The Critical Review on Human Resource Competencies of Third Party Logistics (3PL) Companies by Service Users

Fazian Hashim
Faculty of Technology Management, Business and Entrepreneurship
Universiti Tun Hussein Onn Malaysia
86400 Parit Raja Batu Pahat Johor
Malaysia
fazianh@uthm.edu.my

Abstract

In today’s competitive business world, sustainable competitive advantage is the fundamental factor for achieving organizational strategies. The human resources function plays an important role in developing a sustainable competitive advantage through using people efficiently and effectively as a resource. To develop a competitive advantage, it is imperative that companies leverage the workforce as a competitive weapon. Individuals’ knowledge, skills and understanding have long been recognized as essential for maintaining organisational economic competitiveness and enabling growth. This paper is a critical review on issue at both organisational and national level over the past decade regarding ‘failures’ to determine why Third Party Logistic (3PL) agreements may fail. One area that is suggested needs additional research is the mismatch between the 3PL as service provider’s promises to service user and its actual capabilities and performance. That is, how service users of 3PL expect them to manage and utilize their intangible asset which is human capital as internal strengths in order to maintain a competitive advantage to attract the support of existing and potential clients research focused on identifying and understanding of how the right knowledge, skills and abilities (KSAs) of employees in third party logistics (3PL) service companies are matched to their clients’ expectations. Reviews from previous studies were compiled involving logistics sectors that were outsourced to the Third Party. The finding reflects the needs of the service user, illustrating performance areas in service providers companies (3PL) that can be improved and suggesting aspects of company performance that can be used best for marketing them to potential service users.

Keywords: Human Resource Competencies, Third Party Logistics (3PL), Service
Introduction

The organisational importance of competencies cannot be overstated; in fact, they can be the key to competitive advantage. In order for an organization to succeed in its mission, even well-conceptualized and well-stated strategies cannot be successfully implemented and realized unless competencies allow the concept of strategic intent to be operationalized (Cardy and Selvarajan 2006).

Sustainable competitive advantage has been continually searched for by companies in all areas of endeavour (Hyland, Soosay, and Sloan 2003). The shift towards acknowledging the importance of human resource (HR) competencies, capabilities and skills has only recently been noted by organisational theorists as the source of sustainable competitive advantage (Mabey, Salaman, and Storey 1998; Ellinger et al. 2002)

Literature Review

Human Resources/Human Capital and Competitive Advantage

All organizations function in a broader social community. According to Thompson and Strickland (2001) an industry's competitive conditions and overall attractiveness are significant strategy-determining factors. A well-conceived strategy aims at capturing a company's best growth opportunities and defending it against external threats to its well-being and future performance. A successfully strategy implementation and execution depends heavily on competent personnel (Thompson and Strickland 2001). Recruiting, developing, and retaining the right employees are crucial for successful strategy execution. The human resources function plays an important role in developing a sustainable competitive advantage through using people efficiently and effectively as a resource.

In today's competitive business world, sustainable competitive advantage is the fundamental factor for achieving organizational strategies. Lucia and Lepsinger (1999) have mentioned that creating distinctive products, providing continuous capital flow, and developing contemporary technologies are the inevitable conditions to enter the marketplace. Dyer and Reeves (1995, 656) have stated "As capital and technology became increasingly available to virtually anyone, anywhere, the search of corporations for sources of sustainable competitive advantage increasingly pointed inward towards organizational capabilities."

Many organizations have found that the ability of their workforce is the key to gain competitive advantage. Houtzagers (1999, 27) has suggested, "Any performance gap that goes on within a company such as poor capital equipment, inefficient distribution channels, lousy products, ineffective marketing or bad resource allocation always comes back to people who have direct role in each of these activities."

According to Pringle and Kroll (1997), intangible knowledge-based resources (i.e. people) are more likely to lead to a sustainable competitive advantage when the environment is changing rapidly. Reinforcing the importance of people-related competencies, Youndt et al. (1996, 839) commented that "In fact, numerous researchers have recently noted that people may be the ultimate source of sustained advantage since traditional sources related to market, financial capital, and scale economies have been weakened by globalisation and other economic changes."

Competencies-Based Management/Perspective

The importance of competencies to organizations cannot be overstated; in fact, they can be the key to competitive advantage. In order for an organization to succeed in its mission, organizational competencies, even well-conceptualized and well-stated strategies cannot be successfully implemented
and realized. It is competencies that allow the concept of strategic intent to be operationalized (Cardy and Selvarajan 2006).

The competency movement in the human resource field has been studied since the beginning of the 1970s. David McClelland, an American professor, started the study of competencies in the early 1970s. McClelland (1973) demonstrated that behavioural traits and characteristics were much more effective than aptitude tests in determining who was successful in job performance. The concept of competency can be viewed differently within an organization. From a strategic management perspective, (Hitt, Ireland, and Hoskisson 2005) define competencies as a combination of resources and capabilities. The combination of resources and capabilities in an organization can be classified as core competencies when they are valuable, rare, difficult to imitate, and difficult to substitute.

As such, core competencies can be a source of strategic competitiveness. Competencies have also developed into a central concept in the area of human resource management (HRM). From HRM perspective, competencies are viewed as capabilities of people (Cardy and Selvarajan 2006). For example, a job may require the performance of a particular task which, to do well, requires specific employee knowledge, skills or abilities. The concept of competency is central to the domains of both strategy and HRM, although the two frameworks are different lenses through which competencies are understood and developed. The strategic perspective focuses on competencies at an organizational level and deals with them in a more abstract fashion as a unique combination of resources and capabilities. HRM, on the other hand, views competencies as personal characteristics related to effective job performance.

Competencies are factors contributing to high levels of individual performance, and therefore, organizational effectiveness (Armstrong 1999). The term ‘competencies’ has multiple definitions that reflect the varied history of the concept (Chan 2006). For instance, competency is used in clinical psychology and law to donate legal standards of mental capacity, the ability to care for oneself, or the ability to function in the activities of daily living. In vocational counselling, the term describes the broad areas of knowledge, skills and abilities associated with specific occupations.

The current use of the term can be traced back to McClelland (1973) who saw competencies as components of performance associated with important life outcomes and as an alternative to the traditional trait and intelligence approaches to predicting human performance. Competencies used in this way refer to broad psychological or behavioural attributes that are related to successful outcomes, be they on the job or in life in general. Building on this body of work, (Boyatzis 1982, 21) defined competency as ‘underlying characteristic of a person which results in superior and/or effective performance in job’.

Spencer and Spencer (1993, 9) defined competencies as ‘the combination of underlying attributes, skills, traits, knowledge and motives of a person which have been casually related to superior performance in job in a job. Competency was defined by Lucia and Lepsinger (as cited in a synthesized agreement at a conference in Johannesburg, 1995, 5) as ‘a cluster of related knowledge, skills, and attitudes that effects a major part of one’s job (a role or responsibility), that correlates with performance on the job, that can be measured against well-accepted standards, and that can be improved via training and development.

This definition is widely cited in literature, although a group of 37 human resource professionals and industrial and organizational psychologists could not agree on common definition (Shippmann et al. 2000). Competencies, then, have some or all of these characteristics: clusters of knowledge, skills, abilities, motivation, beliefs, values and interest;
relate to major part of the job;  
associated with effective and/or superior performance;  
observable and measurable against well-accepted standards;  
linked to future strategic directions; and  
can be improved via training and development (Cooper 2000; Parry 1996; Shippmann et al. 2000)

According to Meyer and Semark (1996), the competency-based management (CBM) perspective has been used by many firms to deliver spectacular organizational gains. Yet researchers basing their views on a behavioural psychology perspective have argued Human Resource Management (HRM) practices should contribute to a competitive advantage as long as they reinforce the skills, attitudes, and behaviours (competencies) that result in decreasing costs and/or improving product differentiation (Lado and Wilson 1994). Therefore, the important role of human resource practices in contributing to a firm’s competitive advantage overlaps with the concept of competency for effective performance.

Studies of competency approach emphasize that this concept usually underlying attributes, traits, knowledge and attitudes that are required for successful performance in job (Spencer and Spencer 1993; Boyatzis 1982). The individual competencies required for one’s job have been identified. However, it is equally important to consider the external and organizational environment in formulating competencies, which was taken into account in Boyatzis’s (1982) work. Economic, social, political, industry, strategic, and competitive factors, as well as the availability of human resources are all necessary for developing competency standards. Nevertheless, competency models should be installed so as to be aligned with organizational strategy (Ozcelik and Ferman 2006).

The human resource function is very crucial to support broad range of business objectives that require competent employees (Torraco and Swanson 1995). The success of long-term implementation of competencies depends on the alignment of competencies with the organization’s vision. Competencies impact systems that actively support the organization’s vision, strategy, and key capabilities so that individuals can understand how their behaviours support these strategies. Second, competencies produce the most significant change and development for employees’ performance when they are applied across a range of human resource development processes (Schoonover 2002), Swanson (1994) (as cited in Tarraco & Swanson, 1995) emphasize that enhancing employee expertise through human resource-practices would increase the likelihood of achieving business objectives.

Cardy and Selvarajan (2006) assert that competencies in organizations can be broadly classified as employee-level and organizational-level. Since organizational-level competencies are embedded in employee-level competencies, the identification of the letter is important for organizations interested in using competencies to achieve competitive advantage. In Cardy and Selvarajan (2006), the authors also presented a model of employee competencies as a means to organizational competitiveness and discuss various framework for identifying employee competencies. In addition to the traditional framework, which is more suitable for organizations functioning in a static environment, they offer two alternative frameworks that can be useful in identifying competencies in dynamic organizational environment. Once appropriate employee-level competencies are identified, a competency-based human resource system can be implemented to ensure that employees do possess the identified competencies.

Another major stimulus to the development of competency models came from (Prahalad and Hamel’s (1990) concept of core competence of a business. For an organisation, its core competence refers to the organizational attributes that allow it to rapidly change and innovate in response to new and challenging markets. Individual competencies that promote learning, flexibility and adaptability are seen as
contributing to the success of the entire organisation. It followed that all individual employees could also exhibit a set of competencies that were core or specific to the organisation.

Chan (2006) has argued that competencies reflect the soft skills that have gained importance in the workplace. The author suggested that the competencies of problem solving, critical thinking, creativity and innovation, and planning and organization in the case of the post of a librarian are related to conscientiousness and organizational citizenship behaviour (Hunter et al. 2000). Intelligence and conscientiousness are innate abilities which are not amenable to significant change through training. It is often argued that competencies should only reflect those knowledge, skills and attitudes that can be learned through training and that competency model should only be used for development purposes, not appraisal purposes (Cooper 2000; Parry 1996). On the other side, competencies need to be integrated into the performance management system in order to be taken seriously by staff and management (Lucia and Lepsinger 1999; Kochanski 1997).

Human Capital/Human Resources in of Logistics Industry/Supply Chain Management

Hunt (2000) argued that the skills and knowledge of individual employees can be leveraged to increase the ability to efficiently and effectively produce market offerings and enhance firm performance. The people dimension is especially pertinent for the supply chain to achieve most of its objectives (van Hoek, Chatham, and Wilding 2002).

According to a study done by Wu and Chou (2007), intangible assets are the tools that enable the supply chain leader to harness and leverage the tangible resources of business. Their findings of the study show that human capital (HC), structure capital (SC) and customer capital (CC) have a positive association with intellectual capital (IC) performance in logistics business performance. Subsequently, this creates powerful synergies from human capital that contribute towards productivity improvements, greater efficiencies, business advantage, increased market share, profits and business excellence. Wu and Chou (2007) further claimed that the key to successful logistics lies in sufficient employee knowledge of every part of the procedure and the ability to monitor the whole process and thereby ensure the service meets or exceeds customer expectations.

The Concept of a Third Party Logistics (3PL)

Terms such as third-party logistics, logistics outsourcing, and contract logistics have been introduced in recent years, but the use of these terms is not consistent (Berglund 2000). Since there is no consensus on the definition of third party logistics, the concept of a third-party logistics firms is somewhat blurred. According to Lieb (1992) and Lieb, Millen, and Wassenhove (1993), a 3PL firm is external company to perform logistics function that have been traditionally been performed within an organization. In contrast, Virum (1993) defines a 3PL firm as a middleman in the logistics channel that has specialize in providing by contract for a given time period all or a considerable number of logistics activities for other firms. A recent definition of a 3PL firm by Evangelista and Sweeney (2006) defines a 3PL firm as a logistics service provider carrying out service offerings on behalf of a shipper where the service offerings consist of at least transportation.

These definitions tend to emphasize the fact that a 3PL firm is an external company carrying out logistics activities as service offering on behalf of the shipper. However, these definitions underestimate the problem-solving ability and customer adaptation of 3PL firms (Hertz and Alfredsson 2003). In fact, 3PL firms do not merely replace shippers to provide logistics solutions that are traditionally done in-house.
They are customer oriented and are supposed to be innovative. They need to adapt and generate innovative solutions in the case of changes in client's business.

In addition, these definitions do not consider the fact that 3PL firms can play different roles in supply chains. Certain elements of the client's strategy shape the outsourcing decision and requirements, which in turn influence the role of 3PL firms within the supply chain (Bolumole 2003). 3PL firms can provide value-added and virtual logistics in an integrated way, acting as a supply chain coordinators or logistics process integrators (Bolumole 2001). As tools used by their clients (Fabbe-Costes, Jahre, and Roussat 2009), 3PL firms can also contribute to supply chain integration and performance. In addition, 3PL firms can have a critical major vendors and customers, thereby facilitating supply chain integration (Lieb and Bentz 2004). Finally, through the adoption of relational exchange, 3PL firm-client relationship can improve supply chain effectiveness and performance by promoting a positive climate for learning and innovation (Panayides and So 2005).

Third-party logistics (TPL) providers can be seen as supportive supply chain members (Bask 2001, 472). The outsourcing of logistics functions to partners, known as third party logistics providers, has increasingly become a powerful alternative to the traditional, vertically-integrated firm (Rabinovich et al. 1999, 353). Previous studies highlighted by Sum, Teo and Ng (2001) indicated that options to outsourcing derived from companies' perceptions that there exist gaps between what they want to accomplish with their logistics operations and what they can achieve with their in-house expertise. Sum, Teo and Ng (2001) further highlighted other reasons for outsourcing the logistics functions and highlighted factors identified by previous research such as globalization of business, implementation of just-in-time (JIT) principles, leveraging in technology and versatility of logistics providers, market expansion and operational concerns such as cost efficiency and flexibility. Bhatnagar, Sohal and Millen (1999) in their research, also suggested that the use of 3PL allows companies to concentrate more closely on their core business. Further, Razzaque and Sheng (1998) have made an effort to develop a comprehensive literature review of the types, drivers and benefits of outsourcing practised by companies.

According to Skjott-Larsen (2000) as well as Halldorsson and Skjott-Larsen (2004), 3PL has many definitions and interpretations. K nemeyer and Murphy (2005) claimed that some definitions/interpretations of 3PL appear to be broad, or inclusive, in nature while other definitions/interpretations have a narrower, more exclusive focus. In a broader and more inclusive sense, McGinnis, Kochunny and Ackerman (1995) indicated that 3PL involves offering one or more logistics activities that could be provided by either a buyer or a seller. Sink and Langley (1997, 170) share a similar view by describing 3PL as a situation where a company utilizes the services of an external supplier to perform some or all of firm's logistics functions. Those similar definitions or interpretations of 3PL provide support for viewing any logistics activity that is not performed in-house as being representative of 3PL. However, Knemeyer and Murphy (2005) argued that broader definitions/interpretations appear not to make any distinction between short-term and long term considerations or between transactional and relational exchanges.

Similarly, Selviaridis and Spring (2007) asserted that various terms used by researchers in this field such as logistics outsourcing, logistics alliances, third party logistics, contract logistics and contract distribution have been used interchangeably to describe the organisational practice of contracting out part of, or all, the logistics activities.

From a narrower and more exclusive focus, Bagchi and Virum (1996, 193) suggested that 3PL is characterized by a long-term formal or informal relationship between a shipper and a logistics provider.
to render all or considerable number of logistics activities for the shipper. The shipper and the logistics provider see themselves as long-term partners in these arrangements. Murphy and Poist (1998, 26) also shared the same view by indicating that 3PL involves a relationship between a shipper and a third party which, when compared with basic services, has more customized offerings, a broader number of service functions and is characterized by a long-term, more mutually beneficial relationship. The term ‘relationship’ in the narrow and exclusive focus was argued by Knemeyer and Murphy (2005) to indicate a long-term perspective, and emphasized that multiple activities (functions) were provided. Skjott-Larsen (2000) also asserted that the narrower definitions/interpretations of 3PL can be strategic, and not just tactical, in nature.

**Research Conducted Related to 3PL**

Sohail and Sohal (2003) identified a series of studies about outsourcing logistics activities. Extensive studies related to the use of 3PL service providers in performing companies’ logistics roles in particular have shown an increasing interest and use of such sources in recent years. Among them are studies that look into the use of 3PL services by Australian firms between 1995-1999 (Sohal, Millen, and Moss 2002), studies on 3PL services use in various countries such as China (Hong, Chin, and Liu 2007), Mexico (Arroyo, Gaytan, and Boer 2006), Saudi Arabia (Sohail and Al-Abdali 2005), Turkey (Aktas and Ulengin 2005), Hong Kong (Gunasekaran and Ngai 2003), Singapore (Bhatnagar, Sohal, and Millen 1999) and India (Sahay and Ramneesh 2000). The increasing number of research studies being done pertaining to the use of 3PL services indicates the shift of interest in outsourcing the logistics roles to the 3PL companies and consequently the importance of 3PL companies providing good service.

However, not all 3PL agreements are successful. Halldorsson and Larsen (2004) insisted that it is important to investigate failures to determine why 3PL agreements may fail. One area that is suggested as clearly needing additional research is that the trigger for failure might be a mismatch between the 3PL provider’s promises and its actual capabilities and performance. Sohail and Sohal’s (2003) studied in the use of 3PL services from a Malaysian perspective has provided insight indicating the need to educate 3PL service providers about the client firm’s requirements. The study also suggests the need to educate the 3PL service provider in Malaysia about the service users’ requirements by sales calls to the clients and other logistics professionals.

In achieving global supply-chain competitiveness, trust and learning are being identified as two most critical competitive elements in a range of global industries in Asia (Chatterjee 2009). Initially, these two elements can be applied to the relationship between the client and the 3PL companies in IM to create a win-win situation. Trust and learning indicate soft issues within the relationship that can be incorporated for further research.

**Acknowledgement**

The author would like to thank to every person and parties that directly and indirectly involved and contributed in the success of this study.
References


