Chapter 20

Risk Management: A New Way to Improve Logistics Outsourcing

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ABSTRACT

In recent years, logistics outsourcing has shown a strong development. However, despite the benefits associated with logistics outsourcing, there are many relationships that do not last as long as they were initially planned. In this chapter the authors tried to sketch a conceptual model of Risk Management applied to logistics outsourcing and supported by a case study within aerospace industry. Their results show that Risk Management could be an innovative tool favoring the success of logistics outsourcing by securing future performance and relationships between supply chain partners.

INTRODUCTION

Companies, whether industrial or commercial, have proceeded for about twenty years in the outsourcing of operations. In the 80’s, the outsourcing of activities like data processing, telecommunications or logistics, considered as an integral part of the company, was perceived as a solution of last recourse for firms in bad financial health (Barthélemy 2004). Nowadays, many functions are totally or partially outsourced by firms (Chanson, 2003). Logistics follows this trend. Thus, according to the barometer of Ernst & Young Outsourcing (2008), 36% of European companies have outsourced at least whole or part of their “distribution, logistics and transport” function.

Indeed, brought by the constraints of flexibility, competitiveness and cost control, more and more companies are using the services of logistics providers. According to Byrne (2004), 78% of

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North American shippers, and 79% of European shippers, resort to logistics service providers. Thus, since the second half of the 1990s, logistics outsourcing has become a major strategic issue, making logistics service providers (LSP) as critical and indispensable partners for industry and trade (Paché and Sauvage, 2004). The LSP is no longer limited to merely providing transport services, but offer complete packages of logistics services with a higher value added. Alongside this trend, the relationship between shippers and service providers has also evolved. There is a change in the nature of the relationship among shippers and suppliers to an extent that logistics partnerships have replaced the simple sub-contracting practices (Murphy and Poist, 1996). This change can be explained on the one hand, by the potential benefits associated partnership, and also by the emergence of new logistics’ strategies in line with supply chain management (Brulhart, 2002).

However, Lieb (2000) notes that despite of the benefits of logistics outsourcing, many relationships are not renewed at the end of their contract or do not last as long as they were initially expected.

Thus, our thinking lies at the heart of this fact. This paper aims to draft the stake in managing risk in a logistics’ outsourcing process. Our approach constitutes an innovative and successful way of managing the supply chain. We try to propose a new Risk Management (RM) framework for managing relationships between shipper and LSP. Our paper will show how RM would allow better integration of the LSP driving to success.

The chapter is organized as following. Section 1 presents a literature review, definitions and key concepts used throughout the chapter. Section 2 presents the preliminary results of an empirical study that we conducted on a firm operating in the aerospace industry. These results allow developing an exploratory model. Supply chain innovation implications deriving from the model are then discussed. Finally, the concluding section presents some concluding remarks, research limitations and future research avenues.

DEFINITIONS AND LITERATURE REVIEW

Logistics Outsourcing

On a theoretical level, the concept of outsourcing has been the subject of many research and definitions. Today, the proliferation of research work on outsourcing has led to some stabilization of the concept. Barthélemy and Donada (2007) clearly identify three essential characteristics of outsourcing: 1) the activity is firstly provided by the customer, 2) the outsourced activity is frequently accompanied by a transfer of assets, 3) the relationship between the outsourcer and the provider is a relationship of long or medium term.

Transaction cost theory (TCT) is the main theoretical approach mobilized to analyze outsourcing. Inspired by the famous works of Coase (1937) and primarily developed by Williamson (1975), the TCT is considered by many authors as a “dominant” paradigm in organizations study. This theory gives support to outsourcing process through contractual cost minimization. TCT focuses on three key-factors affecting transaction costs in outsourcing: asset specificity, uncertainty and frequency of transactions (Chanson 2003).

The emergence of logistics’ providers is historically linked to the need of some industrial firms to disengage from marginal activities to focus on the considered necessities (Paché, Sauvage, 2004). Precisely, logistics’ service providers have appeared in 1970 in the United Kingdoms (Brulhart, 2002). During this period, the industrial and commercial companies have begun to outsource transportation (Brulhart 2002). Then in the 1980s, providers have benefited from the deregulation of transport service entrusted with the storage and other more complex operations such as picking or supply just in time (Sheffi, 1990). Finally, from the 1990s, complete supply chain functionalities have been outsourced.

Today, the popularity of managerial practice for the logistics outsourcing phenomenon continues to grow. Thus, according to Byrne (2004), 78% of
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