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## Performance Assessment of the Outsourcing Logistics Relationships: Contractual Devices as a Tool

### Abstract

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Due to the impact of globalization and transaction acceleration, most of the companies are getting reorganized, they are refocused on their basic objectives and have tendency to externalize most of their logistic activities. However, under the economic pressure and for the search of more competitiveness the companies are more into partnerships developments. This orientation, initially driven by cost productivity, is often related to an internal need of a Know-how which is difficult to find and to preserve. Logistic externalization is one of the partnership approaches mostly used, and which needs complexity contracts set up. According to that, the success of logistics service is strongly determined and supported by contractualization modes which the organization and piloting often determines the level of performance. The objective of this paper is to question the role of the contract in the success of this collaboration, the way the companies manage their partnership with the providers, and to develop the contractual devices that mostly align the adaptation and the sustainable progress.

*Keywords:*

*Outsourcing logistics, contractual devices, logistics service, contract, providers.*

### 1. Introduction

From the beginning of 1990s, the world practices of outsourcing increase, accusing an annual growth of some 10 % (Sohail and Sohal, 2003). Therefore, companies adopt the strategy of "collaboration" to

minimize the costs and maximize the services quality and succeed consequently to improve their business performance (Min and al., 2005, Holweg and al., 2005; Lambert and al., 2004). Among the various forms of strategic collaboration, we distinguish the logistics outsourcing (Cho and al. 2007).

The reason for this first wave of outsourcing was purely economic (Kedia and Lahiri, 2007), based on cost criteria. Other factors are then built from this phenomenon, including lack of internally capacity references to achieve the benefits of the outsourcing.

It is in this context that the phenomenon of logistics outsourcing is then developed and multiplied (Jabir and Jawab, 2015). This reengineering process seems to affect almost everyone involved, from industrial to distributors through Logistic Service Providers (LSP). The point is to reduce costs in a context where the logistical issues become more complex (Bellingkrodt and Wallenburg, 2103). However, under the constraint of the economic environment and looking to be more competitive, companies are developing collaborative relationships increasingly close.

However, the logistics outsourcing bases itself on a contract, generally long-term form (Ishizaka and Blakiston, 2012). With regard to a classic subcontract, the logistics outsourcing contract distinguishes itself essentially by the existence of clauses concerning the staff and assets transfer, implemented ways, productivity and performance (Selviaridis and Norrman, 2014).

On the other hand, we note that the influence of the contractual complexity on the relationship of logistics outsourcing is often neglected, which in turn, influences the performance of the logistic services (Seu and Jose, on 2009). Thus, the contractual complexity can be a key moderator of the fundamental relationship between the logistics outsourcing and the performance (Sumo and al., 2016).

## **2. Problem**

Getting into a logistics outsourcing process is an important strategic act that its implementation is done in a hurry, especially since it often excludes any possibility of going back (Jabir and Jawab, 2013). This comes to proceed upstream to a comprehensive study. Thus, criteria of human economic characters, organizational, technical, etc ... can be used in the decision to resort or not to logistics outsourcing.

Thus, due to increasing of logistics outsourcing, logistic services appear to be a pertinent field of analysis for the study of inter-organizational relationships (Zeynep and Higgins, 2007). On the other hand, companies have realized that they need to cooperate with the LSP, so they can focus on their core activities (Wallenburg, 2009). However, despite the advantages and benefits of logistics outsourcing, many relationships that are not renewed at the end of their contract or does not exist in the period initially planned (Jabir and Jawab, 2015).

This is in the heart of this fact is located our goal. The problem of the paper is interested in the contractual relationship undertaken in the field of the logistic outsourcing, which is not a new dimension in the management, but it is a new and growing subject in the context of Supply Chain Management (Lavastre, Gunasekaran and Spalanzani, 2012). In this context, although attractive, outsourcing, total or partial, of logistic activities engenders risks and costs for which the managers try to master by the establishment of formal and consensual contractual relationship (Leung and al., 2013). The emitted hypothesis is that the efficiency of the logistics outsourcing relationship rests on the construction of a formal environment of the contractual relationship.

To establish the legitimacy of this hypothesis, we propose a plan in four sections. A first section examines the particularities of the logistics outsourcing context. A second section proposes a report of the recent contributions of the contractual approach usable to report the dynamics of the logistics

outsourcing relationship. The third section analyzes the contractual devices to be set up so as to favor the efficiency of the logistics outsourcing contract. Finally, the last section of the paper is about another dimension of the logistics outsourcing is the one of the contractual complexities and its influence on the performance of the logistic services.

### **3. Logistics outsourcing context**

Today, the logistic outsourcing is developing in an industrial environment marked by a strong commercial uncertainty (Wang and al., 2011). Companies have a strong tendency to specialize by refocusing on their core business. In this context, the logistic outsourcing turns out to be a way to improve the closeness with the customers thanks to the density of networks set up by the LSP (Lieb, 2000). To be capable of answering quickly the changes and the demands of the market, organization tries to maintain a physical contact with their customers (Wallenburg and al., 2010a). Consequently, companies are not any more directly in competition between them, but rather through the diverse logistic networks to whom they belong (Jawab and al., 2004).

Today, LSP participate actively in the life of the company. They contribute to the value creation and are real levers of improvement, that is why the organization of the control of this actors' dresses multiple stakes (Wallenburg, 2009).

Indeed, the study led by the cabinet Ernst et Young in 2011 demonstrates the strong growth of the number of the providers within the organization. The increase perceives itself both at the level of the number of providers and at the level of the activities which there are confided. The organization is then confronted with problems relative to the management of its various outsourcings.

### **4. Theoretical foundations**

The most interesting main contractual models (Savage, 2004) to analyze the relation of outsourcing specifically logistic are the Transaction Costs Theory (TCT), the Resource-Based Theory and the Agency Theory.

The Transaction Costs Theory: organizations have to optimize their organizational choices according to the costs generated by the contractualization with the provider, compared with the bureaucratic costs of the vertical integration (Coeurderoy and Quélin, 1998);

The Resource Based Theory: organizations are not self-sufficient as regards their resources, and the strategy of the core business leads them to favor their specific investments and to resort to the complementarity of the providers offer (Barney, 1991);

The Agency Theory: the organization delegates to the providers a responsibility of means and results; creating a potential dependence towards those who supply them; this introduces the uncertainty into their decision system (Quélin, 2002).

The contractual approach constitutes a relatively strong asset, restful on a set of appropriately identified basic postulates: the autonomy, the opportunism of the partners and the uncertainty (Hesterly and al., 1990). These concepts regulate the performance of the relationship, but their consideration in the design of contracts by the actors is imperfect, considering the principle of limited rationality (Savage, 2004). The nature of the interactions between these concepts is not clearly established by the literature which tends to examine rather their rivalries than their complementarities.

The main interest of the contractual models is finally to suggest that it exists, for given contexts, receipts of logistic outsourcing. The objective is to identify the organization which allows to minimize the costs connected to the production and to the exploitation of the contract (Argyres and Mayer, 2007).

## **5. Contractual devices: An existence diversity ...**

For the logistics outsourcing, the efficiency of a contractual device lies in its capacity to be channelled, by the extracted information (supervision, control) or communicated, the opportunist tendencies and the costs which they infer (Frankel and al., 1996). The presence of opportunism in the relationship of outsourcing leads generally the implementation of a contractual device by one of the partners. The objective pursues three missions: a mission of efficiency, effectiveness and economy (Bouquin, 2005).

### **5.1. Contract**

The first device provided to the actors is the contract. It is at the heart of the TCT, and frames expectations and conditions of the exchange relationship. As such, the contract constitutes one of the control ways of the inter-organizational structures (Parkhe, 1993). It aims at reducing the uncertainty as for the behavior of the partners, at minimizing the functioning costs and fixing, in a legal way, the relationship structure. These relationships are part of long-term stability and require a minimum number of mutual trust and an agreement between agents (Jawab and Bouami, 2003).

From him, Quélin (2003) asserts that the contract plays a central role in the outsourcing, because it defines and codifies the obligations of the provider and the company customer. Given the place which occupies the contract, the outsourcing processing as an organizational shape requires a fine understanding of the contractualization mechanisms, marrying at the same time transaction costs, problems of delegation and supervision, and investment in specific assets.

Once the contract is concluded, it will afterward allow to check the opportunism. Thus, it cannot manage the opportunism ex-ante. The contract acts on the execution phase, its impact is targeted at the objectives to achieve.

A fittingly drafted contract allows to reduce the opportunism of the LSP, by preventing all the actions which it will have to realize under penalty of financial counterparties, and to assure the LSP can have a regular remuneration (Cao and Lumineau, 2015). Nevertheless, the contract can appear as being congealed and expensive, engendering numerous costs ex-ante such as the selecting of the provider or the negotiation. Eventually, it does not adapt itself to all the unforeseen situations and to the modifications of the environment because the latter is "static", congealed at a moment "t" of the relationship (Hypko, Tilebein and Gleich, 2010a). That is why the managers developed other mechanisms as audit.

### **5.2. Audit**

Audit is defined as "the activity which applies in any independence of the coherent procedures and the examination standards to estimate the adequacy and the functioning of all or part of the operations led in an organization in reference to standards" (Boissinot, 2008).

The audit can modify the appearance of opportunist behavior during the contract execution phase. The control fear and the repression urge the actors to act in the desired way by the contract. The audit limit lies in its "non-reactive" character. The audit result appears once the realized mission, a consequent lapse of time can take place between the appearance and the revelation of an opportunist behavior. For that purpose, the audit can be classified as a control system, and reduces the opportunism during the contract execution. But it cannot manage only by itself all the behavior forms. It does not substitute itself but complementing and reinforcing the traditional mechanisms such as the trust, the contract and the socialization processes (Boulay and Isaac, 2007).

### **5.3. Organizational form**

The organizational form presents certain characteristics for the provider control. If Williamson (1994) favors the hierarchy to the market to protect itself of the opportunism, it is because he considers the

actors are more active in their opportunism on the market. The control by the hierarchical power pulls a reduction of the appearance of this behavior. Without going to the hierarchy, organizational mechanisms allow to check the provider through financial mechanisms (Conso and Hémici, 2006).

The contract not allowing to encircle the opportunism, a third organizational shape appeared, allowing to fight against the opportunism: the hybrid form (network, collaboration, etc.). In the networks case, one of the elements on which their implementation rests are the replacement of the contractual relationship by trust relationships, based on skill of each, managed towards a common objective and supported by a regular business flow (Jawab and al., 2004). According to these authors, the creation of these networks would be, by the emergence of hostage, a way to thwart the supplier's opportunism by locking the relationships into a hierarchy appearance.

## **6. Conclusion**

Undoubtedly, in the face of the fast multiplication of the outsourced activities, the reactivity and the performance of the logistic service are partially registered in a certain formalization of the relationship, developing new problems of management of the LSP. At the same time, the questions of the contract complexity and the logistic service performance are a currently interesting perspectives of research.

At first, we looked for a theoretical lighting in this problem and we were able to raise the necessity of opening the researches on the implementation of the contractual device between a contractor and his LSP. Therefore, this work has for objective to stick the finger at the advantages that dresses a management personalized by the LSP at the same time the role of the contract and the contractual devices to be set up in the optics to protect itself of opportunist behavior of the actors. An introduction in a new problem of research, worth knowing the way to create a satisfactory relationship with the LSP is necessary.

Finally, our objective is to reveal another dimension research in the field of logistics outsourcing by analyzing the contractual complexity and its influence on the performance of the logistic service. By making this tour, we believe to have managed to bind the literature of the contractual complexity with the literature of logistic outsourcing. Our challenge for the following research will consist in spreading the frame worked out to answer the question to know how multiple networks of outsourcing and their associated contractual arrangements, which is another shape of the contractual complexity, influences the performance within these networks.

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