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A Model of Logistics Outsourcing Strategy

Abstract

Previous research points to an apparent gap between the prescriptive models designed to guide companies in making systematic outsourcing decisions and the practices some companies actually use. While prescriptive models would suggest the predominance of outsourcing decisions are made using top-down, proactive, systematic- and strategic-competence-driven processes, prior researchers observed that actual decisions are often made using local, reactive, ad-hoc, and seemingly limited-strategy-driven processes. This article addresses this inconsistency by presenting a data-driven descriptive model of logistics outsourcing strategy, based on grounded theory research methods, that explores the experiences of logistics professionals. Our findings support the idea that while prescriptive models providing cognitive approaches to logistics outsourcing exist in the literature, in practice both cognitive and experiential search and evaluation are used to make outsourcing decisions. Additionally, we extend the work of de Boer, Gaytan, and Arroyo (2006) by adding personal factors, such as experience and self-interest, and cultural factors, such as organizational values and norms, as inputs to the process.

The reality of competing in a global supply chain environment has caused many organizations to focus on strategic renewal and creative solutions to manage and mitigate the risks of operating in today's dynamic marketplace. One particular strategy that has become increasingly popular is the use of third-party logistics (3PL) support for global supply chain execution. Recent estimates suggest that global 3PL services is a \$390-billion industry, with double-digit annual growth expected, particularly as firms continue to engage in global expansion (Quinn 2007). This suggests that, more than ever, understanding of the logistics outsourcing process is important to fully capturing the role and value of logistics in corporate strategy and competition.

There is a significant body of research that investigates facets of the logistics outsourcing phenomenon. The majority of research in this area is concerned with such topics as environmental conditions that drive companies to outsource, activities typically outsourced, selection criteria of providers, benefits and pitfalls associated with outsourcing, and the factors that lead to outsourcing success (de Boer, Gaytan, and Arroyo 2006; Knemeyer, Corsi, and Murphy 2003; Menon, McGinnis, and Ackerman 1998; Murphy and Poist 2000; Skjoett-Larsen 2000). Though this body of work has contributed to an understanding of why and how firms purchase 3PL services, it has been very tactical in nature. Little, if any, attention has been given to the understanding of how companies formulate, execute, evaluate, and determine future directions of logistics outsourcing as a company strategy. Hence, while the extant literature speaks to the *logistics outsourcing process*, it does not address the broader, underlying *logistics outsourcing strategy development process*.

Existing research on logistics outsourcing processes primarily includes prescriptive

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models (Bagchi and Virum 1998; Sink and Langley 1997) and descriptive models based on empirical studies (Andersson and Norrman 2002; de Boer, Gaytan, and Arroyo 2006; Marshall et al. 1999; Rabinovich et al. 1999). In discussing these research paradigms, de Boer, Gaytan, and Arroyo (2006, 450) suggest that descriptive work primarily involves observing "local, re-active, ad-hoc, [with] seemingly limited relevance of strategy and core competence" outsourcing processes, while prescriptive models suggest outsourcing processes that are "top down, pro-active, systematic, strategy- and core-competence driven." This interesting discrepancy underscores this manuscript. While it is generally prescribed that logistics outsourcing be based on corporate strategy, the reality is that such is, perhaps, not the case. Consequently, a deeper exploration of the role of outsourcing strategy development is warranted, as such an investigation may provide insights into why current tactical processes are, seemingly, not strategy-driven, and why current outsourcing strategy development processes are, perhaps, not robust and efficacious.

The purpose of this article is to address this gap in the outsourcing literature by presenting a data-driven descriptive model of the logistics outsourcing strategy development process. In particular, grounded theory research is utilized to explore the behavior of logistics professionals in formulating and executing logistics outsourcing strategies. While this article is conceptual in nature, it is based on empirical material collected during field research. Mentzer and Kahn (1995) suggest that a combination of literature and qualitative research is appropriate for developing a well grounded theoretical framework. To that end, this research combines both field research and findings from appropriate literature to investigate how firms approach logistics outsourcing as a company strategy.

This research contributes to the literature in three ways. First, our findings support and extend the idea that while prescriptive models providing cognitive approaches to logistics outsourcing exist in the literature, in practice both cognitive and experiential search and evaluation are used to make outsourcing decisions (de Boer, Gaytan, and Arroyo 2006). Furthermore, we find that two additional inputs to

the process—personal factors, such as experience and self-interest, and cultural factors, such as organizational values and norms—are employed, particularly when considering outsourcing from a corporate strategy perspective. Second, we present a model of logistics outsourcing describing the manner in which firms may make decisions concerning logistics outsourcing as a business strategy. Our findings suggest that the logistics outsourcing strategy development process in some companies follows a less structured format than suggested in prescriptive models. In practice, as firms make the transition from in-house performance to outsourcing of logistics functions, the evaluations they make concerning outsourcing as a strategy can be incremental, unsystematic, and influenced by factors beyond cost or service gains. These findings may help fill in some of the gaps between theory and practice, point to areas of process improvement for buying companies, and offer ways for selling companies to take advantage of opportunities to gain new or increase existing business. Lastly, the use of grounded theory methodology with data obtained in field settings represents an application of a research approach little used in the logistics field, but one that potentially can offer insights that traditional quantitative methods may miss.

In addressing these issues, the manuscript will proceed as follows: First, an overview of relevant literature will be presented, with emphasis on highlighting the aforementioned gap in research that addresses logistics outsourcing strategy development. Second, the grounded theory methodology is presented, including a discussion on the applicability of this method for this investigation, and the steps taken to ensure research trustworthiness and validity. The findings of the research are presented next, providing an in-depth discussion of the process model that emerged during this research. Lastly, research implications and presented.

RELEVANT LITERATURE

Outsourcing is a subject of research in many areas, including transaction cost economics, strategic management, information systems, human resource management, and logistics (de Boer, Gaytan, and Arroyo 2006). According to the logistics literature, there are myriad reasons

why firms choose to perform their own logistics activities in-house, or choose to outsource those functions. The two most frequently cited reasons for outsourcing logistics activities are cost reduction and service improvement expectations from outsourcing (Boyson et al. 1999; Lieb and Bentz 2005; Maltz 1994; Maltz and Ellram 1997; Rao and Young 1994; Sink and Langley 1997). In addition to cost and service, a number of other factors are cited as reasons why firms consider logistics outsourcing. These factors include opportunities to focus on core competencies (Leahy, Murphy, and Poist 1995; Razzaque and Sheng 1998; Rao and Young 1994; van Damme and van Amstel 1996), improve productivity (Leahy, Murphy, and Poist 1995), upgrade information technology (IT) capabilities (Leahy, Murphy, and Poist 1995; Sink and Langley 1997), leverage supply chain management (Lieb and Randall 1996; Rao and Young 1994), react to changes in the regulatory environment (Sink and Langley 1997), a need for expertise (Razzaque and Sheng 1998; Sink and Langley 1997; van Damme and van Amstel 1996), globalization of business (Razzaque and Sheng 1998), complexities of operating in a just-in-time (JIT) environment (Razzaque and Sheng 1998), rapid growth (van Damme and van Amstel 1996), and limited resources to apply to logistics activities (van Damme and van Amstel 1996). The extensiveness of these factors indicates that there are multiple ways in which firms consider third-party logistics providers capable of assisting them in dealing with their business problems.

The literature also discusses specific types of events that can "trigger" a company to become interested in outsourcing logistics functions. Such events as (1) corporate restructuring, (2) changes in logistics management, (3) changes in executive management, (4) corporate cost/headcount programs, (5) market and product line expansions, (6) increasing customer demands, (7) mergers and acquisitions, (8) new markets, (9) customer use of Just-In-Time or Quick Response (QR), (10) labor costs/problems, (11) instituting a quality improvement program, and (12) CEO directives to investigate the feasibility of outsourcing are noted as reasons why companies start to consider outsourcing as an option (La Londe and

Maltz 1992; Sink, Langley, and Gibson 1996). It should be noted that most of these trigger events concern changes to the external and internal environment of companies. The literature thus suggests that outsourcing is a common coping mechanism companies use to deal with change.

On the other hand, there are numerous factors influencing firms to perform logistics activities in-house. Venkatesan (1992) noted several conflicting priorities regarding how managers justified in-sourcing. Filling idle capacity on equipment, preserving jobs, maintaining cordial relations with a union, and more responsibility, more authority, and bigger salaries were cited as reasons why managers are reluctant to outsource. Concern that common carriers may not service customers as well as private carriage is another reason why companies choose not to outsource transportation activities. For example, Maltz's (1994) survey of the transportation choice literature found service quality to be a main reason for using private carriage.

Other reasons cited for performing logistics activities in-house include (1) cost reductions over currently available service, (2) special handling and shipping requirements not offered by logistics providers, (3) special transportation routing needs, (4) need for tight control over interplant work-in-process goods movement, (5) loss and damage reduction or prevention, (6) need for special product control during movement, (7) availability of emergency transportation needs, (8) assurance of equipment availability, and (9) corporate advertising on company-owned vehicles (Tyworth, Cavinato, and Langley 1991). Lieb and Randall (1996) suggest that the most serious concerns to shippers in the use of third-party logistics providers include the potential for loss of direct control over logistics activities, uncertainties about the service level to be provided, and questions concerning the true cost of outsourcing. Thus, there appears to be nearly as many reasons cited for continuing to perform or bringing back the performance of logistics activities in-house as there are to outsource them.

While a good deal of research has been conducted on the strategic rationale for logistics outsourcing, the number of articles focusing on outsourcing processes is relatively small

(Marshall et al. 2004). The set of articles devoted to outsourcing processes may be divided into two basic types: those that take a prescriptive model approach to provide firms with a well defined process, and those that describe models of processes that are observed in field research (de Boer, Gaytan, and Arroyo 2006).

The prescriptive model approach focuses on steps a company should take in selecting and evaluating carriers or other third-party logistics providers (e.g., Andersson and Norrman 2002; Bagchi and Virum 1998; Menon et al. 1998; Skjott-Larsen 1995; Sink and Langley 1997). Two models serving as exemplars of prescriptive model types are those provided by Sink and Langley (1997) and Bagchi and Virum (1998).

Sink and Langley identify a five-step process for buying third-party logistics services: (1) identify need to outsource logistics beginning with recognition of outsourcing as an option, (2) develop feasible alternatives (make/buy analysis), (3) evaluate and select supplier, (4) implement service, and (5) ongoing service assessment leading to an enhanced relationship with, or replacement of, a supplier. This model provides feedback loops between steps to allow 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, intended to provide a "managerial framework for the acquisition of third-party logistics services" (1998, 164).

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 involves setting objectives for outsourcing and establishing supplier selection criteria. Alliance formation encompasses identifying qualified vendors, determining needs, request for bids, bid evaluation, supplier selection, and implementation of relationship. Relationship management includes performance measurement of suppliers, with the possibility of revisiting goals and provider capabilities resulting in a return to earlier phases. While the 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" (1998, 206). Thus, the Sink and Langley (1997) and Bagchi and Virum (1998) models provide guidance for companies interested in outsourcing logistics functions, and both assume a logical and orderly approach will be taken by such companies.

Another approach to researching this area uses empirical accounts to describe outsourcing processes observed in the field. For example, the model developed by Rabinovich et al. (1999) 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. Based on nine case studies, Marshall et al. (2004) describe outsourcing as a process that involves four stages. The first stage, decision, includes initial idea generation and establishment of motives for outsourcing. The second stage, evaluation, involves appraisal of internal and external options, and may terminate the process if internal options are deemed superior to external ones. 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, involves evaluation of the relationship, which can end in termination, re-tendering, or renewal of the contract. Feedback loops are provided between stages, demonstrating that the process they observed is highly dynamic and non-linear. Interestingly, the authors concluded 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.

The research of de Boer, Gaytan, and Arroyo (2006) is also based on case studies and sought to describe actual logistics outsourcing decision-making processes. Their model is based on what they describe as a satisficing process, constrained by the limits of bounded rationality, ending as soon as a satisfactory solution is found. They maintain that firms are unlikely to identify and evaluate all potential activities to be outsourced due to excessive cost, that when candidates for outsourcing have been identified there may not be a large number of

capable providers to evaluate and choose from, and that when search and evaluation does take place both cognitive and experiential methods are used. The authors conclude that based on their observations the few prescriptive and practical models of logistics outsourcing could benefit from incorporation of behavioral decision-making theory in order to make them more realistic tools in an "inherently arbitrary process" (2006, 453).

This literature review demonstrates that, as de Boer, Gaytan, and Arroyo (2006) point out, 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. In fact, Andersson and Norrman (2002) note that the same basic phases are identified in the logistics outsourcing literature as are outlined in typical processes available in the purchasing literature. These phases include defining and specifying requirements, selecting suppliers, establishing contracts, ordering services, and evaluating suppliers. Hence, the emphases of current outsourcing models involve the issues associated with selecting 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. Prescriptive models mention the strategy underpinnings of outsourcing decisions, yet current descriptive models focus primarily on the 3PL selection aspect of outsourcing. Further work is necessary to descriptively understand the means by which firms consider outsourcing as an aspect of corporate strategy. Investigation in this area may inform the current state of outsourcing, by describing the broader, underlying strategy development processes used by firms when outsourcing. This research specifically addresses this issue. A descriptive outsourcing strategy process model is developed, based on seven firms that have been involved in outsourcing some or all of their logistics functions. The methodology used in this investigation is discussed next.

METHODOLOGY

Research objectives and associated questions should drive selection of research methodologies (Patton 2002; Strauss and Corbin 1998). While the preponderant methods for researching logistics outsourcing have been quantitatively based, as Morgan and Smircich (1980, p. 498) point out, "different approaches and methods are required for studying ... phenomena" in order not to limit what can be learned. We chose to use a specific form of qualitative research, grounded theory, for two main reasons. First, grounded theory is a qualitative approach to research designed to investigate phenomena about which little theoretical knowledge has been developed (Suddaby 2006). Such an approach is appropriate to researching logistics outsourcing due to the lack of specific theory concerning the processes companies use to evaluate logistics outsourcing as a strategy. In grounded theory research, theory emerges from analysis of data obtained in the field rather than from *a priori* assumptions developed before the research begins. Relying heavily (although not exclusively) on in-depth interviews, observation, and document analyses, grounded theory researchers aim to develop theories that enable explanation of behavior and are applicable to practitioners (Mello and Flint 2009).

The second reason why grounded theory was selected is that this methodology lends itself well to investigating processes. Processes and the conditions influencing them are of particular interest to grounded theory researchers. Sequences of action and interaction, and how they change over time in response to evolving conditions, are investigated in order to discover patterns of individual or organizational behavior (Strauss and Corbin 1998). Grounded theory researchers often look for strategies that individuals or companies use to solve problems underlying patterns of behavior. These strategies are used to help explain why and in what order certain actions are taken. Process is usually described as stages or phases of interrelated activities, and is discussed within the context of the specific conditions surrounding the participants and their activities.

Initially we used purposive sampling to sample three firms appearing to approach outsourcing decisions differently, leading to the

selection of one firm that primarily outsources logistics activities, another that combines outsourcing with in-house management of logistics functions, and a third that performs most of its own logistics functions. The initial three companies participating in this research were thus chosen based on only one criterion: extent of logistics outsourcing. The reason for initially taking this approach was to maximize the differences between firms in order to capture as wide a range of company characteristics as possible. This allowed the outsourcing process to be compared across companies potentially differing in factors specific to the degree of outsourcing employed by the companies.

Table 1 summarizes company "names," attributes, and the type of services outsourced, or under consideration for outsourcing, for the firms used in this study. Extensive interviewing was conducted within the three initial firms (HBP, LGP, and AFS) to obtain an in-depth understanding of how the companies approach logistics outsourcing. Following theoretical sampling procedures, the sample expanded to seven firms to compare categories and properties to companies of different types, sizes, and business conditions in order to compare inter-company similarities and differences (Eisenhardt 1989). In order to balance the initial weighting toward privately held companies, each of the additional four companies selected was publicly held. Additionally, companies that varied across the "perform in-house" to fully outsourced logistics functions were sought.

Individual participant sampling within these companies began with outsourcing decision makers, and then expanded, following theoretical sampling guidelines. Theoretical sampling is a process in which a researcher using grounded theory "jointly collects, codes, and analyzes data and decides what data to collect next and where to find them, in order to develop the theory as it emerges" (Glaser and Strauss 1967, 45). The objective is to sample diverse sets of groups and individuals. Theoretical sampling ends when saturation is achieved; that is, when no new information that will further the research emerges from expanding the sample (Goulding 2002). Interviews thus continued until patterns of regularity became evident and theoretical saturation was reached (Eisenhardt

1989; Garver and Mentzer 2000). A total of thirty-one individuals were interviewed. This sample exceeds the guideline of eight interviews necessary to answer many research questions, as recommended by McCracken (1988) and followed in several logistics research studies (Garver and Mentzer 2000; Golicic and Mentzer 2005). Participants representing a wide variety of job types and levels within logistics management positions were selected to obtain a diverse set of experiences and viewpoints (see Table 2).

The primary source of data was in-depth, unstructured interviews lasting from forty-five minutes to two and one-half hours. While the format was flexible, an interview guide containing specific questions, follow-up questions, and a rough outline for the ordered placement of topics was used to maintain focus on the research (Patton 2002). Each interview was audio taped, then professionally transcribed. Additional sources of data included observation of activities within the participating companies such as carrier negotiations and review of company documents pertaining to logistics outsourcing.

Coding of the interviews followed established grounded theory guidelines as laid down by Glaser (1978). Analysis began with "open coding," which breaks the data down into its component parts where similarities and differences between company approaches are compared and grouped together under abstract concepts called "categories" (Glaser 2001). Categories are further broken down into their components, or "properties." As the properties of categories and the categories themselves become saturated, "underlying uniformities" are discovered in the data. Working hypotheses are formulated concerning these uniformities, and these hypotheses are tested as the researcher challenges them through systematically looking for negative or contradictory data (Garver and Mentzer 2000). As these underlying uniformities are revealed, the analyst begins to turn to the second type of coding—selective coding. In selective coding the analyst is looking for the core category or categories that link together all of the other categories and explain the majority of the behavior in the phenomenon.

Table 1. Company Participants

Name	HBP	LGP	AFS	SFM	WFD	HFC	HAC
Industry	CPG	Yard & Garden	Food Distribution	Food Products	Food Distribution	Home Furnishings	Appliances
Sales	\$4B	\$130M	\$600 M	\$2B	\$1.8B	\$200M	\$2B
Ownership	Parent Company	Private	Private	Parent Company	Public	Private	Public
Activities Outsourced	Transport Distribution	Transport Distribution Warehousing	Brokerage	None	Transport Distribution	Transport	Transport Distribution

Table 2. Study Sample

Pseudonym	Industry	Job Title
Abby	Consumer Packaged Goods	Manager, Supplier Relations
Adam	Yard and Garden Products	Company President
Arlene	Yard and Garden Products	Transportation Manager
Beth	Consumer Packaged Goods	Warehouse Analyst
Brian	Yard and Garden Products	V.P. of Operations
Candice	Consumer Packaged Goods	Director of Distribution
Chris	Yard and Garden Products	Director of Logistics
Cliff	Yard and Garden Products	Global Procurement Director
Dan	Yard and Garden Products	Former Dir. Of Distribution
Frank	Yard and Garden Products	Forecasting Coordinator
Grant	Yard and Garden Products	V.P of Sales
Katie	Yard and Garden Products	Freight Auditor
Harold	Yard and Garden Products	Holding Company President
Jerry	Yard and Garden Products	Warehouse Manager
Kerry	Consumer Packaged Goods	Customer Service Manager
Lem	Consumer Packaged Goods	3PL Relationship Manager
Manny	Food Distribution	V.P. of Operations
Mark	Food Distribution	Logistics Manager
Nate	Yard and Garden Products	Shipping Supervisor
Omar	Food Distribution	Former Logistics Manager
Pete	Food Distribution	Purchasing Manager
Randy	Consumer Packaged Goods	Man. International Dist.
Sandy	Consumer Packaged Goods	Man. Distribution Operations
Sam	Distribution 3PL	V.P. Customer Service
Tod	Consumer Packaged Goods	Logistics Analyst
Shanna	Consumer Packaged Goods	Distribution Specialist
Vernon	Consumer Packaged Goods	Logistics Intern
Warren	Food Distribution	Chief Financial Officer
Wilbur	Food Distribution	Transportation Manager
William	Appliances, Furnishings	V.P. of Distribution
Zack	Food Products	Transportation Manager

All approaches to research have established ways of assessing the rigor and trustworthiness of a research effort. Glaser (1978; 1992; 2001) maintains that the criteria for evaluating grounded theory studies are limited to fit, relevance, workability, easy modifiability, and parsimony and scope in explanatory power. Table 3 demonstrates how our research meets these criteria (Flint, Woodruff, and Gardial 2002).

FINDINGS

Analysis of the qualitative data yielded two decision-making categories that are associated with logistics outsourcing strategy development: logistics outsourcing strategy phases and

decision-making inputs (See Table 4 for descriptions). Figure 1 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. This approach was taken in order to establish a framework that may be applied to firms that are evaluating logistics outsourcing as a strategy. This framework serves an important research purpose: to provide a basis for investigating, interpreting, and understanding actions

Table 3. Assessing Grounded Theory Rigor and Trustworthiness**Fit**

The extent to which findings correspond to actual conditions within the substantive area under investigation.

- Verified through input on interpretation of the data and consistency across incidents in the data from independent sources.
- Participants were involved in verifying that what was derived as theory from the data actually fits, in their experience, what is going on in the phenomenon.

Relevance

A grounded theory is relevant to practitioners when it addresses core problems that they deal with on a regular basis. It is relevant to researchers when it offers a new or alternative explanation for behavior that goes beyond that offered in extant literature.

- Participants were invited to comment on how well the research addresses the core issues of the phenomenon, and academic researchers were solicited to assess how relevant the results of this research are to the academic field of logistics.
- Input from these sources was used to judge whether the theory addressed core issues in the phenomenon.

Workability

The theory should be able to explain and interpret what is happening in an area of inquiry.

- The theoretical interpretations were shared with participants in the research to ensure that the researchers faithfully reported the facts as articulated by participants.

Modifiability

Negative cases or incidents that do not fit the emerging theory should be appropriately handled with modification to that theory.

- To demonstrate that this modification occurred, an audit trail was established that shows how and why modifications to the findings were made.

Parsimony

The theory should be limited to the minimum number of categories and properties needed to explain behavior in the phenomenon.

- To achieve parsimony, categories and their properties were limited to those that best help to explain behavior within the phenomenon, with the objective of providing a process model that utilizes the minimum number of properties salient to the phenomenon.

Scope

Scope requires the theory to be flexible enough to clarify a wide variety of situations and to discover multiple aspects of the phenomenon.

- Scope was achieved through theoretical sampling procedures that led the researchers to a wide variety of circumstances in which the phenomenon is played out.
- Long interviews, open in nature, were used to draw out as many facets and nuances of the phenomenon as possible.

by individuals and companies that may not fit into a neatly defined rationale for outsourcing or a logical progression toward its implementation.

There are similarities between this and other models in the logistics literature. However, this model differs from prescriptive buying processes such as Sink and Langley (1997) and

descriptive process models such as Marshall et al. (2004) in its focus on the ongoing evaluation of logistics outsourcing as a *strategy*, as opposed to the evaluation of specific suppliers in a buying process. For example, the Sink and Langley model centers on the selection, implementation, and evaluation of specific suppliers providing logistics services. In contrast,

Table 4. Logistics Outsourcing Strategy Decision-Making Categories and Their Properties

Category One:

Outsourcing Strategy Phases

Properties:

Recognition – when logistics providers are recognized as alternatives to performing logistics activities in-house.

Motivation – when conditions that lead companies to consider the “perform vs. buy” decision are considered.

Outsourcing – the process of outsourcing, which includes trial programs with third parties as well as ongoing arrangements with service providers.

Confidence-building – when the viability of logistics outsourcing as a solution to problems is considered.

Dispositions – development of dispositions, and related actions, toward the future of logistics outsourcing.

Category Two:

Decision-Making Inputs

Properties:

Cognitive – the evaluation of “actions by means of a process of thought and cognitive deliberation, possibly supported by calculations” to make decisions (de Boer, Gaytan, and Arroyo 2006, 451).

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 behavioral norms of an organization that are commonly applied to solving problems (Deshpande and Webster 1989).

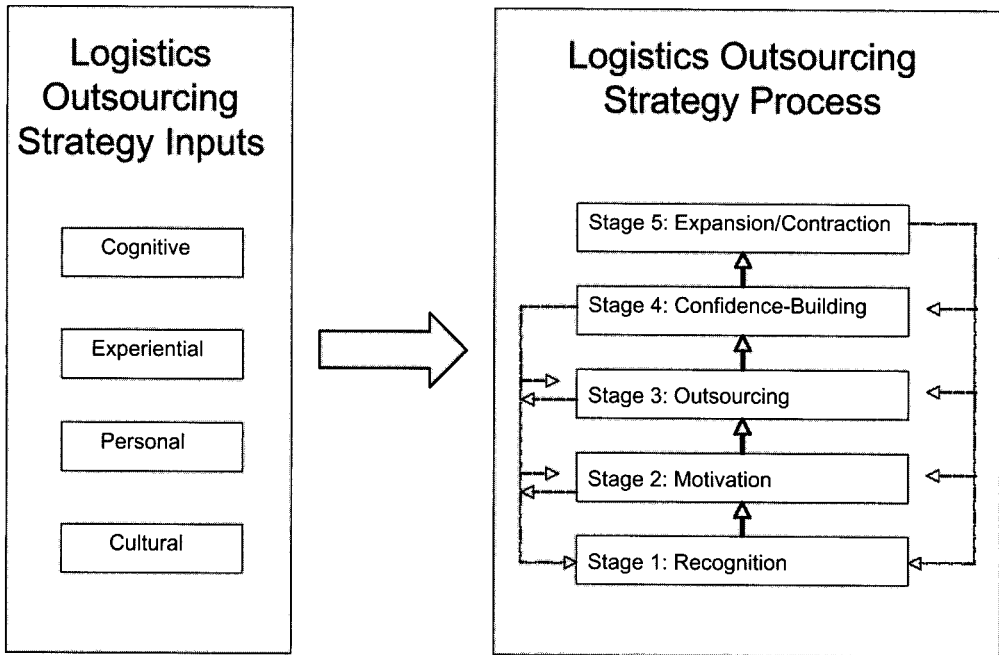
Personal – the determination of actions based on the personal experiences, or self-interest, of individuals.

our model describes how some companies become aware of and approach logistics outsourcing as an overarching strategy for dealing with logistics as a function within the company. Thus, the assessment phase within the Sink and Langley model results in retention or replacement of a supplier, while in our model the result of the disposition phase lies in a continuum from expansion of outsourced functions to abandonment of the outsourcing efforts altogether. Likewise, the model proposed by Marshall et al. (2004) describes outsourcing activities focused on specific vendors. The evaluation, management, and outcome phases outlined in their model focus on dealing with specific providers and contracts as opposed to the evaluation and disposition of logistics outsourcing as a company strategy. In essence, the

existing models provide deep understanding of only one phase of our model—“outsourcing.”

Critical to the process offered by our model is the fourth stage, confidence-building, which does not appear in any previous prescriptive or descriptive models. This phase is an important point of departure from earlier models because it identifies the manner in which some companies may evaluate their outsourcing strategies. Based on the research, some firms appear to base their decision on whether to increase, decrease, or maintain existing levels of logistics outsourcing on confidence in the strategy gained or lost during the outsourcing phase. Additionally, the final phase in our model—dispositions—differs from previous models in that it refers to the disposition of the ongoing logistics outsourcing strategy as opposed to

Figure 1. A Model of the Logistics Outsourcing Strategy Process



the outcome of contracts or relationships with specific suppliers.

Another significant difference of our model are the four types of inputs that are identified as influencing decisions throughout the five phases of the logistics outsourcing process. First of all, we found two additional inputs that are not acknowledged in the extant literature (i.e., de Boer, Gaytan, and Arroyo 2006): personal and cultural. Furthermore, findings suggest that the importance of each input type varied by company. Cognitive input appeared to be most important in larger companies, and those companies owned by a parent company. Experiential input appeared to be more prevalent and influential in smaller, privately owned companies. Cultural and personal inputs were influential in all companies studied, and their relative influence did not appear to be related to any specific company characteristics.

The logistics outsourcing strategy process is described in more detail next.

Recognition

Recognition of third parties as alternatives to in-house performance of logistics services

emerged as a necessary first phase in the process, because without it firms will lack awareness of logistics outsourcing as a business strategy. Participants talked about multiple ways in which they or their company became aware of logistics outsourcing. Participants often talked about their company's recognition of logistics service providers arising from personal sources such as previous dealings with various other types of outsourcing, but cognitive strategies such as intentional search for information also played a part in the recognition phase.

Previous experience in logistics outsourcing was mentioned by several companies as a source of recognition. One participant from a food distribution company that manages all of its own logistics functions discussed the arrival of a new company president with prior relationships with a logistics service provider who allowed that firm to "come in and talk to a few people here and convince them to allow him and his company to manage the in-bound freight" (Mark). A second participant said that his company's logistics manager initially came up with the idea of outsourcing some of the

warehousing activities from a logistics services provider "he had previously worked with at a different facility" (Dan). Another participant, with outsourcing experience at a previous company, talked about starting work at a family-run company that had never considered outsourcing because "they figured what they were doing was the best way" to manage logistics, yet "did not know much about distribution...-didn't know much about the trucking industry" (William). He attributed his experience with outsourcing at another company as the "main driver" behind his recommendation for the company to consider logistics service providers to manage distribution and transportation. These examples illustrate how personal inputs, such as experience with logistics outsourcing, can lead to its recognition as an alternative to in-house performance. They also confirm previous research concerning the impact of managerial change on outsourcing strategies.

Other inputs to the recognition phase discussed by participants were of a cognitive nature, involving assimilation of information from various sources. One source of recognition discussed by participants comes from previous dealings in other types of outsourcing. In this kind of scenario the company has previously applied outsourcing to solve a problem and recognizes its usefulness in addressing a new issue. One participant (Chris) described the difficulties of establishing businesses in foreign countries, and how his company used a third party to manufacture goods in China rather than attempt to run their own facility. The arrangement worked well, and when it came time to set up a distribution center in Canada this experience influenced him to investigate a logistics provider to run the operations. Similarly, participants from a recently acquired company that had always performed its logistics activities in-house talked about the acquiring company's history of outsourcing many activities throughout their extensive network of companies and how management "saw the writing on the wall...[outsourcing] is just the way it's going to be" (Tod). While logistics management wanted to continue performing activities in-house, it had to face the realization that it "could not fight that battle" (Lem) and had to recognize outsourcing as the direction the parent company wanted to go in.

Several participants mentioned "keeping pace" with the rising use of logistics outsourcing and the types of services they offer through reading trade journals. A second source of information discussed was professional meetings such as seminars and shipper associations. One logistics manager said he "never really thought much about using logistics service providers" (Omar) until he talked to an employee of a major trucking company at a supply chain management seminar who informed him of the types of logistics services they offer. The CFO of the same firm said he talked to "two 3PLs at the conference, and they offered insight" (Warren) into how they could service his company. A vice president of operations (Brian) discussed learning about how other companies use service providers at local logistics council meetings. Visits from sales representatives were mentioned as another information source. A logistics manager (Mark) pointed to "sales solicitations" as a source of information regarding the availability of specialized transportation services he was previously unaware of. These examples show various ways in which logistics professionals actively or passively acquire information that makes them aware of the use of logistics providers as a business strategy.

Thus, through both personal and cognitive inputs, awareness of the service offerings and capabilities of logistics providers led participants to recognize outsourcing as an alternative to in-house performance of logistics functions. An important finding emerging from the recognition phase is that some firms begin the process of establishing a logistics outsourcing strategy without an intentional effort to do so. Recognition appears to occur in some companies prior to the company being motivated to outsource, in contrast to other research that discusses the recognition phase as being triggered by problems or change agents (de Boer, Gaytan, and Arroyo 2006; Marshall et al. 2004; Sink and Langley 1997). We found that some firms become aware of logistics outsourcing as an alternative prior to events triggering a motivation to outsource. Ownership by another company with a different outsourcing strategy also emerged as impactful on the recognition phase. Mere recognition, however, is unlikely

to trigger active outsourcing activities. Companies need compelling reasons to move to the outsourcing phase due to the impact such a decision has on operations and the potential disruptions of service to internal and external customers.

Motivation

Motivation is the catalyst that, combined with recognition, appeared to lead participating companies in the direction of outsourcing. The majority of reasons for outsourcing cited by participants can be categorized as cognitive: Outsourcing is seen as a means through which a business condition or problem can be alleviated in a manner that is more efficient or effective than in-house performance of logistics functions. Cognitive motivation involves careful analysis of alternatives or a well-thought-out corporate policy indicating that outsourcing is the best path for the company (de Boer, Gaytan, and Arroyo 2006). Less frequently talked about, yet having some influence on motivation, were inputs that can be categorized as personal or cultural in nature. Personal motivation involves rationales for outsourcing based on previous experiences with outsourcing that eased the burden of managing an activity or problem. Cultural motivation stems from the norms of a company, and is based on following established organizational behaviors. As described by participants, cognitive, personal, and cultural motivations all can play a part in the decision to outsource logistics activities.

Among cognitive motivations, cost reduction was the most frequently discussed reason for considering outsourcing, and often the determining factor in the decision. Pressure from major retailers to reduce costs emerged as a condition affecting many of the companies involved in the research. Poor financial performance also was a contributing factor at several companies, along with corporate pushes to reduce headcount or operating expenses. One participant described her company as "down for the dollars... if financially it makes sense to outsource it, that'll be the decision" (Abby). A second participant described the move toward outsourcing as "... [a] financial decision; we saved a lot of money" (Lem). Another summed up the influence of cost in this way:

"There were many factors, but it all boiled down to cost..." (Wilbur).

Service improvement was discussed as a motivator as well. Interestingly, several participants said that the issue was not that their company was poor at servicing customers, but rather that demand for product fluctuated and in-house capacity was inadequate to handle peak periods. One transportation manager described the situation this way: "The outsourcing part of it is we only have so much fleet ... and the demand for our product is definitely much higher than we can handle... during the summer season" (Arlene). In these situations the motivation was to use logistics service providers temporarily to supplement rather than supplant in-house logistics functions in order to not "get crunched all the time during the busy season" (Chris). Nearly all of the companies in the research talked about the effects of seasonality and how they reached out to transportation or warehousing providers to add "flexing capability in times of high demand" (Jerry).

Another common factor given as an impetus to outsourcing was careful consideration of whether logistics functions were a core competency of the firm, or if expertise existed in the company to perform particular logistics activities at a high level. One participant explained the thought process her company was employing:

[I]t's really around finding ... an area that you don't wanna be the... best practice company. For example, running a warehouse. You know, it's not our core competency as a business. Our core competency is we make really good soap, so you know, we shouldn't be investing our time, resources and technology in an area that we can buy that expertise from a company that has dedicated their resources completely to. (Mary)

Other participants talked about how their company was looking at outsourcing in order to "focus on our core business" (Sandy) or following a policy that says "if distribution is not your core competency, get out of it" (Lem). Other companies were motivated not by a corporate policy or philosophy, but simply an understanding that they did not have the requisite expertise in a particular area of logistics. One participant talked about needing to use a freight

broker to arrange backhauls for his company's truck because "we did not have that expertise here" (Pete). Another participant (Chris) cited lack of knowledge concerning conducting business in Canada as influencing their decision to seek a logistics provider familiar with doing business in that country.

Analysis of cost, service, core competencies, and lack of expertise are examples of motivation to outsource based on cognitive inputs. Other, more personal motivations emerged from the research as well. These motivations are more qualitative in nature and revolve around "ease of doing business" issues and "headaches going away." For example, when asked why his company decided to use a logistics service provider, one participant explained: "We ... don't want to own a building, we don't want to hire the people, and we *don't have as much of a headache*" (Chris) (emphasis added). Another participant said the reason for interest in 3PLs at one location was: "... simply because we just did not want employees down there. *It's just easier to handle*" (Adam) (emphasis added). Another reason given for using a logistics provider was to be able to "turn product over to a freight forwarder and *from there we wash our hands of it*" (Chris) (emphasis added). The motivation to hand off problems to a third party based on past bad experiences came up often during the research. While this type of motivation is difficult to quantify, it appears to exert an influence in many cases on logistics managers as they consider outsourcing.

Most sources of motivation discussed by participants are not surprising based on the findings of previous research. What were unexpected findings, however, were situations in which more than straightforward comparisons of cost or service numbers were used to drive decision making. While the use of what one participant described as a "structured approach" (Abby) based on quantitative analysis or a well-thought-out corporate policy was exhibited by many participants, the research also revealed motivations of a more personal or normative nature. Motivation centered on ease of doing business or turning problems over to other firms proved decisive to certain participating firms. Such findings run counter to expectations established by previous research that

motivations to outsource revolve around logistics-related performance problems, costs, customer service, or core competency considerations (de Boer, Gaytan, and Arroyo 2006; Marshall et al. 2004; Sink and Langley 1997; Rao and Young 1994). It thus appears that while prescriptive models may provide guidelines for behavior in determining justification for outsourcing, in practice other factors not fitting inside such logical frameworks can also come into play in influencing companies to outsource logistics operations.

Outsourcing

Several firms participating in this research described what appears to be a cognitive approach: establishing a corporate outsourcing policy, then following a well defined set of steps involving identification of activities to be outsourced and selection of providers based on carefully thought-out selection criteria. This approach appeared to be taken by the larger, publicly owned firms in the research. Other companies seemed to take a more experiential approach of "trying out" the concept of outsourcing to see how well it worked before committing to the strategy. This approach appeared to be taken more by the smaller, privately owned companies in the research.

Participants in companies that had an established outsourcing policy described their outsourcing experience as directed by a parent company or "from corporate." One set of participants talked about how after their company was purchased by a much larger firm there was an analysis to determine core competency functions, and how over the years in-house manufacturing, transportation, and distribution were gradually being displaced by third-party providers. The process for distribution centers (DCs), for example, involved the selection of two primary providers and a systematic region-by-region transition to the providers. The providers were chosen based on selection criteria primarily focusing on cost and service components. As soon as one regional DC was transitioned, another was begun, until all seven DCs were completed. A participant from another company talked about how the outsourcing approach came out of their "corporate office...and basically they informed us that they would be outsourcing certain transportation operations to take cost out of the system"

(Wilbur). The approach was to compare costs at the forty locations against third-party costs and replace in-house operations that were more expensive to run than to outsource. During this process the company transitioned thirty-seven locations to a third-party provider.

In a third, privately held company the process was initiated at the CEO, CFO, and vice president of logistics levels, where it was decided that the company could not adequately service its customers with its current operations, and due to time constraints outsourcing was the only alternative. A weighted "matrix of what we were looking for from 3PL providers" (William) was constructed, including cost, service, and capability components, and requests for price were sent to prospective providers. A transportation-based provider was selected and the company's logistics operations were quickly transferred to the third-party in what was described as a "changing of the shirts" (William) during which employees were transferred from one company to another. In all three of these companies, policies regarding outsourcing initiated and drove the process, and quantitative analysis was used to select providers.

In contrast, other participating companies entered into outsourcing without a specific outsourcing policy in place. The behavior of these firms appears to involve opportunities to test the concept of outsourcing rather than implementing a policy or program. One logistics manager described his company's approach as strictly based on cost— if the company could operate a distribution center less expensively than 3PLs it would maintain the status quo; otherwise, the firm would outsource the function to a third party. This method led to a mixture of both in-house managed and outsourced DCs throughout North America. Another logistics manager talked about hiring a freight broker to locate backhauls for his trucks as his company's first use of a third-party provider. Their approach was to "use our own internal person to handle the [local] side... and then have the outsourcing company doing the [other two] locations" (Manny). In this manner the company was able to implement a logistics outsourcing trial without making a full commitment to the strategy.

As a vice president of distribution at one company explained his company's approach, he underscored the importance some companies attribute to proceeding cautiously with outsourcing:

[W]e signed a three month bridging agreement with [a 3PL] to see how they did with the carrier management side of it... our fear was that the marriage of the two companies is very easy, everybody likes that, *but divorce of those companies is a very costly and difficult process because it about brings your distribution operations to its knees*, because you have severed ties with a lot of your carriers and a lot of people that you were doing business with and if you decide that divorce is eminent it leaves you in a very serious situation to get product to your customers. (William) (emphasis added)

Lack of a definitive outsourcing policy, and concerns with the long-term effects of performance failures by third parties, thus appear to influence some firms into taking an experiential approach to logistics outsourcing.

Our findings describe various ways in which our participating companies approached logistics outsourcing. These findings point toward differences in outsourcing behavior appearing to follow two distinct paths. While some companies follow a cognitive approach by establishing an outsourcing policy and proceed to implement it throughout its logistics operations, others take an experiential or "wait-and-see" approach by initiating a trial outsourcing program without committing to additional ones. Cognitive approaches appeared in firms that had an established policy toward outsourcing, while those firms without a clear-cut policy (which were primarily small, private firms) took an experiential approach. These findings indicate that while existing prescriptive models outlining a series of steps toward transitioning logistics functions to service providers may offer useful frameworks for understanding the behavior of larger companies with established outsourcing policies, small companies, that seemingly lean toward taking an experiential approach, may not set about the process in such a linear fashion, preferring instead to "wait-and-see" for results before committing to a full outsourcing program.

Confidence-Building

Once one or more logistics activities or functions are outsourced, participating companies appeared to move into a phase we term *confidence-building*. This phase centers not only on evaluations of how well logistics service providers execute activities, but also on personal feelings toward providers. During this phase the firm can either confirm its strategy of outsourcing through building confidence in the performance of 3PLs, or disconfirm its outsourcing strategy by building confidence that it can perform logistics functions better in-house.

Participants discussed both experiential and personal factors influencing how they viewed their logistics outsourcing experience. Regarding experientially-based confidence-building, performance was the main factor brought up by participants. The logistics supplier relationships manager of one company stated that while he initially resisted outsourcing, he became confident that it is the right strategy based on the performance of his supplier: "I didn't wanna lose my job, but you know [the logistics provider] understands distribution, that's what they do for a living" (Lem). The vice president of distribution for another company talked about needing to get to a "comfort level" with outsourcing based on an outsourcing trial:

[The logistics provider] was chosen as a partner and our arrangement with them was they would first do a carrier management arrangement *and when we felt comfortable* with that one, then they would start looking at running the warehouse for us (William) (emphasis added).

The director of logistics for a third company recalled quickly gaining confidence in outsourcing as the provider "immediately started hitting our required dates with [the main customer]...and other issues started to go away" (Chris). Performance thus emerged as a main factor in confidence-building.

Other, more personally-based factors also contributed to positive feelings toward outsourcing. The customer service manager of one company described the process of converting from in-house run DCs to outsourcing that took his company several years to complete. He saw confidence-building as stemming in part from

interpersonal relationships between his company and the provider, which resulted in a "closeness that's been developed over the years between people" (Kerry). The supplier relationship manager of the same firm described his feelings toward the relationship as "...a partnership where you can solve problems" (Lem). The logistics manager of another firm described his positive experience in terms of ease of doing business: "It's great... I'd cut them a check every month for their services, and *they run everything for me*" (emphasis added) (Chris). These examples illustrate how confidence in outsourcing can develop from other factors beside those based on cost or service criteria.

This phase can also involve loss of confidence in outsourcing. The main issue to participants who lost faith in outsourcing was service, although price was brought up as an issue as well. The supplier relationship manager of one company pointed to service issues sometimes being rooted in the desire for logistics providers to get a company's business without completely understanding what would be required to satisfy the client:

I think the expectation is they know that service is number one...I think that there [are] a lot of assumptions going on, that ... they can make it happen. I think the gap is the 3PL's not having all the information they need to really be able to do a good assessment on whether they can make it happen or not... (Abby)

Logistics providers not being able to "make it happen" was a theme that recurred throughout our research. Issues such as "not getting the goods here" (Chris), not being "focused in on service" (Shanna), and the "fuss and nightmare" (Pete) of missed deliveries led to several participating firms losing faith in outsourcing.

An interesting outcome is that some firms gained confidence that their own performance could surpass that of their logistics supplier. A logistics manager talked about how his firm "figured out how [backhaul arrangement] was done" (Mark) and planned on doing their own brokerage in the future. A traffic manager recalled how he could see that his company was "better off sticking with the private fleet" because of the "dependability element and relationships" (Wilbur) with customers. These

examples suggest that as firms lose confidence in their logistics suppliers, disconfirmation of logistics outsourcing as a *strategy* occurs. Poor performance by a logistics provider can make it difficult for others "to overcome the old stigma of the last third party" (Wilbur), potentially leading to a reassessment of outsourcing.

Our findings thus suggest that during the confidence-building phase the performance of logistics service providers can both instill confidence that an outsourcing strategy makes sense or convince the company that its outsourcing activities are no longer appropriate by outsourcing. This phase differs from the service assessment phase outlined by Sink and Langley (1997), the performance measurement step of Bagchi and Virum (1998), and the evaluation stage established by Marshall et al. (2004), because they focus on assessments of individual suppliers rather than assessment of outsourcing as a strategy. This phase thus differentiates the findings of this research from previous research on the subject and points to the potential importance of confidence-building in establishing outsourcing as an ongoing strategy in certain companies.

Disposition toward Outsourcing

The next stage of logistics outsourcing involves the expansion, maintenance of status quo, or contraction of third-party use. Participants discussed factors that in their view influenced firms in making decisions regarding the future use of outsourcing as a strategy. Cognitive, experiential, personal, and cultural inputs all appeared to play some part in influencing the outcome of these decisions.

Participants in companies favoring expansion of logistics outsourcing discussed the use of three types of inputs in deciding to go forward with increased use of logistics providers: cognitive, experiential, and personal. Cognitive inputs typically were based on corporate policies based on previous performance in the areas of cost and service. For example, a transportation manager discussed the expansion of logistics outsourcing from transportation to warehousing functions in his company as a "logical next step" of policy coming from corporate headquarters: "If you look at it strategically it was probably the right thing to do...they

weren't running a very good operation anyway" (Wilbur). Another firm appeared to follow a more experiential path in this phase, with decisions based on previous outsourcing trials and *ad hoc* opportunities rather than a specific policy. When asked about future directions of outsourcing, one director of logistics stated there was no specific corporate policy but that he was pleased with previous experiences with outsourcing and that as opportunities arise "I'll push for 3PLs if I can get the right costs...[and] as long as the service is right" (Chris). A personal component of his decision process also emerged as a factor. He stated that because 3PLs "run everything for me" he was in favor of outsourcing whenever possible.

At this stage of the outsourcing process a firm may choose to maintain status quo, reduce, or even eliminate the use of 3PLs. The planned contraction of 3PL use was discussed in one of the firms participating in the study, while two other firms planned to maintain status quo with primarily in-house logistics operations. Participants from these firms noted cultural, experiential, and personal factors that influenced their outsourcing direction. Cultural input stemmed from company values such as taking "pride in the way we deliver to our customers" (Mark), considering "our workforce as an asset" (Zack), an historical commitment to personal service since the days when product was delivered to customers with "a buggy and horse" (Zack), a feeling that there is "more to running a business than just hiring an outside company to deliver your product for you" (Manny), and a company philosophy of "keep it all in-house" (Manny). Experiential input was based primarily on service issues such as "not getting the goods here on time" (Mark), not being treated as the "focal point" (Beth) of the supplier's efforts, and the "stigma of the last third party" (Pete) failing to live up to service expectations. One participant also discussed cost as a driver, stating that "when everything is said and done it's always lower, almost every time" (Zack) to perform deliveries with company drivers and trucks.

Unsurprisingly, personal factors revolved around saving one's own job and the jobs of employees. One participant was very forthcoming about his personal interest in maintaining the status quo: "I'll be honest with you, I was

transportation manager and I was very interested in keeping my private fleet intact” (Wilbur). In this case the transportation manager and his team compiled cost and service data so that “when they came to talk to us, we fought back.” Another example involved a transportation department fighting to keep their jobs:

[The VP of Supply Chain] made a hint about outsourcing transportation, so we’re like yeah, okay. He actually went to a third party that’s a buyer transportation company... we took it upon ourselves as a team... to say alright, we’ll prove you wrong, and we did. (Shanna)

Personal security of one’s own job and the jobs of one’s employees can thus provide a strong incentive for managers to want to maintain the status quo.

These findings suggest that the disposition phase of logistics outsourcing can follow one of three strategic paths: expansion, contraction, or maintenance of the status quo of logistics outsourcing. This stage differs from previous outsourcing models that focus the final stages in outsourcing processes on actions with specific suppliers regarding tendering offers (e.g., de Boer, Gaytan, and Arroyo 2006) or enhancing relationships with suppliers or replacing current suppliers with new ones (e.g., Bagchi and Virum 1998; Marshall et al. 2004; Sink and Langley 1997) because it goes beyond specific buying situations to address overall company strategies toward outsourcing. All four types of inputs were identified in this phase during the research, indicating that the disposition phase involves a complex set of factors that can influence a firm’s decision-making process. The findings suggest that while some companies may develop an outsourcing strategy based on calculated gains in such areas as cost and service, other companies proceed with outsourcing without a defined process and with an approach that may be influenced by non-cognitive factors.

DISCUSSION

The model developed in this research represents a general process of logistics outsourcing strategy that the data indicated many of the firms participating in the research followed. This process involves companies moving

through various stages: awareness of and motivation to use logistics outsourcing as a strategy, initial implementations of the strategy, confirmation or disconfirmation of the strategy, and disposition towards its future use. We identify various factors that can come into play that may influence the direction of the process, including cognitive, experiential, cultural, and personal inputs. Our findings thus add to the current literature on logistics outsourcing by providing both a descriptive model of how some companies evaluate and apply logistics outsourcing as a company strategy and a typology of input factors influencing the process that extends previous research beyond cognitive and experiential factors. This model differs from previous models in its focus on logistics outsourcing strategy as opposed to buying or relationship building processes with specific suppliers.

An additional research implication from our findings is that while prescriptive models may offer valuable insight into *how* firms should proceed with logistics outsourcing initiatives, they often fail to predict the *actual* outsourcing behaviors of companies. As identified in our research, the logistics outsourcing process in some companies follows a less structured format than presented in prescriptive models. Our research demonstrates that in practice the transition from in-house performance to outsourcing of logistics functions can be incremental, unsystematic, and influenced by inputs such as cultural and personal factors that go beyond straightforward calculations of costs and benefits. The application of grounded theory methods, which allow the researcher to obtain data in a field setting without *a priori* assumptions, was critical to obtaining an understanding of these behaviors. This research demonstrates the potential value of grounded theory methodology to logistics research.

The research has managerial implications as well. One finding of interest to service providers is that while recognition sometimes came from cognitive sources such as an intentional search for information, more often participants talked about their awareness of 3PLs arising from personal sources, such as previous dealings with various other types of outsourcing. This suggests that logistics providers should strive to maintain contact with managers when

they leave the employment of current customers since these managers tend to draw on previous experience and contacts in the awareness phase of outsourcing. Additionally, not all logistics managers appear to be aware of the option to outsource, or if they are aware of the option they may not be cognizant of potential improvements in cost and service that may result from outsourcing. It should not be assumed that all logistics managers are well versed in the application of outsourcing as a strategy. Identification of such managers for the purpose of directing marketing efforts toward helping them recognize third-party logistics providers as viable alternatives to in-house performance of logistics activities may prove to be worthwhile. Thus, opportunities to seek out logistics managers of firms performing their own logistics functions at venues such as conferences and trade shows may be rewarded by new business.

Another finding having potential managerial implications centers on the incremental approach some companies appear to take in transitioning from in-house performance to outsourcing of logistics functions. This approach appeared to occur with smaller, privately owned firms and may provide a clue for suppliers on how to approach such firms when selling their services. Also, confirmation or disconfirmation of an outsourcing strategy often hinged on the performance of a single provider. It could therefore be advantageous for selling firms to understand this dynamic and be willing to put extra effort in instilling confidence in their current and future performance. Indeed, current providers may be able to take advantage of their position to influence the buying firm into expanding its outsourcing strategy, and directly benefit from such expansion.

Selling firms should also be aware of the cultural and personal inputs into logistics outsourcing decisions. It behooves suppliers to try to understand the culture of potential buying companies in order to determine the source and level of motivation to outsource, the important values and goals of the buying company, and the company's philosophy toward outsourcing as a competitive strategy. Such understanding is likely to help the service provider tailor its marketing efforts to the specific needs and desires of potential customers.

Personal factors should also be recognized as a key to establishing new or maintaining existing business with buying companies. For example, the concept of "ease of doing business" was important to some participants in this research. Identifying such personal factors as a desire to let a service provider handle most of the headaches could be a potentially strong selling point. Likewise, personal factors such as fear of losing power, prestige, or employment can influence managers to attempt to block outsourcing as a strategy. Marketing efforts aimed at senior level management of such firms could help circumvent those managers who consider third-party providers a threat to their livelihood. Buying company senior managers should also look for signs of "turf protection" or bias against outsourcing on the part of logistics managers potentially affected by outsourcing. Such attitudes on the part of employees can derail the application of an outsourcing strategy along any of the stages in the process.

CONCLUSIONS

Logistics outsourcing is a complex process. Companies vary in how they approach the process, and in what factors influence their actions. We have attempted to model one aspect of logistics outsourcing: the process through which some companies appear to evaluate and implement logistics outsourcing as a company strategy. Additionally, we have identified a typology of the primary inputs used for decision making by companies participating in the research that extends previous research. Our model contributes to the literature by providing a framework for investigating the process through which organizations initiate and evaluate logistics outsourcing as a business strategy.

Future research should be conducted in order to shed light on such questions as what conditions exist in a company or its environment that may influence its approach toward logistics outsourcing, the efficacy of a "wait-and-see" approach versus one that is driven by a corporate outsourcing policy, the advantages and disadvantages of each approach, and whether conditions exist that influence the relative importance of cognitive, experiential, cultural, or personal factors in logistics outsourcing strategy formation and implementation. Such

research would provide insight into the factors that shape these decisions, which may be useful to researchers and practitioners alike.

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