Chapter 11

Governance of Investments in Logistics

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ABSTRACT

This chapter presents research into the current state of investments in logistics. The research is based on a survey among 42 organizations on the topic of their governance of logistics investments, results of which reveal important information needed to assess the actual current state of investments in logistics and serve as a starting point to develop further insights into the field. In connection with the survey results, the situation in terms of investments in logistics is discussed. The main finding is that in this area, no useful framework, standard or tool to manage these investments is being used. Furthermore, it has become evident that we are faced with a lack of knowledge and awareness of their importance. The survey results also show that, in the terms of investments in logistics, there is much room for further development, innovation and change of existing practices.

INTRODUCTION

In the business environment, it can be presumed that by selecting the right investments and by effectively managing them, organizations can contribute to achieving their desired and expected business benefits. Investment management involves the whole investment life cycle, from the conceptual stage of an investment through its implementation, and eventually includes also an evaluation of consequent business benefits that are relative to the values expected from the investment. Moreover, investment management cannot operate without effective control. To prevent investments having no benefits or even having negative effects, both effective management and control need to be thoughtfully implemented and adequately used.

Governance of Investments in Logistics

In most cases, the common denominator of business investments is that a great or even major part of a business investment is an investment in logistics, because in most cases, logistics processes can be seen as critical components of any business. Therefore, the importance of concretized business benefits derived from investments in an organization can be seen as crucial. What’s even more important is the management of investments throughout its life cycle within the investment management in an organization - so investments in logistics should not be regarded as a single whole, but only as investments that are integrated into a network of other business investments. Any investment in logistics must have a clear business benefit, should contribute to business objectives and must be assessed through the prism of contributing to the overall business objectives. Val IT (IT Governance Institute, 2006) was our basics for research, because according to the paper by Jereb, Cvahteh and Rosi (2012a), IT and logistics are similar in their position and relation to other processes in an organisation and especially in reference to the perception by the management. Its eligibility must be assessed through an expected correlation between inputs and utility of the investment.

The main purpose of this chapter is to present a research into the state of investments in logistics based on a critical analysis of survey data. Also some proposals for potential improvements and upgrades of the current state of logistics investment management will be presented. To our best knowledge, there is no equivalent research from this specific area currently available either in professional or in scientific literature, since the field of logistics investment management is not yet recognized as an important part of business operations. In conclusion, this chapter strives to prove that it is possible and even necessary to raise investments in logistics to a higher level of management and to raise awareness on the importance of such practices among researchers and professionals alike.

The chapter is organized as follows. After the introduction, a short review of literature is given, highlighting the main theoretical background points for the research. Next, the methodological section describes the survey, its implementation and basic sample information. The results show highlights from the survey results concerning managing logistics investments in 42 surveyed organizations. Finally, the discussion points to the practical implications of the chapter and possibilities for further research.

THEORETICAL BACKGROUND

The field of logistics is not new, but it has been increasingly talked about and researched in the past decades. Today, logistics is most often regarded as a function that “entails the process of planning and controlling the flow and storage of goods and services from the point of origin to the customer, conforming to customer requirements” (Lummus, Krumwiede & Vokurka, 2001). As such, it is an “organizational function that can conserve and improve the flexibility and reactivity of the firm to its environment” (Fabbe-Costes & Colin, 2007).

One of the main predispositions for efficient logistics are different technologies, which can only be implemented through thought out investments. As Vasiliauskas and Jakubauskas (2007) note, investments into logistics assets of an organization usually require large and lump sum costs, which means greater financial risks. As Hammant (1995) claimed, the logistics field is faced with a pressure to invest in technology, and “while there are business benefits for successful investment, the penalties of under investment or of poorly-thought-through investment decisions are also high”. The importance of successful management of logistics investments was therefore crucial even two decades ago, and for any organization in the contemporary business environment, this is even more true. Therefore, it can be noted that
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