Customer spare parts</td>
</tr>
<tr>
<td>Operation of IT systems</td>
<td>Consulting services</td>
</tr>
<tr>
<td>Carrier selection</td>
<td>Purchase of materials</td>
</tr>
</tbody>
</table>

Table: 3.2 the most frequently provided services
Source: Lieb and Schwarz (2001)

According to the requirements of Armstrong & Associates (as cited in Parashkevova, 2007), over 1/3 of the revenue belongs to non-asset based logistics providers, employed in the sphere of rendering value-added services in the field of warehousing and to the companies optimizing transportation (Fig. 3.2).
3.4 Outsourcing Processes

According to Mello and Stank (2008), it is stated in the report which is given in Transportation Journal that the logistics outsourcing strategy development process in some companies follows a less structured format than suggested in prescriptive models. Mello and Stank describes that like firms make the transition from in-house performance to outsourcing of logistics functions. The evaluations firms make concerning outsourcing as a strategy could be unsystematic, incremental and influenced by factors apart from cost or service.

According to the logistics literature, there are different reasons why firms decide to perform their own logistics activities in-house, or decide to outsource logistics functions. The two main prominent cited reasons for outsourcing logistics activities are service improvement expectations from outsourcing and cost reduction. There are number of other factors which are cited as reasons why firms decide to go for logistics outsourcing like develop information technology (IT) capabilities, focus on core competencies, complexities of operating in a just-in-time (JIT) environment, leverage supply chain management, react to changes in the regulatory environment, a need for expertise, rapid growth, limited resources to apply to logistics activities and globalization of business. The extensiveness of these factors shows that there are different ways in which firms decides third-party logistics providers capable of helping firms in dealing with business problems (Mello and Stank, 2008).
According to de Boer, Gaytan, and Arroyo (as cited in Mello and Stank, 2008), the set of articles devoted to outsourcing processes are divided into two basic types the first one those that take a prescriptive model approach to cater firms with a proper defined and explained process, and the second those which explains models of processes that are observed in field research (descriptive model). The prescriptive model approach concentrates on steps or phases a company should take in selecting and evaluating third-party logistics providers (3PLs). Two models serving as examples of prescriptive model types are those explained by Sink and Langley (1997) and Bagchi and Virum (1998).

Sink and Langley provide a five-step process for buying third-party logistics services. This model caters feedback loops between the steps to permit for the possibility that for some companies the process may be non-linear, i.e., steps may be cycled or recycled through, or even bypassed. Nevertheless, this model is prescriptive in nature. Mello and Stank described that the Bagchi and Virum (1998) model identifies three phases: (1) need awareness, (2) alliance formation, and (3) relationship management, in which eight specific steps are embedded. Need awareness comprises setting objectives for outsourcing and making supplier selection criteria. Alliance formation comprises identifying qualified vendors, determining needs, request for bids, bid evaluation, supplier selection, and implementation of relationship. Relationship management encompasses performance measurement of suppliers, with the possibility of redefining goals and provider capabilities or capacities resulting in a return to earlier steps or phases. Whereas authors admit there is no one best technique for logistics outsourcing, their model is "offered as a general guideline. That may be easily adapted to most companies' needs. Thus, the Sink and Langley (1997) and Bagchi and Virum (1998) models provide guidance for companies interested in outsourcing logistics functions.

3.5 Prescriptive Model Approach For Logistics Outsourcing Process

3.5.1 A Conceptual Model of the Third-Party Logistics Buying Process by Sink and Langley (1997)

Sink and Langley have given a conceptual model of the Third-Party Logistics Buying Process in an article which is named as “A managerial framework for the acquisition of third party logistics services”. The model explains approach that is used by industrial buyers seeking guidance in establishing a logistical alliance with an external supplier. The stages of the buying process are shown in Figure 3.3. There is no simple linear relationship exist between the stages of the third-party logistics purchasing process. These decisions are made by people
and the procedure is influenced by the realities of power, conflict, and compromise (Sink and Langley, 1997).

According to Sink and Langley (1997), the third party logistics buying process different steps or phases with different aspects are following:

**Step 1: Identify Need to Outsource Logistics**

Sink and Langley describes that third-party logistics buying process begins by identifying that outsourcing is a better management option to resolve the problem or provides an opportunity. This step encompasses four aspects. First, an internal or external person will work as a "change agent" who believes that outsourcing all or part of the existing in-house logistical support is a better alternative. The second aspect of need identification is related to the top management's support. The evaluation and purchase of logistics services results from the effort of this group to improve the strategic focus of the organization via process redesign. The third condition of need assessment necessitates the formation of a buying group to implement the purchasing or buying process. The better groups or teams are cross-functional and comprise managers from different organizational management levels. This is completely logical, like logistical support services substantially affect various functions, like inventory levels (finance and operations), inventory availability (marketing and operations), labour force requirements (human resources) and production scheduling (purchasing and materials management). The fourth condition is that propagating with line management about the purpose and mission of the third-party logistics option. Focusing that people at line management level work very closely with the services under focus, it is crucial to bring them into the buying process at an early stage (Sink and Langley, 1997).

**Step 2: Develop Feasible Alternatives**

In this step Sink and Langley says that after buying team confirmation that logistical outsourcing has merit as a management alternative, it should demonstrate evidence to the firm management to strengthen organizational commitment to the concept. The buying or purchasing group translate general goals or objectives into specific objectives that could be understood by supplier candidates or applicants. The translation is important at this step in the buying or purchasing process.

According to Sink and Langley (1997), many members of the decision-making units represented in this study the utilization of external consultants or trustworthy professional colleagues as sources of better solution alternatives. Sink and Langley describes that a better proactive search using a multiplicity of sources increased the probability that an effective solution was identified and effectively specified. The buying or purchasing group should
convert a generalized image of its ideal solution into implementable plans that can be implemented by a competent supplier.

**Step 3: Evaluate Candidates and Select Supplier**

According to Sink and Langley (1997), candidate or supplier evaluation starts with making of selection criteria. Cost, capacity, Quality, and delivery skills typically are used to evaluate distribution providers or suppliers. Sink and Langley describes those References Provided by Current Customers, Financial Strength, and Cultural Compatibility. The depth of Management Expertise, Information System Capabilities and Operating and Pricing Flexibility plays also important roles. The screening in the start is based on qualitative factors, like reputation and verbal responses to informal requests for information.
According to Sink and Langley (1997), this basic screening is oriented toward finishing suppliers or providers that are not feasible rather than focusing on those which seem to be most appropriate for final selection. Sink and Langley states that potential suppliers are...
identified mostly by advice or suggestion obtained from trustworthy professional colleagues with earlier experience in the procurement or buying of third-party logistics services. Suppliers of typical distribution services are consulted to identify potential suppliers. Selection criteria are developed, and different weights are assigned to them; team or group members evaluate all suppliers’ responses to a formal request for proposal (RFP) or a request for quotation or request for bid. The selection of a third-party logistics provider encompasses a high degree of interaction between the purchasing team or group and supplier personnel. Top management should be advised of the purchasing group’s intentions or plans related to the finalists. The team or group should ensure that suppliers or providers on the short list have compatibility with top management intentions or plans.

**Step 4: Implement Service**

According to Sink and Langley (1997), the fourth step in the buying process encompasses the plan logistical alliance or start of relationship. The written transition plan should be prepared by the firm and supplier. This plan should show the chain of command and authority in both companies, assets to be employed or shared, key contact points, the handling of proprietary data, processes to be assumed, a procedure to handle tasks not identified in the formal contract, and the timing of changeover events. The training of buyer and seller’s personnel is important to a successful transition. The information, flow of physical goods, and interaction should not be compromised or ignored. Communication within the buyer and seller should be there to deduce the uncertainty and control the potential for confusion. According to Sink and Langley, Service adoption must be phased in over time, if at all possible. Activities which are least visible or obvious to the buyer's customers must be the first to be considered by the external supplier.

**Step 5: Ongoing Service Evaluation**

Sink and Langley states the result of this step or phase explains that whether the buyer will have an alternate solution, replace the supplier, bring the services back in-house, or renew the existing agreement. According to Sink and Langley (1997), the final step of the buying process starts as long as the logistical alliance is in effect. Logistical and administrative activities must be evaluated by statistical process control tools. The buyer should be interested to accommodate or help the supplier related to system revision or infrastructure modifications, substitute scheduling that will give benefit both parties. May be it will be necessary to terminate a third-party logistical alliance due to bad service in different cases. In this case, it is important that the contract should address the terms under which the agreement may be cancelled by the firm or purchaser.
3.5.2 Logistics Outsourcing Process Model By Bagchi and Virum (1998)

According to the Bagchi and Virum (1998), logistics alliance is regarded as a three-phase process. Figure 3.4 shows these phases. In the first phase, there is growing awareness of the need for a change in the management of the logistics function. Phase 2 encompasses the planning for the alliance. Phase 3 involves the management of the process. During phase 3, there is adjustment feed-back loop to phase 2, and also in different cases to phase 1. At the end of phase 3, there is chance or case that one or both of the parties may want to exit, and the alliance is terminated (Bachi and Virum, 1998).

**Phase 1: Need Awareness**
- **Active party:** User
  - **Activities:**
    - Benchmarking
    - Strategy analysis
    - Industry analysis

**Phase 2: Formation**
- **Active parties:** User and Provider activities:
  - Preparation
  - Planning and Realignment of objectives

**Phase 3: Management**
- **Active parties:** User and Provider Activities:
  - Process management
  - Performance measurement and evaluation
  - Continuous improvement

Different steps or phases of outsourcing process model by Bachi and Virum are as follows:

**Step 1: Establish Objectives and Selection Criteria**
According to Bagchi and Virum (1998), clear set of objective are important for a company to move ahead in the right and correct direction. Authors suggest that companies should explain or define their logistics management goals and then strive to accomplish these by outsourcing if necessary. The objectives should be realistic and the selection criteria should be decided on the base of pre-decided objectives. Authors suggest that the objectives and criteria should be a group or team activity and different functions and levels are involved in this.

**Step 2: Identify Qualified Providers:** The next step of the process is to identify third party logistics providers who qualify to decided selection criteria. Various logistics associations, industry publication and other resources could be utilized for this purpose.

**Step 3: Articulate Needs and Wants:** In the third step authors suggest that company should make a complete list of information like shipping volume, product line, industries to be served, geographic areas, growth forecasts, level of services expected, IT system of company,
level of integration with provider, and other value-added services expected from 3PL. This list should also comprise the information related to the qualified logistics providers like their references, customer base, and expectation from partnerships, reputation in the market place, quality of services, and financial condition.

**Step 4: Evaluation Bidders and Select Partner:**
Evaluation must be based on decided criteria and responses of bidders. Price is great factor in the selection of a 3PL but it must not be the only selection criteria. Site visits and interviews can be helpful during the selection process and qualitative tool like Analytic Hierarchy Process could be used.

**Step 5: Develop an Integration Plan:** According to Bagchi and Virum (1998), the next step involves the creation of integration plan because in logistics process integration is important like different providers involve in logistics pipeline. Logistics alliance could be successful if 3PL has ability to integrate its operation with the buyer’s operation. Logistics information system can cater framework and the means to accomplish integration but this framework is fruitless unless or until the coordination amongst employees is not developed.

**Step 6: Create a Win-Win Relationship:** According to Bagchi and Virum (1998), there should be a win-win situation for both buyer and seller by providing necessary assistance, sharing expectations, on-going monitoring and improving relationship. Authors believe continuous communication at different level of the company is the key of successful relationship between buyers and sellers.

**Step 7: Measure and Analyze Performance:** Bagchi and Virum (1998) suggest selection of right and vital performance measures is more important instead of choosing many. Performance measurement and analysis is important to compare the expected performance with the real performance. Authors suggest that customer’s expectation should be agreed upon and management of this step is important. Performance measures guides to analysis of derivations and this analysis leads to the last step of process.

**Step 8: Redefine Goals and Objectives:**
Bagchi and Virum (1998), suggest that continuous improvement should be emphasis throughout all the process so that the whole process can be undated with the changes of requirements and purpose of alliance. Authors say that goals must be redefined at different period of time according to the changes in trends of market. Renegotiation and renewal of agreement is the aspect of this final step.
3.6 Descriptive Model (Outsourcing Processes Observed in the field)

The model developed by Rabinovich (as cited in Mello and Stank, 2008) describes how logistics systems can be broken down into transportation, inventory, and customer service subsystems and suggests that companies typically outsource logistics functions in combinations of activities grouped around these subsystems, rather than one activity or function at a time.

Marshall, Fynes and Burea (as cited in Mello and Stank, 2008), described in their study that outsourcing as a process involves four stages. The first stage, decision, comprises the initial idea generation and establishment of motives for outsourcing. According to authors, the
second stage, evaluation, comprises the appraisal of internal and external options or alternatives, and may terminate the process if internal options or alternatives are deemed superior to external ones. Authors describes that the third stage, management, entails implementing a relationship with third-party providers, transfer of assets/people, problem solving, and communication between firms. The fourth stage, outcome, comprises the evaluation of the relationship, which can end in termination, or renewal of the contract. Marshall described that the influence of company strategy and politics, rather than strict adherence to an objective and process-oriented set of activities, had the most influence on how the outsourcing process progressed (Mello and Stank, 2008).


Table 3.4 portrays the process model of logistics outsourcing strategy involving the five phases, and associated inputs that emerged. The model focuses on how firms participating in the research progressed through the decision-making process of developing strategy, rather than on the individual steps they took to put outsourcing programs in place (Mello and Stank, 2008). The model of Mello and stank has been given in the figure 3.6.

<table>
<thead>
<tr>
<th>Category One: Outsourcing Strategy Phases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Properties:</td>
</tr>
<tr>
<td><strong>Recognition</strong> - when logistics providers are recognized as alternatives to performing logistics activities in-house.</td>
</tr>
<tr>
<td><strong>Motivation</strong> - when conditions that lead companies to consider the &quot;perform vs. buy&quot; decision are considered.</td>
</tr>
<tr>
<td><strong>Outsourcing</strong> - the process of outsourcing, which includes trial programs with third parties as well as ongoing arrangements with service providers.</td>
</tr>
<tr>
<td><strong>Confidence-building</strong> - when the viability of logistics outsourcing as a solution to problems is considered.</td>
</tr>
<tr>
<td><strong>Dispositions</strong> - development of dispositions, and related actions, toward the future of logistics Outsourcing.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category Two: Decision-Making Inputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Properties:</td>
</tr>
<tr>
<td><strong>Cognitive</strong> - the evaluation of &quot;actions by means of a process of thought and cognitive deliberation, possibly supported by calculations&quot; to make decisions (de Boer, Gaytan, and</td>
</tr>
</tbody>
</table>

**Experiential** - "a process in which alternatives are evaluated as a result of actual, on-line experimentation" by which future courses of action are determined (de Boer, Gaytan and Arroyo 2006, 451).

**Cultural** - recognition of patterns of shared values, beliefs, and behavioural norms of an organization that are commonly applied to solving problems (Deshpande and Webster 1989).

**Personal** - the determination of actions based on the personal experiences, or self-interest, of individuals.

---

**Figure: 3.6 A Model of the Logistics Outsourcing Strategy Process**

*Source: Mello and Stank (2008)*

---

3.7 Discrepancy between the Prescriptive and Descriptive Outsourcing Models

According to Boer, Gaytan, and Arroyo (2006), there are differences between prescriptive and descriptive models in the literature and that, in practice, companies may follow processes that differ from the "ideal" methods offered by prescriptive models. The nature of this difference primarily stems from prescriptive models that suggest strategy-driven outsourcing processes, while descriptive models indicate more tactical, provider-selection decision-making models.

According to Andersson and Norrman (2002), the same basic phases are identified in the logistics outsourcing literature as are outlined in typical processes available in the purchasing literature. These steps or phases involve defining the requirements, selecting suppliers,
establishing contracts, ordering services, and evaluating suppliers. The emphasis of current outsourcing models comprises the issues related with the selection of 3PLs and managing the provider relationship. The discrepancy between the current state of prescriptive and descriptive outsourcing models suggests a literature gap worthy of research investigation.

3.8 Comparison of Different Logistics Outsourcing Models

<table>
<thead>
<tr>
<th>Steps</th>
<th>Prescriptive Model</th>
<th>Descriptive Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Establish objectives and selection criteria</td>
<td>Indentify need to Outsource logistics</td>
</tr>
<tr>
<td>2</td>
<td>Identify qualified vendors</td>
<td>Develop feasible alternative</td>
</tr>
<tr>
<td>3</td>
<td>Articulate needs and wants</td>
<td>Evaluate and select supplier</td>
</tr>
<tr>
<td>4</td>
<td>Evaluate bidders and select a partner</td>
<td>Implement service</td>
</tr>
<tr>
<td>5</td>
<td>Develop an integration plan</td>
<td>Ongoing service assessment</td>
</tr>
<tr>
<td>6</td>
<td>Create a win-win relationship</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Measure and analyze performance</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Redefine goals and objectives</td>
<td></td>
</tr>
</tbody>
</table>

Table: 3.5 Comparison of Different Logistics Outsourcing Models

Source: Author

With comparison (Table 3.3) of different prescribed and described models given in the literature, there are following aspects that companies should consider or focus to develop and implement logistics outsourcing as a process to accomplish required results from logistics outsourcing:

1. Identify Need of Logistics Outsourcing
2. Objectives of Logistics Outsourcing
3. Identify qualified vendors or 3PL
4. Evaluation and Selection of 3PL
5. Outsourcing Contract
6. Performance Measurements
7. Relationship Building with 3PL
8. Ongoing Review and Continuous Improvement
So, this is the above eight step model which will be used as ideal to compare with company’s logistics outsourcing model.

3.9 Impact of culture on Business
According to kumar and Sarangi (2011), culture creates the people. Culture has great influence on the mentality of people or group of people. Every step, action or plan is influenced by the culture. Culture determines goods and services. Culture determines the life style of people and their daily patterns of consumption. So, production of goods and services has greater accordance with the culture. The limitation of services and good production is driven from the culture. Attitude to work is also influenced by the culture. Business norms and principles are driven from the culture. Negotiation styles are based on the cultural trends and need of the business. Level of formality of arrangements is also influenced by the culture. Culture has also greater impact on payment methods and patterns.

3.10 Structure and Hierarchy in Pakistani companies
According to Hahn (2011), the structure and Hierarchy in Pakistani companies is as follows:

- The top person tends to make the final decision in private Pakistani companies. If there is an important or vital business matter, consensus is sometimes expected during the meeting. In government offices, hierarchical structures are followed very strictly.
- According to the author, Pakistani culture values the family above everything else. Author says that family ties characterise the social structure and individual identity. Pakistanis favour doing business with people whom they know very well and trust. Family members and friends are decided to be hired for work in the company or to deal the business.
- Apart from family structures, education and experience are very important factors for a manager in Pakistan. Pakistanis are used to give and receive orders, and do not try to work in teams or groups where consensus is necessary.

Pakistani business management is highly influenced by the culture. Mostly small size companies they have the same approach in doing business. There is directive style of management in the companies. There is very low tendency for the team building, participation in decision making, and strong distance in the management levels. Top management always make decisions and flow them to the downstream. Pakistani managers try to have an autocratic management style. At the same time, the boss is seen as a paternalistic figure and is expected to assist subordinates with personal problems.
Pakistan society has these following trends or dimensions:

- Human relation oriented
- Dependence on the group and individual both
- Respect for rules
- A close society, lacking in transparency
- Individual decisions over consensus
- A society which pursue harmony with reality

Maitah (2011), describes in his report that culture defines a set of acceptable & unacceptable behaviors, which forms the basis of “Way of doing Business”. Culture has impact on the consumer behavior, local demand, buying decisions and company or brand image. Maitah says that Culture influences managerial styles and management Decision. Culture affects the nature or style of business negotiations. Culture acts as hidden entry barrier, but it can be controlled with cultural sensitivity, hard work & quality. Managerial behavior is influenced by his/her cultural Knowledge. Maitah describes that managers encounter cultural dilemmas owing to differences in cultures:
  - Modernization versus westernization
  - Individualism Vs Collectivism in decision making
  - Specific Vs General
  - Attitudes towards Time
  - Attitudes towards Environment

Prawda (2011), business practices are extensions of cultures. In management, culture influences, and sometimes determines policy, style, structure, etc. of the organization. When managing a company in a domestic operation with an homogeneous culture everyone seems to speak the same language, understand the same cues, have similar values & norms. Businesses have rapidly developed globally, management is no longer restricted to the domestic territory, but have gone beyond national borders and constantly confronts cultural diversity. Deari, Kimmel, & Lopez (2011), describe that culture can influence the business in different ways. Authors states that language problems, culture collisions and pricing difficulties are not uncommon, especially in the beginning. The company should be able to manage these problems in a way that is satisfying for the other part. Mistakes or problems can be hard to correct or rectify and disrespect for the foreign culture can harm the complete operation.
4. Empirical Finding

This chapter involves the collected empirical data of Logistics Outsourcing Process in Pakson International. In this chapter, explanation of the company’s knowledge of the logistics outsourcing process has been given. The detail of 3PL service providers and types of logistics activities which are being outsourced by the Pakson International have been given in this chapter. Company’s logistics operation has been depicted in figure. This figure shows the activities outsourced and flow. Reasons of aspects in process have been also given.

The purpose of this chapter is to present gathered empirical data to understand the practice of logistics outsourcing process in Pakson International. Semi-structured interviews (Appendix A) have been conducted with the managers of the company on the random basis. This range of managers is basically consisted upon marketing, Production, Purchase and Finance department. This data could be collected from one manager but it was done like this just for the consistency, validity and substantial explanation of the required information.

4.1 Usage of 3PL

Pakson International is involved in producing plastic Furniture. Pakson International is producing and importing furniture to meet the local and international market demand. Pakson International import the furnitures of modern design from Malaysia and also the raw material is imported from different countries. Pakson International also import products from overseas and then sell it into the local market distributors and retailers. Company is using third party logistics service providers to complete the logistics operations. Company is outsourcing logistics activities which are as follows:

- Freight Forwarding
- Warehouse management
- Transportation

So, company is involved total three types of logistics activities outsourcing. There are total number of three 3PL service providers for the company. In these, two are asset-based companies and one is non-asset based company. DMK Logistics (PVT) Ltd. is 3PL for freight forwarding of the Pakson International towards international market. Carvan Goods Transport Company is 3PL for direct transport services for the company. Jamal Brothers are the warehousing providers. Logistics operation is managed by the Production, Import & Export and Marketing department of the company. All they work together for manging or
running the logistics or whole supply chain of the company. Figure 4.1 depicts the whole logistics operation of the Pakson International. Figure shows that what sort of activities are being outsourced and where are they playing role? Logistics activities which are being outsourced have been shown in the figure with bold letters. Carvan is giving transportation service for both in-bound and out-bound transportation. DMK Logistics helps Pakson International for the arrangement of cargo movement to an international destination. DMK Logistics has the skills that caters Pakson international to formulate and process the documentation.

**Figure: 4.1 Logistics Operation of Pakson international**
*Source: Author*

**Explanation of the Figure 4.1**
In the figure, there are three logistics activities which have been shown in bold letters. These activities are being outsourced. Arrows shows the flow of communication and goods movement and activity involvement. In common way, we can describe that arrows shows the direct relationship amongst the activities or functions and company. As we see that transport is involved with Pakistan port, warehouses, distributors, retailers, and company. So, these are interrelated with each other. Furthermore, Freight forwarder is responsible for the international import and export. It deals only international concern issues. And transport provider is the only transport service provider. Carvan is the transporter that only transports the material and finished products one place to another place.
4.2 3PL selection factors of the Pakson International

There are different factors which are considered during the selection process of 3PL. With the passage of time, the competition amongst the competitors is being increased rapidly. Customer is looking for more cheap products and cost-effectiveness is major consideration for the company. Company gives higher priority to the Price in the selection process. Reliability is also the second priority of the company and there are other factors which are considered in the selection process. During the interview, a list of factors came to sight. Company’s General Manager prioritized and gave the percentage of importance to each factor in this list. All these factors with the given priority order and percent are shown in table 4.1.

<table>
<thead>
<tr>
<th>Selection Factor</th>
<th>Given %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>27</td>
</tr>
<tr>
<td>Reliability</td>
<td>22</td>
</tr>
<tr>
<td>Service quality</td>
<td>18</td>
</tr>
<tr>
<td>Cost reduction</td>
<td>13</td>
</tr>
<tr>
<td>Location</td>
<td>11</td>
</tr>
<tr>
<td>Management quality</td>
<td>9</td>
</tr>
</tbody>
</table>

*Table: 4.1 3PL selection factors of Pakson International*

*Source: Author*

4.3 Logistics Outsourcing as a process in Pakson International

Company has the knowledge of its operations and delivering products to its customers in best possible way. Company has employed total three 3PL providers. Pakson International has very limited knowledge on Logistics outsourcing process. They only consider limited factors in the selection of 3PL providers. According to company, there are different reasons or drivers due to which they use third party logistics service providers. The main drivers are the cost reduction and limited availability of capital. They are outsourcing transportation because they do not have their own trucks or vans for in-bound and out-bound transportation. Carvan is giving transportation services to the company. Company is working with this Carvan for a long time. According to management, they are working with this company because they have long time personal relationship with the management of Carvan. But this personal relationship is not the part of process. Company’s top management get financial benefits or support due to their friendly relationship with the company. For instance, credit facility, payment delays and other benefits. Company is not only working due to personal relationship. They have business
benefits out of that. But company also faces different problems with the service provider. Despite of that company is doing business with Carvan but sometimes according to Pakson International’s management; they have faced problems within the transportation services like late deliveries, shortage in orders, wrong item deliveries or labour strikes. But Pakson International’s management is doing work with Carvan by considering these problems part of business. According to the manegment of the company, 3PL service provider selection is done by the top management. Company describes there were only a few companies in the company’s area when Carvan was selected to have transportation service. They did not compare with any other company. Pakson International just negotiated with the Carvan and started work with them. According to management, Carvan also gives the company credit facility for bills of payment. But now there are lot of companies and they have very good reputation in the market. They are providing transportation service and also other logistics services like Freight Forwarding or custome clearance etc. But Pakson International is limitid to Carvan and Pakson International has contract with the company.

Pakson International is using DMK logistics for Freight Forwarding to international market. DMK helps the Pakson international for related import and export issues. DMK Logistics has the expertise that allows Pakson International to prepare and process the documentation and perform related activities pertaining to international shipments. DMK has been working with the Pakson International since the start of 2008. Company has contract with DMK. DMK is company of top management’s friend. Before DMK, Pakson International was working with another company and the reputation of that company in the market was ruined due to mal-apropos practices. After that company’s top management decided to do work with DMK. According to respondents, line management is not part of decision making to decide or select the 3PL service provider.

Company has very limited resources and land. Company is producing furniture and a sister concern company is producing electrical motors, fans, and washing machines of steel and plastic. So, they are sharing the same providers of transportation services and warehousing. Company has 10 years contract with the Jamal brothers for warehousing management. The cost of the warehouses is increased every year on a pre-decided percentage base in the contract. According to management, Pakson is using these warehouses from last eight years. Sometimes company has faced serious problems in the warehouses like damage and theft but they are working with the same Jamal Brothers for warehouses. When these warehouses were decided to use, there was no any proper process which could actually followed by the company. Company was having lot of troubles at that time due to increase demand in the
market and limited land resources. They had to go for this decision. Because the demand at that time was very good and business was developing. Management did not consider the location of warehouses. Company has total four warehouses on different places. There is lot of distance amongst the warehouses and company’s production unit. That’s why company is enduring operational expenses which are increasing day by day. The oil prices and transport maintenance costs are increasing day by day and due to this ultimate burden company has to afford. The roads are also not good or unpaved and it takes too much time in the delivery of products. According to the management, there is no any knowledge or awareness of the logistics and logistics outsourcing process. Management is very conservative and working with typical managerial mentality. Typical mentality means that they have limited focus, analysis of factors and vision. Whenever company decided the 3PL in the very or close past, there was no proper data collection of suppliers or service providers in the market. There was no any market research or advertisement was given in any newspaper to attract the 3PL service providers. Because the decision body for the 3PL was only top management and company had to go ahead like this. Top management decided to do work with the companies on their personal relationships and acquaintance. Because there was no any advertisement or data collection of 3PL service providers. So, there was no any criteria for the qualification of providers. There was no point to decide that whose bid was acceptable or not. There was no evaluation process or comparison process. Simply, negotiating process was there. Because the company is working in an area which is typical and resources are very limited. So, the culture of the area or city also has impact on the mentality of top management and ultimately on Logistics outsourcing process.

There is no any management orientation for logistics outsourcing as a proper process. When company decided to use 3PL service providers, company did not respond properly this question that why company had need to go for outsourcing? They just knew that they could not have resources that’s why they did. But factors like expertise, on-time job management, location, and other factors were beyond their understanding or consideration. So, they actually did not properly charted their needs of 3PL service providers and that’s why they also could not have the proper benchmark or requirements. So, the scope of selection was too much limited and full of errors. Objectives were narrow in scope. Objectives were not obvious or clear. In other terms management undermined or underestimated the need and selection of 3PL services providers. And company is facing operational problems in terms of finance and performance owing to earlier strategic planning. In terms of relationship building company is very strong to make relationship because of the top management attitude and
company’s good reputation in the market. Company has very low focus or tendency on the review and continuous improvement of 3PL service providers. If company do so then there is higher possibility that it will also focus on 4PL (selection of fourth party logistics service provider by eliminating the old or third party logistics service provider) service provider for the efficiency of business.

According to the empirical finding, Pakson International logistics outsourcing process is depicted in the figure:4.1. In this figure, different logistics outsourcing strategy inputs have been given which have influence on the logistics outsourcing process of the company.

**Logistics Outsourcing Process**

![Logistics Outsourcing Process Diagram](image)

*Figure: 4.2 Pakson International Logistics outsourcing process and Logistics outsourcing strategy inputs*

*Source: Author*
5. Theoretical & Empirical Analysis

This chapter incorporates the analysis of the theoretical data collected and empirical findings. This chapter produces the answers to our research questions. There is comparison between the both literature suggested logistics outsourcing process and process in Pakson International. There is analysis of the factors or reasons which causes the difference between both literature or author’s suggested and company’s practiced logistics outsourcing process.

5.1 Analysis of Research Question 1

Research Question # 1: What sort of gaps are there between the logistics outsourcing process adopted by the company and suggested in the literature?

According to Sink and Langley (1997), the third-party logistics buying process begins by recognizing that outsourcing is a viable management option to solve a problem or enhance an opportunity. There are four aspects of this step.

- Recognize problem(s) or opportunity
- Obtain Top Management Approval
- Form Buying Team
- Community with Line Management

Pakson International is different as compare to literature. Pakson International had recognized the problem or need of logistics outsourcing but this step did not comprise four aspects. Company did not assemble buying team. There was no any tendency of obtaining top management’s approval. This was the only top management who decided. There was very low involvement of the line management in logistics outsourcing process. Pakson International recognized that they had limited resources and expertise. That’s why company went for the Logistics outsourcing. According to Bagchi and Virum (1998) clear set of objectives are necessary for a company to move in the right direction. They suggest that companies should define their most aggressive logistics management goals and then try to achieve them by outsourcing if needed. Pakson International also set it’s objectives of logistics outsourcing. But the Pakson International objectives were non-measurable. They had objectives like minimum cost of production, lower capital requirement, easy order fulfilment and good quality service. According to Sink and Langley (1997), in identification of qualified vendors or 3PL step there are two aspects:
- Use internal expertise/Knowledge/Experiences
- Hire outside Expert and/or Obtain Supplier Insight

According to Bagchi and Virum (1998) different logistics associations, industry publication and other resources can be useful to identify the qualified vendors. Pakson International was different in the identification of qualified vendor. Pakson International did not use any outside expert for this purpose. Company had the insight of the only single supplier with whom it was interested to do business. Company’s top management used it’s own expertise, knowledge and experience for this purpose. According to Sink and Langley (1997), candidate evaluation begins with the establishment of selection criteria. Quality, cost, capacity, and delivery capability traditionally are used to evaluate distribution providers. According to Bagchi and Virum (1998), Prices can be very important factor in selecting a 3PL but it should not be the sole selection criteria. Evaluation should be based on the all established criteria and bidder’s responses. Site visits and interviews are very common tool for this purpose. Pakson International was very different in this step of process. When Pakson International went for outsourcing, it did not generate different alternatives of suppliers. There was no particular criteria decided for the selection of supplier. There were no different site visits or interviews of different suppliers or any usage of external expertise. In the selection strategy, personal realtionship and culture was major input. According to literature after the selection of vendor, there is stage of contract. Pakson International has contract with the suppliers. They have long and short term contracts with their third party logistics service providers. Company has long term (five years) contract with warehouse management. It has short term (one year) contract with the freight forwarding and transportation. According to the Sink and Langley (1997), there must be qualitative and quantitative measures for the performance measurement. Performance measurement and analysis is necessary to compare the expected with the actual performance. Bagchi and Virum (1998), suggest selection of right and vital performance measures is more important instead of choosing many. Pakson International checks out the performance by looking on the performance of the current operation on a superfacial base. They check out that whether the job has been done or not. If not then they do it agian rather going for the root cause and it’s solution. Mostly they rely on the qualitative performance measures. For instance, they go for service quality, customer complains, damages, delays etc. Company put effort to control the performance of the supplier but mostly it’s in the control of top managment. According to the Bagchi and Virum (1998), a win-win situation should be created for both parties by sharing expectations, providing necessary assistance, continuous monitoring and improving relationship, and by regular
feedback between partners. Company has very good relationship building. Company’s top management has close personal relationships with the third party logistics suppliers. This relationship has greater impact on the logistics outsourcing process of the company. Bagchi and Virum (1998), suggest that continuous improvement should be emphasis throughout the process so the whole process can be undated with the changes of requirements and purpose of alliance. Sink and Langley (1997), describes that all logistical and administrative activities should be evaluated using appropriate statistical process control tools. The buyer must be willing to accommodate the supplier concerning alternate scheduling, system revision, or infrastructure modifications that will mutually benefit both parties. In some situations, it may be necessary for a product or company to terminate a third-party logistical alliance due to poor service or unacceptable cost. Pakson International has the tendency of review but the continuous improvement is not in focus. Company does not use any sort of statistical tools to evaluate the logistical and administrative activities. According to the company’s management there is repetition of certain problems. Company has the tendency to control these problems. But, with the passage of time these problems are raised again and again for instance problems in transportation services. The comparison between the logistics outsourcing process in literature and Pakson International has been shown in the Table 5.1.

<table>
<thead>
<tr>
<th>Logistics Outsourcing Process 8 Phases (Theoretical)</th>
<th>Pakson International’s Logistics outsourcing process 5 Phases (Empirical)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Identify Need of Logistics Outsourcing</td>
<td>Limited resources and expertise for Logistics activities</td>
</tr>
<tr>
<td>▪ Recognize problem(s) or opportunity</td>
<td>▪ No full line management involvement</td>
</tr>
<tr>
<td>▪ Obtain Top Management Approval</td>
<td>▪ No any top management approval</td>
</tr>
<tr>
<td>▪ Form Buying Team</td>
<td>▪ Top management decision made</td>
</tr>
<tr>
<td>▪ Community with Line Management</td>
<td>▪ No any group or team assembled</td>
</tr>
<tr>
<td>2. Objectives of Logistics Outsourcing</td>
<td>Qualitative objectives</td>
</tr>
<tr>
<td>▪ Quantifiable and measurable objectives</td>
<td>▪ Non-quantifiable or non-measurable objectives</td>
</tr>
<tr>
<td>3. Identify qualified vendors or 3PL</td>
<td><em>No information collection, No external organisation or group used, No different site visits or interviews, No any list of alternatives, Only close relationship and price based criteria</em></td>
</tr>
<tr>
<td>▪ Information collection via external resources</td>
<td></td>
</tr>
<tr>
<td>▪ Use of external organizations and associations</td>
<td></td>
</tr>
<tr>
<td>▪ Site visits and interviews</td>
<td></td>
</tr>
<tr>
<td>▪ Generating different alternatives</td>
<td></td>
</tr>
<tr>
<td>4. Evaluation and Selection of 3PL</td>
<td><em>No any list of alternatives, No any evaluation process, Mostly selection based on the personal relationship and price</em></td>
</tr>
<tr>
<td>▪ List of alternatives</td>
<td></td>
</tr>
<tr>
<td>▪ Comparison of alternatives by considering different selection factors</td>
<td></td>
</tr>
<tr>
<td>5. Outsourcing Contract</td>
<td>Log term contract (five years) with the</td>
</tr>
</tbody>
</table>
warehouses supplier (Jamal Brothers)
- Short term contract (one year) with the CARVAN and DMK logistics

6. Performance Measurements
- Quantitative and qualitative measures
- Use of Statistical tools

No statistical tools for the administrative and logistics evaluation, Cost of services, Proper or on-time delivery of services

7. Relationship Building with 3PL
- Building win-win relationship

Good working relationship

8. Ongoing Review and Continuous Improvement
- Using statistical tools for administrative and logistical evaluation of 3PL
- Re-defining objectives
- Making decision to go with the same 3PL or to shift 4PL

Repetition of problems exists and this aspect is not performed well.

Table: 5.1 Comparison between Pakson International and Literature suggested Logistics Outsourcing process
Source: Author

5.2 Analysis of Research Question 2

Research Question # 2: Why there are gaps between the company's logistics outsourcing process and described in the Literature?

5.2.1 Knowledge of Logistics Outsourcing Process

According to literature, different authors like Sink and Langley (1997), Bagchi and Virum (1998) describes that any business which is producing different products should have in-depth knowledge of the outsourcing process. All phases or steps should be in the knowledge of company’s management to get cent percent benefit out of it. Businesses that incorporate logistics activities often they go for outsourcing. Companies should understand that the outsourcing is not an action whereas it’s combination of actions which is called process. Pakson International’s management is outsourcing logistics activities but they have very superficial knowledge about logistics outsourcing process. Virum (1993), describes that management of logistics outsourcing process is based on the knowledge and orientation of the process and it’s core steps. Management or the company must have the complete knowledge of all factors which should be considered in the selection process. There are different factors which are cited as reasons why firms decide to go for logistics outsourcing like develop information technology (IT) capabilities, focus on core competencies, complexities of operating in a just-in-time (JIT) environment, leverage supply chain management, react to changes in the regulatory environment, a need for expertise, rapid growth, limited resources to apply to logistics activities and globalization of business. The extensiveness of these factors shows that there are different ways in which firms decides
third-party logistics providers capable of helping firms in dealing with business problems (Mello and Stank, 2008).

5.2.2 Business Culture and Pakson International Logistics Outsourcing Process

Prawda (2011), business practices are extensions of cultures. In management, culture influences, and sometimes determines policy, style, structure, etc. of the organization. According to Hahn (2008), the structure and Hierarchy in Pakistani companies is different from the other countries. The senior person tries to make final decision in private Pakistani companies. If there is an important matter, consensus is expected in a meeting. In government offices, hierarchical structures are followed very strictly. Pakistani culture values the family above everything else. Pakistanis favour doing business with people they know well and trust. Consequently, family members and friends are selected to work in or out of the company. Maitah (2011), culture has impact on the consumer behavior, local demand, buying decisions and company or brand image. Maitah says that Culture influences managerial styles and management Decision. In Pakson International, top management tends to make decisions. Company’s top management always prioritizes to work with the person whom they know very well. Company’s top management has family relationship with the Carvan transport. So, company’s top management is influenced by the culture and personal characteristics in the selection of third party logistics service providers. In the decision making team work or group orientation is very low. To some extent, the opinion of the line management is taken into notice where they realize it’s crucial or necessary. There is directive style of leadership in the company which is almost influenced by the business culture.

5.2.3 Management Orientation for Logistics Outsourcing As Process

According to the empirical finding, Pakson International’s management has no orientation at all for logistics outsourcing as a process. When they outsourced logistics activities, they had their own practive and frame of factors for outsourcing. They did not define any process or take the outsourcing activity as a process. They just went for it beacasue they needed to do it due to some reasons. They decided to do with one 3PL and started after price negotiation. Management has no any orientation for logistics outsourcing as a process. They do not have in-depth knowledge for it. They are not familiar for different phases or factors which are part of the process. These factors should be considered to improve the business performance.
5.2.4 Existence of Logistics Outsourcing Process

There is existence of process in every company which go for the outsourcing. According to the literature, Mello and Stank (2008), Rabinovich (1999) explains that there is always logistics outsourcing process exist. But there is difference in the process which is being practiced by the companies and suggested by the authors. In every company, some phases of the process are almost similar but some are not being considered or no any importance is given to them. In Pakson, there is also process exist. But that process has its own nature which is influenced by different factors.

5.3 Analysis of Research Question 3

Research Question # 3: What improvements in the logistics outsourcing process of Pakson International can be suggested based on a comparison between current state in the company and process described by the experts or in the literature?
The above figure 5.1 represents different places of gaps in form of steps and aspects. Step gap shows that complete step is missing inside the Pakson International logistics outsourcing process as compare to process suggested in the literature. Aspects gap shows that there is presence of step inside the logistics outsourcing process but there are certain aspects which are missing. According to the literature, these aspects are very crucial for the health or strength of the logistics outsourcing process. There are certain reasons or factors of these gaps in the process. Empirical findings shows that these gaps are influenced by company’s
business culture and management’s personal traits. There are certain logistics outsourcing process inputs which have been shown in the figure 5.1. These inputs have been categorized in three forms which are Personal, cultural and experiential. Culture has major role in the logistics outsourcing process. Management is always interested to do work with the close relations or friends. The attitude of the management is influenced from the existing pakistani culture. And it has great impact on the formulation and performance of the business. Sometimes, these personal and cultural traits are very helpful for business and sometimes these traits put burden on the business as well. But the comparison of the benefits and losses can conclude that a particular relationship is favourable for business or not. All these gaps have been given with the detail of reasons and room for improvements as below:

**Aspects Gap: 1**

There is step:1(identification of need or problem) in the Pakson International logistics outsourcing process. But certain aspects are not there. There is no line management involvement and top management approval system. Only top management is the decision making body. There is no tendency for the team formulation or team work. Culture play very vital role for all these missing aspects. But some companies in the Pakistani belt are concentrating on all these aspects now. So, company also need to improve these aspects in the business.

**Aspects Gap: 2**

On-going or continuous performance monitoring and evaluation is very crucial for the excellence of the process. There is no usage of any statistical tools for administrative and logistics evaluation of 3PL. There is no proper structured system for the purpose of evaluation. Only emerging complains or requests are considered and management forward them to the third party logistics service provider. There is repetition of problems which are occurred with the passage of time. Proper structured system should be implemented for the sake of improvement.

**Step Gap 1,2 and 3**

According to the literature, step 3,4 and 6 are completely missing in the process of Pakson International. There are lot of reasons for this. Some main reasons are knowledge of the Logistics outsourcing process, orientation of management for logistics outsourcing as a process, culture and personal characteristics of the management. These step could be the part of process for new selection of 3PL or 4PL (selection of fourth party logistics service
provider by eliminating third party). So, this could be improvement of the logistics outsourcing process.

**Theory**

3.2 Selection Factors in Logistics Outsourcing

3.4 Outsourcing Processes

3.8 Comparison of Models

3.9 Impact of culture on Business

3.10 Structure and Hierarchy in Pakistani companies

**Research Question #1**
what sort of gaps are there between the logistics outsourcing process adopted by the company and suggested in the literature?

**Research Question #2**
why there are gaps between the company's logistics outsourcing process and described in the Literature?

**Research Question #3**
what improvements in the logistics outsourcing process of Pakson International can be suggested based on a comparison between current state in the company and process described by the experts or in the literature?

**Empirical Findings**

4.2 3PL selection factors of Pakson

4.3 Logistics outsourcing as a process in Pakson

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*Figure: 5.1 The Analytical Framework for This Research*

*Source: Author*
6. Conclusion

This chapter is comprised on the answers of three research questions. This is the last chapter of the thesis and concludes the thesis. After the theoretical and empirical analysis, answers of the research questions have been driven and comprehensively given in this chapter.

6.1 Conclusions of Research Questions

RQ # 1: What sort of gaps are there between the logistics outsourcing process adopted by the company and suggested in the literature?

Pakson International is the company that is operating and located in Pakistan. Company is following it’s own process which is influenced by various factors. Pakson International does not have any structured logistics outsourcing process. There are gaps between the logistics outsourcing process suggested in the literature and in Pakson International. Substantially, there are certain steps which were not considered or not part of the Pakson International logistics outsourcing process. There are missing steps and aspects inside the some steps of Pakson International process as compared to literature suggested process. In the problem and need identification step, there were aspects missing. There was not full line management involvement, not any top management approval for outsourcing, only top management decision making power, and there was not any buying group or team assembled for this purpose. In the Pakson International, there were non-quantifiable or non-measurable objectives. Whereas there should be quantifiable and measurable objectives according to the literature. There was not any information collection regarding the total number of market suppliers available (no market research). There was not external organization or group used for the collection of suppliers insight or their market position. There was not different site visits or interviews and no any list of alternatives was generated. There was only close relationship and price based criteria of selection. Selection was based on the personal relationship and price. There was not any usage of statistical tool for the administratve and logistics evaluation of 3PL. There was not tendency for the on-going performance evaluation and improvement.

RQ # 2: Why there are gaps between the company’s logistics outsourcing process and described in the Literature?

Pakson International’s management is outsourcing logistics activities but they have very superficial knowledge about logistics outsourcing process. In the company, hierarchical structure is followed strictly. Pakistanis favour to do business with close people. Family
members and friends are in high priority for partnerships or dealing business. In Pakson International, top management always prioritizes to work with the person whom they know very well. In the decision making, team work or group orientation is very low. The top management tends to make the final decision in Pakson International. According to the company’s given information, Pakson International has process which was based on very short-sighted list of 3PL selection factors and process was narrowly practiced. When they outsourced logistics activities, they had their own pratice and frame of 3PL selection factors for outsourcing. They did not define any process or consider the outsourcing activity as a process. Pakson International management has no orientation at all for logistics outsourcing as a process. Pakson International has very limited focus and knowledge of the third party logistics selection factors. Company has knowledge of factors like Price, Reliability, service quality, cost reduction, and location. These factors are very limited and there are other factors which should be considered for the selection of 3PL.

**RQ # 3: What improvements in the logistics outsourcing process of Pakson International can be suggested based on a comparison between current state in the company and process described by the experts or in the literature?**

According to the theoretical and empirical study, there are different improvements which could be suggested. First of all, company should focus on the continuous review and improvement of the third party logistics provider. Company should check out whether they need to go for new 4PL (fourth party logistics provider) or they want to continue 3PL after supplier’s evaluation. If they want to continue or pursue 3PL provider then they should focus on their performance improvement by utilizing the force of relationship. They should have proper substantial and significant check and balance of on-going activity. If company realizes that they have some sort of problem with the 3PL. Then they should go for an alternative solution of that problem. If company’s problem resolved by the 3PL then it’s fine or else company can scan the market. Company should collect information from the market regarding different qualified suppliers and follow the structured process as suggested in the literature for the selection of 4PL (fourth party logistics provider). If company go for new logistics activity outsourcing then company should start with the proper structured scanning of the market. Company should select 3PL provider on the base of comparison of all selection factors rather limited to only two or three factors as they earlier did. Selection factors which also have impact on the business like Service quality, On-time performance, Flexibility, Location, Order cycle time, Customer support, Vendor reputation, Technical competence, Special expertise, Systems capabilities, Decreased asset commitment, and Early notification.
of disruptions should be considered and evaluated. There would be very good if company
gives training to the line management for the logistics and logistics outsourcing. It would
give value addition to the operations management approach of the company.

6.2 Suggestions for Future Research
To see the validity and to revise the findings, more empirical data could be collected from the
same size companies in Pakistan (companies with similar culture, area, and resources).
During this research, different topics which should be discussed and research came into
knowledge. For instance, logistics outsourcing process and it’s impact on the company’s
operational performance, cultural impacts on the supply chain performance of the company,
logistics outsourcing and it’s impact on the company’s supply chain performance, etc.

6.3 Possible Criticism
There could be question on the selection of sample size from the company or on the method
of primary data collection. The data has been collected from the Pakistani company but this
research has been done out of the Pakistan. So, there is limitation on the methods or
approaches of data collection. There is no usage of direct observation for data collection due
to long distance. The external validity and findings of this research could be verified via
conducting data collection from the same company or other similar size company of Pakistan
to respond the same research questions.
References:


**Interview persons:**
- Shahid Ahmed (*Marketing Manager*)
- Saleem Butt (*Import and Export Manager*)
- Farooq Khan (*Accounts & Finance Manager*)
- Shabeer shah (*Production Manager*)

**Appendix A**

**Data Collection Interview Questions**

- Do you have any knowledge about 3PL?
- What do you know about logistics outsourcing?
- Do you have any 3PL for your company?
- What sort of logistics activities you have in your company?
- What are the reasons to outsource the logistics activities?
- What do you know about logistics outsourcing process?
- How long 3PL has been utilized by your company?
- What do you know about the Logistics outsourcing process?
- How would you explain your company’s logistics outsourcing process?
- What are the key drivers for your company to use 3PL?
- Does your company have a Logistics or Transportation Department?
- Why are you outsourcing transportation?
- What sort of factors you consider for the selection of third party logistics service provider?
- Why these factors you consider for the selection of 3PL?
- How do you prioritize these factors of selection or give the level of importance as compare to each other?
- What sort of logistics activities do you outsource?
- How many transportation companies are there and why are you using only this company?
- Does your company have any strategy or policy for logistics outsourcing?
- How do you decide that one should be your 3PL?
- Have you evaluated other 3PLs during the selection process of current 3PLs?
- Do you think that you had any problems while you selected your 3PLs?
- What sort of problems you have faced or realized after selection of 3PLs?
- Do you want to change your current 3PLs due to any sort of problem?
- What were the main reasons to select current 3PL as compare to other 3PLs?
- Who were the key people involved in decision making process regarding the usage and selection of current 3PL services?
- What is degree or extent of 3PL provider’s involvement in your logistics functions?
- What logistics performance measures your company use to evaluate the performance of 3PL service provider?
- Which particular departments were involved in the selection process?
- What particular method you use when you choose a 3PL partner?
- Do you have any intention to stop outsourcing and start these outsourced activities your own in the company?
- What sort of impact do you have of using 3PL on your company or company’s performance?

Appendix B

Pakson International’s Organizational Hierarchy
Source: General Manager of Pakson International