

**Investigating the influence of operational success factors and strategy choice on the effectiveness of logistics service provider companies**  
Focusing on management style

**György Karmazin, PhD**

Owner of *BI-KA* Logistics Ltd. (Hungary)  
Városmajor str. 23., 5000 Szolnok, Hungary  
[karmazin.gyorgy@bi-ka.hu](mailto:karmazin.gyorgy@bi-ka.hu)  
0036 56 524 050

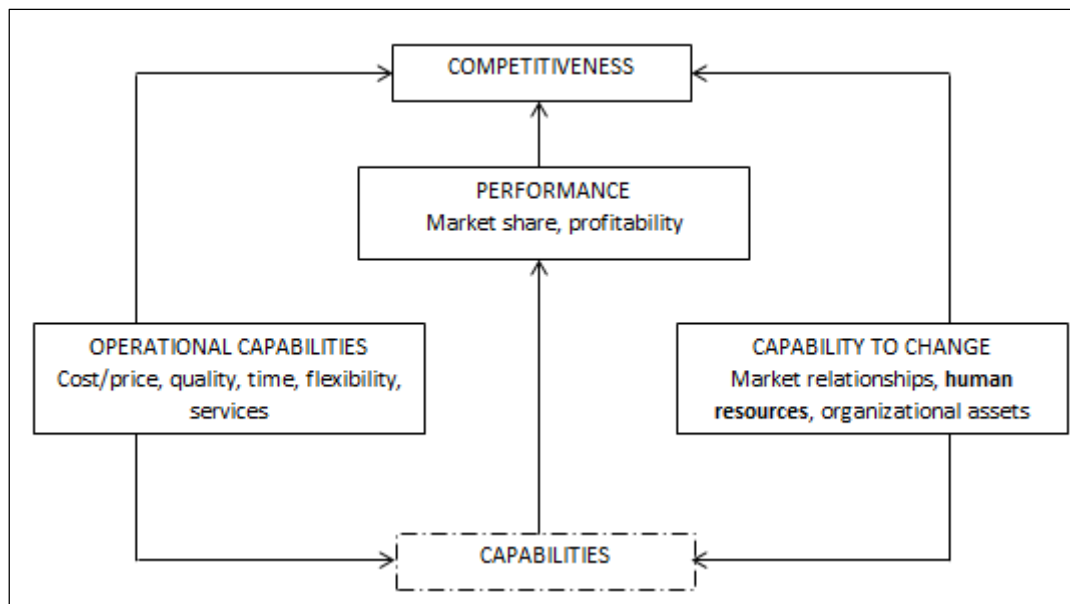
**Abstract**

*Increasing logistics' contribution to GDP is a key priority of Hungary's economic policies. This room for development is highlighted by the fact that the share of logistics in the national economy is 6%, whereas logistics accounts for 10-12% of the GDP in the developed countries. In the after crisis market economy, the development of logistics will be the main force behind international trade development. Government Decision No. 1157/2013 also underlines the importance and significance of logistics. The Decision brought about the Mid Term Logistics Strategy (MTLS) with the active involvement of the Hungarian industry and the social partners. According to Hungarian logistics experts, implementing MTLS will have a crucial impact on the economy of Hungary in the next programming period of the European Union (2014-2020) and the logistics service providers integrated to the companies of the supply chain will have a prominent role in that. With Government Decision No. 1670/2013. (IX. 25.), the Hungarian Government accepted the political strategy of the logistics sector for 2014-2020. Before the Government Decision, in the summer of 2013 a survey research with 56 questions was carried out among the Hungarian logistics service providers (3PLP). The primary research formulated 56 questions directed to the top executives of the Hungarian logistics service providers. Examining the received data, the paper presents the relevant conclusions.*

Keywords: logistics service provider (3PLP), success factors, management style

**Introduction**

The re-establishment and growth of production and services coupled to them may be one of the ways out of the crisis of 2008. The manufacturing and service companies' are not only delivering but also spurring growth' (Chikán, 2013b). Moreover, in the after crisis market economy, the development of logistics will be the main force behind international trade development (WEF, 2013). Increasing logistics' contribution to GDP is a key priority of Hungary's economic policies (MTI, 2013). Referring to the thoughts introduced above and the consequences of the relevant intentions, examining the field of logistics – as a service capable of value creation and influencing competitiveness significantly – and within that, understanding and analysing the activities of logistics providers (3PLPs) has become more pending than ever before. To reach the above stated goals and to enable the improvement of the target companies, it is an important, even inevitable task to pinpoint the operational success factors contributing to the basic capabilities enabling the competitiveness of Hungarian logistics companies (Fig. 1).



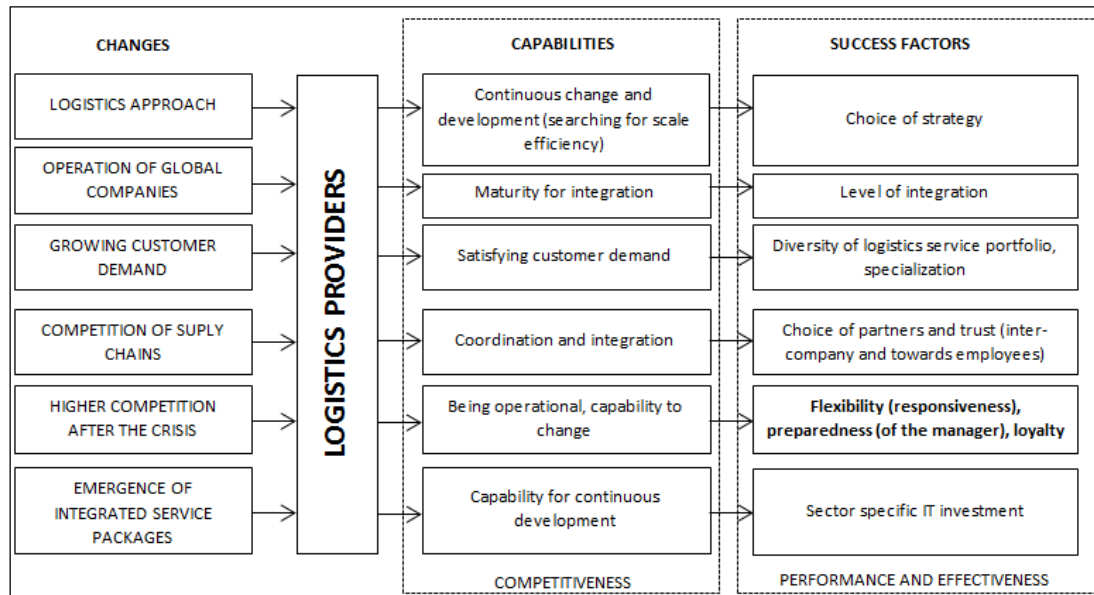
**Fig. 1. Model of company competitiveness**

*Source: Chikán, A., 2013a. What makes a company competitive? Proceedings of the Competitive Company = Competitive Economy Conference, 25th September 2013, Budapest*

The conduct and behaviour of the top manager who coordinates the human resources can determine the competitiveness of the companies. Research into the subject and activities of 3PLPs is scarce (Selviaridis and Spring, 2007), not many of them are available worldwide. It is mostly American and English research results that can be identified (Murphy and Daley, 2001), (Markides and Holweg, 2006). Reviewing the scientific literature we can chiefly find American and English scientific literature from the 1990s onward. Then, after 2000, researchers from Northern European countries (e.g. Sweden, Norway) did also publish scientific results concerning this field (eg. Hertz and Alfredsson, 2003; Huemer, 2011). In Hungary it was in 2005 that Bokor's article with the title 'Evaluating the state of the art and exploring the development possibilities of intermodal logistics services' was published. The part of this paper concerning 3PLPs deals mainly with reviewing the relevant scientific literature, proposing definitions and giving their explanation (Bokor, 2005). The appendix of the annual report prepared by the Association of Hungarian Forwarding and Logistic Service Providers provides yearly some brief, concise information about the survey carried out among the member companies. Unfortunately, the response rate is 50% (the results are based on the responses of 30-35 logistics providers), and, for members, performance and operational data give only some very basic and general information. The research of Bank *et. al.* carried out in 2010 was a breakthrough, yielding an in-depth and comprehensive report of the economic situation of the players in the Hungarian forwarding, shipping and logistics market and the expected movements in the sector (Bank *et. al.*, 2010). Finally, nowadays, logistics service providers are frequently under the scrutiny of Hungarian scientific articles (Horváth, 2012; Hegyi and Horváth, 2012). The empirical research within the framework of the doctoral dissertation deals with the comprehensive examination of Hungarian logistics service providers' operational success factors. In the course of this, it builds among others on the scientific literature enumerated above, but it also takes a new approach while investigating the situation of Hungarian 3PLPs.

## Developing success factors

In the present study, relying on the scientific background revealed above, the social, economic, and political effects, changes and tendencies currently palpable in the Hungarian and international environment have been explored so as to provide a strong basis for Hungarian research. The experience of the author as an industry stakeholder, the experiences from meetings with managers of Hungarian logistics providers, just as well as the results of interviews with scientific researchers were used to create the success factor clusters (Fig. 2).



**Fig. 2. Forces influencing logistics providers and abilities needed for their competitiveness recently (with a view on success factors contributing to performance and effectiveness)**

*Source: own research, 2013*

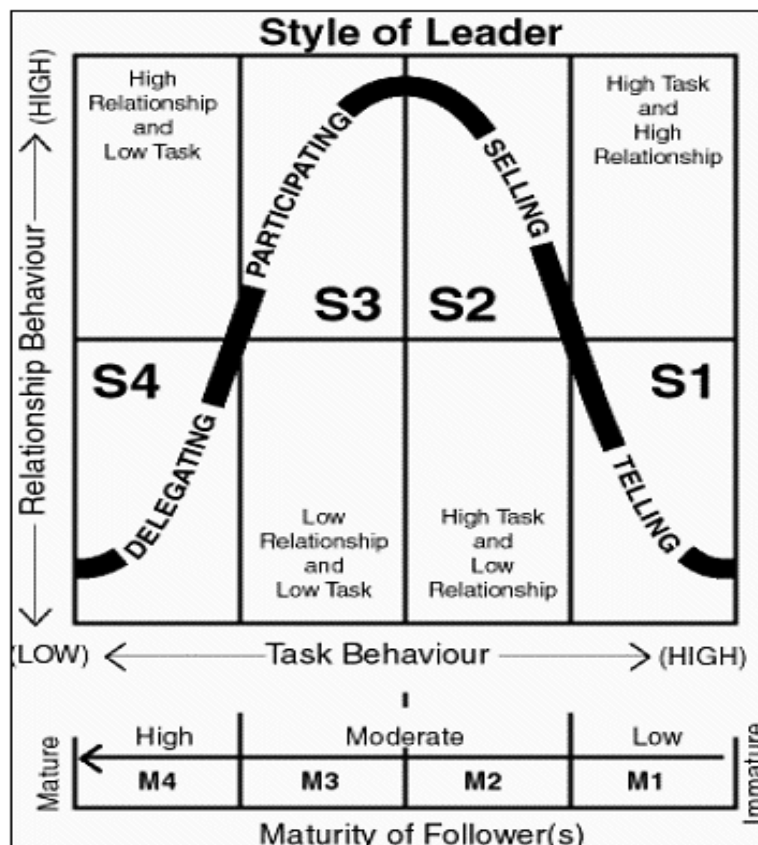
Based on these and starting from here, looking for the relationship between abilities and ‘success factors’, clustering the factors provided the foundations of research, i.e.:

- *S1*: trust – effectiveness – flexibility (trust examined as a basic factor of inner-company and inter-company relationships, **striving to reveal the role of the top manager in creating trust**),
- *S2*: time – service portfolio – flexibility (time based competition of products and services as a competition of supply chains, the composition and profitability of the service portfolio),
- *S3*: finding the right company size – acquisition – strategies (a way to find the economies of scale of the logistics provider segment to be examined, the role of strategy choice),
- *S4*: the level of logistics provider integration into the supply chain – the effect of (special) IT technologies and developments – and their relationship to flexibility, just as well as their influence on the financial results of the company.

By the means and clustering of the influences, changes, trends and experiences revealed, the objectives of the research could be determined i.e.:

- C1: Examine and analyse the role of trust and the effects of its extent on the revenue, earnings before taxes and flexibility of the logistics service providers. Within this, examine the role of the top manager in the inner-company and inter-company business relationships (trust levels), and connected to that, **how the top manager contributes to the revenue, earnings before taxes and flexibility of the logistics providers.**
- C2: Examine and analyse the profitability based diversity of the Hungarian logistics providers' service portfolio, and how that influences the revenue, earnings before taxes and flexibility of the logistics providers.
- C3: Examine and analyse how acquisition activities carried out while searching for the right company size influence the revenue, earnings before taxes and future strategies of logistics companies.

To identify how a leader decides to opt for trust, it is best to rely on the Hersey and Blanchard Situational Leadership Model (Fig 3).



**Fig.3: Hersey and Blanchard Situational Leadership Model**

Source: Blanchard, K. (2010): *Leading at a Higher Level* (Translator: Garamvölgyi, A.) HVG Könyvkiadó, Budapest, pp.190-191.

Examining the theoretical relationships behind the model, it can be stated that leading requires a high level of adaptation from the side of the leader. In the relationship oriented and in the task oriented regions, according to the investigation, 4 leadership styles can be differentiated:

- Telling (S1): the leader knows what he wants, and he explains clearly to his employees when, what and how to do
- Selling (S2): the leader explains their tasks to the employees in detail,
- Participating (S3): the leader decides together with his colleagues, integrates them into the processes and asks for their opinion,
- Delegating (S4): the leader gives autonomy to the capable employees (Hersey and Blanchard, 2010).

Hersey and Blanchard (2010) state that the leader needs to flexibly adapt to the different situations and needs to be able to switch between the different leadership styles. Maturity of the employees is crucial for efficient leadership (meaning that the employees are well trained, intelligent, have adequate experience, are autonomous and can take on responsibility) (Hersey and Blanchard, 2010). Thus it is reasonable to investigate the effect of leadership styles applied by the top managers of the Hungarian logistics companies on the success factors (e.g. flexibility) and financial results of the companies. The database of the research included 300 Hungarian logistics providers. Out of these, the companies with revenues (net sales) above 100 thousand EUR, but at or below 100 million EUR were selected and included in the target group of the research. This group consisted of 284 logistics providers. I have developed a questionnaire comprising of 56 questions. The number of filled in questionnaires doubled to the number of 56, yielding a response rate of approx. 20%.

Focusing on the hypothesis of the studied area: The level of trust in business relationships created by the top managers of the Hungarian logistics service providers has an influence on the revenue and on the earnings before taxes, and also on the flexibility of the logistics companies examined. First, it needs to be checked whether there is any kind of relationship between the level of trust in business relationships and the performance indicators or flexibility indicators of the companies, and if there is one, how strong that is and of what type it is. The level of trust in business relationships created by the top manager was measured by variables in the questionnaire: management role, and management style. As based on the calculations, no relationship was found between the performance indicators and the level of stakeholders' trust created by the top managers. Taleb states, what the CEOs of bigger companies emphasize, namely that there is a causal relationship between their 'presence', their 'leadership role' and the performance of the company. However, this cannot be found in any of the studies (Taleb, 2012, p. 192.).

Regarding the second part of the hypothesis, we now examine the relationship between flexibility and the variables describing the level of stakeholders' trust. It is interesting to note that the averages (deviations) of the performance indicators intersected by management styles do not show a significant difference between the groups. It is clearly observable how close the averages of the performance indicators are to each other in the two groups, and the deviations are also similar. This means that a clear relationship cannot be established between the management styles of the leaders of the investigated logistics service providers and the results of the companies having participated in the survey. Thus, consequences can also not be drawn from these. It is interesting to note, that according to Joseph T. Halford and Hung-Chia Hsu, when a company hires an attractive CEO, its shares tend to climb shortly after the announcement. They also do better at the negotiating table than their less attractive counterparts. Daniel Hamermesh, an economics professor at the University of Texas in Austin found that good-looking people make 3%-4% more than people with below-average looks, or nearly a quarter of a million dollars over a lifetime.

An Italian study released last year showed that attractive women who sent photos with their résumés got called back 54% of the time, as opposed to the average callback rate of 30% (Forbes, 2014).

From the results of the own calculations it can be concluded that there is no significant relationship between and the level of stakeholders trust created by the top managers of the Hungarian logistics service providers and the effectiveness of the investigated logistics companies, thus the hypothesis cannot be proven. However, there is a relationship between the level of stakeholders' trust created by the top managers of the Hungarian logistics service providers and the flexibility of the investigated logistics companies, and this is a positive, moderately strong relationship. This implies that the more essential is the role of the leader in creating the stakeholders' trust, the more flexible is the organization. From this it can be concluded that regarding the Hungarian logistics companies, higher stakeholders' trust results in higher flexibility.

### **Summary**

Regarding the Hungarian logistics companies, higher stakeholders' trust results in higher flexibility. As a consequence it can be stated that striving for partnership and 'thinking together' within the relationship of the consignor and the logistics provider entails better communication and closer cooperation, which generally yields a win-win situation. The extent of communication, good performance, fulfilling expectations, availability, adhering to the terms of payment all contribute to the trust evolving between the partners. In the course of creating this higher trust level, the partners gain comprehensive information about the activities and procedures of each other. This 'specific knowledge' (deeper knowledge of each other), and the timeliness of information provides a high level of flexibility of the relationship. Hungarian logistics service providers can be advised that while striving towards a partnership with consignors and subcontractors, it might be useful for them to gain a 'deeper knowledge' about each other (in the course of which higher trust levels are also attained), because the fourth from among the factors, timeliness, contributing to higher performance perceived by the customer, facilitates a higher level of flexibility that can be achieved by the provider. It is interesting to note, that an investigation into the relationship between the management styles and financial results was also carried out while proving the hypothesis. The result is surprising: the averages (deviations) of the performance indicators intersected by management styles do not show a significant difference between the groups. Briefly, this means, that an unambiguous relationship between the style of the leaders of the investigated logistics service providers and the financial results of the companies that have participated in the research cannot be established, and following consequences cannot be drawn. However, as a new initiative, we can draw the attention of the HR directors of the Hungarian logistics companies to the statement above, and to the peculiarity (and importance) of such an approach to selection.

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