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Capabilities of Logistics Service Providers towards Cross-Border Operations between Thailand and Malaysia

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Abstract

This research is conducted with the aim to propose appropriate model for measuring logistics service providers' capabilities for cross-border operations between Thailand and Malaysia by using literature review method from secondary sources and collect the information from various type of international and domestic documents via internet searching through online databases along with statistical information from the annual report of national and international organization. The findings were analyzed and the results were reported by using descriptive method. The overview of Logistics Service Providers and its roles in cross-border operation are taken in to account. The study results reveals that the indicators for measuring capabilities of logistics service providers were categorized in three major aspects which are service quality, business decision making and capabilities.

Keywords: Capabilities, Logistics Service Providers, Cross-Border Operations

Introduction

With nearly 38 years of Thailand economy, the export rates have generally risen year by year from USD 5.2 billion in 1979 to USD 235.1 billion in 2017, averaged USD 10.28 billion from 1991 until 2018. (Bank of Thailand [BOT], 2018). Moreover, between January and March 2018, there was 11.29% rise in outbound shipments year-on-year to USD 62.83 billion. These historical statistics reveals that now a day, export oriented economy in Thailand has been accounted for approximately 65% of the GDP. Bank of Thailand [BOT], 2017 reported ten major of Thailand export partners in 2017 which are China (USD 67.20 billion), Japan (USD 49.85 billion), United State (USD 38.12 billion), Malaysia (USD 20.35 billion), Vietnam (USD 15.03 billion), Singapore (USD 15.02 billion), Indonesia (USD 14.93 billion), Hong Kong (USD 13.75 billion), Australia (USD 13.53 billion) and South Korea (USD 11.72 billion). Thus, Thailand has a heavily export-dependent economy and the industrial, and the service sectors are the biggest contributors to the economy of Thailand which continuously expanded (Fiscal Policy Office [FPO], 2018).



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The reasons why export of Thailand continuously increased are because of the country had a clear direction to promote Thailand as South-East Asia logistics hub with logistics system development projects, (Limcharoen, Jangkrajarn, Wisittipanich & Ramingwong, 2017) implemented by Thailand's Logistics Development Strategy (2007-2011). The projects followings project that had been conducted to strengthen government policy included; electronic submission of customs declarations and simultaneous verification of data by different agencies in 2008, Electronic Data Interchange (EDI) system upgrading in 2009 (The World Bank, 2018) and the establishment of National single Window – NSW in 2015 (Raktam & Keawkitipong, 2015) with the aim to enhance trade facilitation, increase cost efficiency, customer responsiveness and reliability and security, to create value-added for the logistics and other supporting industries. (Office of The National Economic and Social Development Board [NESDB], 2018). The Special Economic Development Zones (SEZs) therefore had been established for attracting investment and fostering economic growth and development (Walsh, 2013; Singler, 2014) which located at the area connecting to Thailand neighboring countries, such as, Kanchanaburi connecting to Maynmar, the People's Republic of Laos, at Chiang Rai, Cambodia at Sa Kaeo, and Malaysia at Songkhla.

With great commitment and clear direction to level up the economy, Thailand resulted in top ten improvers ranking on ease of doing business in 2017 (The World Bank, 2018) which means the regulatory environment is more conducive to the starting and operation of a local firm. However, Malaysia and Thailand appears the highest competitiveness in cross-border trade which the first and second ranked in ease of doing business in 2018. Both countries share a border that stretches for 647 kilometers, and their bilateral trade is already the largest in ASEAN in terms of value or THB 525,667.99 (Parpart, 2016), accounted for more than half of all Thailand's border trade (51.00%) when compares to the trade value with Cambodia, Laos and Myanmar (Department of Foreign Trade [DFT], 2019)

The increase of trade values in Malaysia and Thailand for recent year signs favorable (World Economic Forum, 2018) because complexity and cost of trade across border had been reduced by improving electronic submission and processing of document for import-export as well as border infrastructure upgrading and the enhancement of customs administration and inspections for cross-border operational. (The World Bank, 2018). Songkhla is a province with the highest trade value where includes Sadao, Padang Besar, and Ban Prakob borders. Sadao border has continuously remained on the top lists of trade value which 7.68% increased from 2017-2018. (Department of Foreigner Trade [DFT], Thailand, 2019)

A maximum border trade values at Sadao borders causes both advantages and disadvantages. The positive impacts obviously recognized are to strengthen value of international



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commerce in each country and made up their trade competencies in among countries of the same economic regions, also increase amount of trade and investment around border areas. It results business expansion and population surrounding will be employed which effect to a better quality of life. Moreover, it also includes improving life standard, social-economical position of the region communities because the local communities in the border area are more and more involved with the cross-border cooperation. (Slusarciuc, 2016)

Meanwhile amount of values may take a lot of shipments and vehicles moving through the border post, the longer time taken for border crossing would be resulted. Many problems generally come along with these delays, mainly an increase of transportation and trade cost, a decrease of industry competitiveness and development of economy, impacts of local communities, region and nation. These delays also affect to the environment at around border areas such as emissions attribute to vehicle idling and when congestion the border eliminates cross-border trips, the lower of customs incomes also go down (Cornejo, Prozzi, Susen & Borrego, 2017).

Government of Thailand and Malaysia have been continuously put effort to streamline efficiency of cross-border trade as they agreed to remove bureaucratic procedures at border crossings with expecting to operate 24 hours (Currently, the borders are open for 18 hours daily) and the government will also be building two bridges which will connect Kelantan to the border for a facilitation movement of goods said by Prime Minister Tun Dr. Mahathir Mohamad on 24th October 2018 during his visit to Thailand. (Elankovan, 2018; Jaafar, 2018; Palansamy, 2018), but there are many parties concerned to logistics process, not even government sectors who are policy maker for trade facilitation (Pinto et al., 2017) Trade cooperation for agreement (Doan & Xing, 2018; Mohmand et al., 2015), the customers both import and export companies, (Dong & He, 2018) and especially the logistics service providers and third party including transportation, freight forwarder, shipping etc. (Kovacs, 2018; Zhu, Freeman & Cavusgil, 2018) are all concerned as direct users of cross-border.

The service providers are included as intermediaries between the point of origin to the point of consumption. Most of end users make decisions for the use of logistics service provider to operate their business because of a cost reduction (Kumar et al., 2013) and operation performance boosting up as the outsourcing significantly influenced firm performance which moderated by cost structure. (Leung, Wu & Lai, 2002). The more Logistics Service Providers' Capabilities (LSPC) means the more effective of Cross-Border Operations (CBO) which finally build up a large trade for both countries (Bakar & Jaafar, 2016; Rahman, Melewar & Sharif, 2014).



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Therefore, it is important to clarify the capability of logistics service providers on what ability they should have to offer high quality of services to process cross-border operations with the highest level of customer satisfaction. Measuring the capabilities of logistics services providers then become a necessary approach to examine the formative elements to make sure the efficiency in the entire supply chain (Rahman, Melewar & Sharif, 2014). The findings of the research would bring the solution in the role of logistics service providers for elimination of complexities, barriers and difficulties in cross-border operations, also generation new approaches for more education and training to support the operation which support global market by increasing more demand for cross-border trade and emphasize border trade value to both countries and among the region.

Objective

To propose the model of measuring logistics service providers' capabilities for cross-border operations between Thailand and Malaysia.

Scope of research

This paper limits the content of study to concentrate only on the logistics services' providers (LSP) and third parties because they are recognized as one of the key player on cross-border operations. The capabilities of them are focused as logistics quality and competence promotes cross-border efficiency.

Research Methodology

This paper uses a literature review method from secondary sources to study and collect the information from various types of international and domestic documents and works, including books, research papers, and published documents. Moreover, the internet searching is also used through online databases, including Science Direct, Scopus, EBSCOhost, Proquest, etc., along with national statistics information from the annual reports of relevant government agencies and international information from reliable international organizations in order to analyze the documents and report results by using descriptive method.

Research Findings

1. Overview of Logistics Service Providers

In order by the study investigated by Rahman et al. (2014), the results indicated that delivery time is important for logistic partnership success because of supporting, route and



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product quality. This success can enhance brand image which creates company loyalty and good perception in customers. However, the service providers should maintain good performance by providing customer reliability, timely and efficient manner for more value creation in customer perceived. Additionally, infrastructure, shipper or the consignees and institutional framework are key components for strengthen logistics system as well (Banomyong et al., 2015)

There are wide range of “names” used to refer a logistics service provider (LSP) including, carriers, freight forwarders, forwarding companies, transporters, third-party transport services, logistics service suppliers, subcontracted logistics service partners, logistics operators, third-party logistics etc. (Fabbe-Costes, Jahre & Roussat, 2009) Their main role is to arrange the movement of merchandises from where the products were produced to the end customer’s site (Stock & Lambert, 2001) and to promote business in logistics service operations to enter the international market (Chen & Zhang, 2018).

Therefore, effectiveness and efficiency of logistics organizations are principle components of supply chain management. The LSPs also developed their capabilities both service providing and offering solutions adapted to personalize customers or customer focus. (Fabbe-Costes, Jahre & Roussat, 2009) The performance of cross border operation of logistics enterprise investigated by Chen and Zhang (2018) generated two perspectives to evaluate performance of LSP which are financial performance; net profit growth, the increase trend of return on investment, rise of sale and market share and non-financial performance such as better satisfaction from customers and employees as well as the plan for business expand with two elements on performance of cross border operations. The business market environment are mattered in external factors while the internal factors focus on organizational factors such as sufficient funds, human resources, information and knowledge, products service with high quality and strong adaptability, and business decision-makers with plenty of skills and experiences. (Chen & Zhang, 2018) Then, the capabilities LSP will turn to improvement of customer service and financial performance for container shipping service firms. (Yang, Marlow and Lu, 2009)

2. Type of Logistics Service Providers in Operational Cross-Border

Measuring ability of regional export trade studied by Tsekeris (2017) indicated that domestic transport conditions can enhance the obvious development of local firms which support the regional and national growth for the trade. The transport conditions should be supported by cooperation policies among related administration in a region. Moreover, cargo hubs location is also supported transportation, especially the manufactures would take



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advantage from the logistics hubs that are established closely to the urban and border land which gain high chance of connection.

When mention about transportation the vehicle management is obviously concerned as the study with the aim to identify major elements that affect efficiency of transport, examined by Andrejic, Bojvovic and Kilibarda (2016) which found that fleet efficiency related to a higher level of decision making and second element is the efficiency of the vehicle as operational level of decision making. Most of transport efficiency can generate by fleet management system in the company with the utilization of information system, vehicle routing and scheduling. Less capacity vehicles are more efficient contrasting with the age. Moreover, there are more important factors such as manufacturer selection price, vehicle price, maintenance costs, warranty.

According to the efficiency of cross-border process operating by logistics service providers, there are many problems that can decrease the efficiency. For example, cost of transportation by using lorry hired per order, cost of service procurement or cost of hiring, cost of inventory from the excess of product storage in the warehouse and allowance that are specially paid to a lorry driver (Leung, Wu & Lai, 2002). Therefore logistics strategy of the company in term of using logistics service provider are the decision making to eliminate all cost in cross-border operation process.

3. Logistics service providers' capabilities

It is shown from many studies that their service quality with utilized strategic plan can bring an efficiency in the cross-border logistics process. There are three major aspects that should be considered to explain how well the LSP perform. First, logistic service quality as it comes together with customer expectation and behavioral intention to choose the services. Moreover, logistics process quality was found to be the main driver for repurchase intention followed by outcome quality (Giovanis, Tomaras & Zondiros, 2013). Second, business decision making which concerned business function to enrich quantitative outcome in management of logistic process among limited resources and high service quality. Therefore, their capabilities should be enhanced to response good performance in logistics service.

Competencies of transport specialists in transport/logistics companies are essential for the transport/logistics specialists due the most important factor driving the company to be successful in the industrial market is to develop skills and competencies of employees, studied by Vaiciute, Skirmantiene and Domanska (2017). The research findings revealed the particularly important competencies which are planning, coordinating and controlling of process fulfillment, maintaining customer relationship, estimating cost of service and seeking



for new customers and carriers. In addition, their important character traits consisting of being responsible, concentration in goal and result, communication ability as well as logical reasoning. Moreover, employers also claimed that the specialists in transport management should be professional and have experiences in logistics areas. The skills needed are leadership, teamwork and driving with license. The capabilities of logistics service providers can also increase the firm performance, especially the innovation capabilities because it is the ability to handle information technology system and equipment resources which positively significant effects on the service capabilities, claimed by Yang, Marlow and Lu (2009). In the other hand, the ability to engage with political sectors can also bring stakeholders' wealth.

Results and Discussion

Empirical studies related to logistics service providers' capabilities (LSPC) speculated how the LSPC plays important role in operation of cross-border and how they enrich performance in border crossing operations. Therefore, this study adapted the measurement of logistics service providers' capabilities from a sufficiency of previous studied. Then, the indicators were categorized in three major aspects which are service quality, business decision making and capabilities as summarized in figure 1.

Table 1: Summary of previous studies on the measurement of Logistics Service Providers Capabilities

No.	Measurements	Authors/Year
1	Service Quality	
	Service culture	Zhu, Freeman and Cavusgil (2018)
	Tangible, Reliable, Responsiveness, Assurance, Empathy	Gulc (2017); Roslan, Wahab & Abdullah (2015)
2	Timeliness, Availability, Condition	Yu, Cadeaux & Song (2017)
	Business Decision Making	
3	Reputation, Brand image, Trust and commitment	Rahman, et al. (2014)
	Logistic process, Logistic outcome, Word-of-mount	Giovanis, Tomaras, & Zondiors (2013)
	Capability	
	Innovation	Yang, Marlow & Lu (2009)
	Attitude, Transport management specialist, Transport manager	Vaiciute, Skirmantience & Domanska (2017)

However, there are plenty of sub-items measuring the capabilities of LSP as the issue on the influence of LSP towards value creation in the whole supply chain management which is relevant to advantages on both logistics service enterprises and customers. Items with specifically familiar with the context of cross-border logistics operation will be concentrated to the item selected in this study as shown in table 1

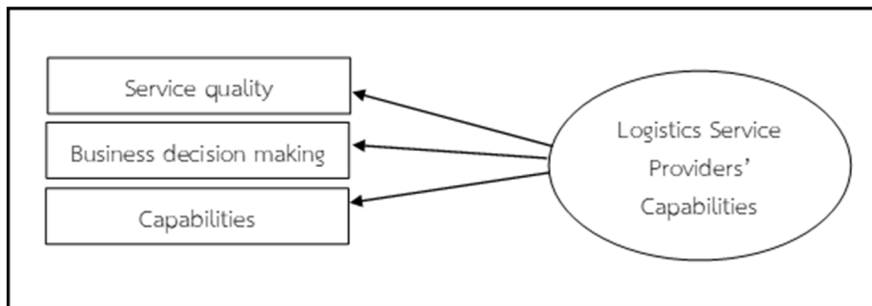


Figure 1: Measurement of performance of Logistics Service Providers' Capabilities

Suggestions

1. Suggestions for the implementation: Logistic service quality comes together with customer expectation and behavioral intention to choose the services. Therefore, the logistics service providers should evaluate their service quality to ensure the capability in offering service for cross-border operations.

Moreover, business decision making which concerned business function implemented by people in management level should be clear direction and enhance capabilities of the performers to maintain their expertise of providing logistics services and developing operational logistic procedures with quality and effective performance.

2. Suggestions for the future research: Even though this model illustrates the capabilities that fit with the context cross-border operations between Thailand and Malaysia, there should be proved by studying performance of existing capabilities for generating actual outcome which is advantage for developing an approach to resolve over taking of vehicles movement, long border crossing time and delay shipment which directly impact to the reduction of industry competitiveness and economic development.

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