LOGISTICS OUTSOURCING IN BRAZIL AND THE U.S.:
AN INSTITUTIONAL THEORY PERSPECTIVE

By

Maria Virginia Barrenechea

Advisor: Dr. Adriana Rossiter Hofer
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Sam M. Walton College of Business
University of Arkansas
Fayetteville, Arkansas
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1. Introduction

A crucial goal of manufacturers and retailers is to develop an efficient management of resources in order to ultimately achieve a strategic competitive advantage in the marketplace. Given the current global scenario, supply chain operations, such as the storage and transportation of materials from the shipper’s facilities to the end customer, can become very complex and time consuming to manage in-house. Therefore, shippers are encouraged to outsource these logistics operations to third party experts known as 3PLs (third party logistics providers) that support the domestic and global transportation of goods safely, securely and cost-effectively.

The wave of globalization, significant economic volatility and increase in supply chain complexity has caused the logistics outsourcing industry to grow at an alarming rate. Globalization has led to large-scale consolidations, making the demographics more difficult. Also, economic volatility puts pressures on prices and margins pressuring shippers to have the “ability to be changeable and adaptable” (Langley Jr., 2010). Thus, currently, “a firm has increasingly complex supply chain, increasing demographic reach of the supply chain, and a tremendous pressure for having high performance supply chain” so they keep increasing their use of outsourced logistics services (Participant 3, personal communication, August 22, 2011). Recent studies demonstrate that 80% of fortune 500 companies outsource at least one function. Moreover, in the 2010 15th Annual Third-Party Logistics Study, 65% of shipper respondents reported to have increased their use of 3PLs (Langley Jr., 2010).

Consequently, as logistics outsourcing executives and experts in the industry insist, the industry is experiencing a large and transformative change where 3PLs and 3PL-customers are going from a transactional relationship that’s based on leverage, to a more strategic partnership that’s based on sharing goals and collaborating to achieve them (Participant 3, personal communication, August 22, 2011). In the past, 3PLs were hired just to execute transactions and be measured by how well they did it; for instance, the movement of a shipment to Hong Kong (which involved positioning of the container, shipment to destination and documentation). About 15 years ago, 3PLs “next sort of capability development was on technology, meaning how good your visibility is” (Participant 3, personal communication, August 22, 2011). Shippers wanted to have the right tools for the automation of certain business processes such as document creation. Currently, 3PLs are starting to be perceived as supply chain partners who help the client with the design and operation of their supply chain; hence, they collaborate at a more strategic level. With this increasing demand from customers, logistics outsourcing managers are “challenged on a regular basis to develop global positioning strategies, restructure their organizations, and deliver solid value propositions” to clients across the globe (Lieb & Lieb, 2010).
Moreover, as companies become more global, people of different cultures find themselves working together and communicating more often; some, are being accountable for multiple countries. Consequently, many challenges may arise so it is important to understand the differences and status quo of different countries.

This paper will contribute to the current research in the logistics outsourcing industry by utilizing a theoretical framework of institutional theory—which has not yet been used within the logistics outsourcing field. Investigation of logistics outsourcing practices in select countries and a comparison and contrast of unique challenges and opportunities that are clearly structured by economic, regulative, and socio-cultural forces will be provided. The identification of these forces will help build a conceptual model of institutional forces that shape the development of logistics outsourcing relationships. Moreover, it will contribute to firms that are considering expansion of operations to the countries of study. The findings will prepare businesses to overcome possible obstacles in the coordination of logistics outsourcing practices and engagement in relationships with the 3PL or 3PL-customers in foreign countries.

Specifically, this study focuses on Brazil and the US, two key players in the world’s economy. It aims to shed some light on the unique intricacies of both markets regarding aspects such as 3PL selection, contracting, and relationship management. In addition, an investigation on the relative impact of institutional forces (economic, socio-cultural, and regulative forces) on logistics outsourcing practices in both countries will be provided.

Brazil is a developing country that is currently ranked as the seventh-largest in the world and as one of the four fastest emerging economies (The World Factbook). Its business environment is the wealthiest and most varied in South America; thus, it is also the largest exporter and importer in the continent. On the other hand, the U.S., a developed country, is the largest economy in the globe and the most powerful technologically speaking. It is a large importer of goods and has a market-oriented economy where organizations enjoy more flexibility than any other countries in “decisions to expand capital plant, to lay off surplus workers, and to develop new products” (The World Factbook).

**Figure 2** Scope of this study in the theory building and testing cycle (Roth 2007)
The remainder of this paper is organized as follows: Section 2 provides a comparative discussion on the current state of logistics outsourcing practices in Brazil and the US. Section 3 provides background information on institutional theory as a lens to explore the nature and the influence that the institutional environment has on the practices described in section 2. Section 4, describes the data collecting procedures. Section 5, provides propositions that were developed from an institutional theoretic perspective on logistics outsourcing practices in both countries. Section 6 summarizes the main take-away points from the study and limitations are described on Section 7.

2. The Current State of Logistics Outsourcing Practices in Brazil and the U.S.

Logistics outsourcing is a dynamic industry which is growing at a substantial rate in Brazil, as it is in the U.S. Although the Brazilian transport infrastructure, such as railroads and ports, is in an under-developed condition like many other developing countries, the logistics industry is still “well-assessed in terms of competence and reliability” (South America Transport & Logistics 2011, 2011). International investors and multinational manufacturers see Brazil as the place to start expansion in South America; likewise, multinational 3PLs are still increasing in number and size (Brazil’s Services and Equipment Supply Chain, 2011). As Hofer and Armstrong (2008) point out, logistics expenditures in Brazil are approximately 12% of Brazil’s gross domestic product (GDP). Moreover, from 2003-2008 reported revenues increased over four times (Hofer & Armstrong, 2008). However, the 3PL industry is still much more developed in the US, where most of the multinational firms are based. Although the recent economic recession may have hurt consumer spending, the industry is still experiencing continuous growth. From 1995 to 2010, the American 3PL’s growth rate was of 12.7%. Likewise, from 2009-2010 the industry has had a 23.4% increase in net profit (3PL Growth to Slow to 10.9 Percent, 2011).

Certainly, there are several differences between logistics outsourcing practices in the US and Brazil. To begin with, both countries have an extensive portfolio of services offered by 3PLs, but it seems like the most demanded services vary from one country to the other. 3PL service offerings include value-added warehousing and distribution (VAWD), supply chain consultancy, reverse logistics, customs services, product labeling, packaging, kits assembly, tax
support, transportation planning and management, in others. However, the US outsources many of the more specialized and strategic services on the list while in Brazil only basic transportation, customs services and, warehousing services are generally being outsourced (Hofer & Armstrong, 2008).

Regarding contracting and selection of a 3PL, in the U.S., contracts between shippers and 3PLs are an important component while in Brazil local firms do not even use them most of the time. In addition, American firms seem to be very selective of the 3PL or 3PL-customer they will partner with. For instance, customers in America make an initial selection of a group of 3PLs, followed by audits and quality assessments before proceeding to the final selection run. Also, they take their time to manage and control the efficiency of the 3PL partner through quarterly business reviews, score card processes, different type of audits, Key performance Indicators (KPI), etc. (Participant 1, personal communication, August 19, 2011). Differently, in Brazil, “who you know is more often than not more important than what you know or the product that you offer” (UHY, 2010). Thus, firms involved in logistics outsourcing seem to base their selection on the 3PL’s reputation.

Operationally speaking, it is a greater challenge for Americans to “enter other countries’ home markets than foreign firms face entering the U.S.” and in Brazil the problem resides in the complexity of taxes and import and export regulations. More specifically, duties and taxes are levied in Brazil to protect local industries but this ends up being a major revenue generator as opposed to being a trade facilitator. Additionally, Brazil’s logistics industry deals with higher inventory levels and longer lead and cycle times, which make logistics operational costs higher than those in the U.S. For instance, Brazilian companies must hold inventory for approximately 65 days compared to 43 in the U.S.; this, translates into $118 in excess inventory (Hofer & Armstrong, 2008).

Regarding relationships between 3PL-3PL customers, while the U.S. appears to be further developing the industry transformations explained earlier in Section 1, Brazil seems to be doing so with years of delay. As Figure 3 illustrates, while 3PLs in America seem to have already developed a strategic supply chain partnership with the client, Brazil seems to have only evolved to a more upgraded transactional relationship (Participant 9, personal communication, October 12, 2011).

**Figure 3** The Comparison between the Brazilian and the American evolution of 3PLs’ capability developments

- **I.** Local and mid-sized firms in Brazil
- **II.** U.S. based firms with operations in Brazil
- **Firms in the U.S.**
Clearly, there are several differences between the behavior of logistics outsourcing in Brazil and the U.S. but there is questioning about where these differences might come from. The reminder of this paper proposes that Institutional theory can shed some light on these intricacies.

3. Theoretical Framework

Institutional Theory provides a theoretical basis that is frequently used to investigate management phenomena in the Chinese environment. Some of the subjects that have been investigated from an institutional perspective are technology adoption for logistics and supply chain management (Zhang and Dhaliwal, 2009), firm commitment and job satisfaction (Lau et al., 2002), market orientation (Kshetri, 2009), and joint venture behavior and performance (Li et al., 2001). Likewise, institutional theory is well-suited to investigate how logistics outsourcing behavior is influenced by regulative, economic and socio-cultural forces in Brazil relative to the U.S.

3.1 Institutional Theory

Institutional theory stresses that the institutional environment has a strong impact on a firm’s strategies and actions. The institutional context of an organization consists of its internal culture and other external factors that come from the state, society and relationships with other firms. Institutional forces set a “social framework of norms, values and taken-for-granted assumptions about what constitutes appropriate and acceptable economic behavior” In other words, experts stress that the principle of economic optimization (which is based in technological, informational and income limits) does affect managerial decision making but not to such an extent as social justification and obligations. Hence, managers’ behavior end up being “compliant, habitual, unreflective, and socially defined” rather than rational and economically reasonable. (Oliver, 1997)

Institutional forces are composed by formal and informal constraints; the former include rules, laws and constitutions, while the latter refers to social norms, conventions and self-imposed codes of conduct (North, 1996). Together they explain three different conducts of assimilation among human beings and businesses that compose the legitimization process of a system subject to institutional forces (DiMaggio and Powell, 1983): coercive, normative, and mimetic legitimization (or isomorphism). Coercive legitimization refers to organizations’ behaviors in response to formal and informal regulative pressures from coercive authorities. Normative legitimization refers to the organization’s adoption of behavior that is influential
because it is considered professional and shared across firms. Mimetic (or imitative) legitimization occurs when firms experience uncertainty and thus, imitate behaviors perceived as more successful models. (Zhang and Daliwal 2009)

3.2 The Institutional Environment in Brazil and the U.S.

For purpose of this study, the formal and informal constraints described by North (1996) are categorized into three major groups: regulative forces, economic forces, and socio-cultural forces. The central belief of this research is that the normative and coercive pressures originated by these three forces shape logistics outsourcing practices.

3.2.1 Regulative Forces

Business management is significantly influenced by the governmental, judicial and professional institutions and regulations (Hofer & Armstrong, 2008). For instance, Rao et al. (2005), points out that government facilitation style influences trust between managers in business partnerships. To better understand how business management can be impacted by differing governmental effect, Pearce (Rao et al, 2005), has made a clear distinction: facilitative vs. non-facilitative governments. Facilitative governments are “supportive of organizations, and provide predictable laws and regulations that these governments are capable of enforcing, that is, structural assurances supporting exchanges.” Li, Park and Li, (2004) would refer to this mode of governance as rule-based because it is a country that is able to enforce transparent rules that are easily spread to all public and are universally applied. On the other hand, non-facilitative, “are unwilling or incapable of providing the infrastructure to support extensive impersonal exchange” which hinders independent organizations (p. 105 – 106). Li, Park and Li (2004) refer to this type of governance as relation-based regulation; where individuals are lead to build personal relationships and depend on social networks in order to avoid public rules and protect their own interests (Vaqueiro, 2004).

Government and agencies in Brazil and the remainder of Latin America are considered to be non-facilitative and bureaucratic (Vaqueiro, 2004). For instance, an example in Brazil is the complexity on the tax system and more specifically, on the Tax on Circulation of Goods and Services (ICMS) which is different for each of the 27 Brazilian states. There is a 12% variance that depends on the particular product and the state (Hofer and Armstrong 2008). This issue can be very costly; thus, freight transporters would look for “ways around the rigidities of the system.” ‘Jeitinho,’ is the term used by Brazilians when avoiding these slow moving and bureaucratic processes (Hustead, 2002 in Vaqueiro 2004). As every society under a relation-based regulation, as a means to obtain the needed benefits and protection that the government fails to provide, Brazilian managers place a greater emphasis on their search for reciprocal relationships and personal networks. (Vaqueiro 2004).

Differently, the United States has a facilitative government and provides very reliable public regulations. Thus, the American mode of regulation is rule-based because it is a country that is able to enforce transparent rules that are easily spread to the public and are universally applied. For example, unlike Brazil, there is no complexity in the American tax system on circulation of goods. The U.S. Constitution limits this and other types of afflictions with the “commerce clause” which actually prevents “undue burdens” on commerce within states. Generally, there is no such thing as unfulfilled benefits or a dependence on personal networks to
protect your needs. Thus, there are “high levels of public trust, or trust towards others” in American society (Vaqueiro, 2004 p8).

**Figure 4** Comparisons between regulatory forces between Brazil and the U.S.

**Brazil**
- Non-Facilitative Government
  - Bureaucratic
  - Lack of Support
  - Complex Regulations
  - Corruption

**Mode of Regulation:** Relation-Based

**U.S.**
- Facilitative Government
  - Supportive of Organizations
  - Predictable laws and regulations

**Mode of Regulation:** Rule-Based

### 3.2.2 Economic Forces

The Brazilian economy is currently ranked as the seventh-largest in the world and is on the rise (The World Factbook). In 2010, GDP growth has topped its record since 1986 with 7.6%; the country’s size in regards to land area and population makes it the fifth-largest nation in the world. Moreover, the country has an abundant variety of natural resources – agriculture, oil, gas and minerals – which continuously grows with the country’s interior development. In regards to technology, the Brazilian industry is in the top ten globally speaking “and the high literacy rate and good educational system creates a sound foundation for future developments” (UHY, 2010). Although highly unequal income distribution is still a problem as it is on its neighbor countries, Brazil is still South America’s “leading economic power and by far the largest and most populous country” in the continent; thus, consumer and investor confidence is increasing (South America Transport & Logistics 2011, 2011).

Nevertheless, Brazil’s infrastructure is still behind other middle-income countries, thus, hindering major international interest in Brazil. Roads, railroads and ports are pretty underdeveloped and although an extensive privatization program has led to an increase in investment in the 1990s, “in the past few years there has been a rise in private investment and less on public spending in infrastructure resulting in serious bottlenecks” (South America Transport & Logistics 2011, 2011). For instance, approximately sixty percent of freight is transported through the road system, the most important means of transport; However, of all existing roads, only twelve percent are paved (South America Transport & Logistics 2011, 2011). Similarly, the rail network, which ends up being a more economical transportation mode than road, is “in a very poor state of repair and some lines have to cross through shantytowns” (South America Transport & Logistics 2011, 2011). Also, there are not enough rail transportation flows among the different regions. The latter infrastructural issues, the size of the Brazilian
territory and the growth in air travel has led to a significant growth on air transport. Nevertheless, airport congestion is a big issue and again, infrastructure is lagging. For instance, thirteen airports of the top twenty do not have terminals that can meet today’s demand (South America Transport & Logistics 2011, 2011). Finally, although Brazil has approximately “50,000 km of navigable rivers for alternative freight transportation,” the maritime shipping is lacking capacity and ports urge to be updated and expanded (South America Transport & Logistics 2011, 2011).

As bad as it may sound, in the past few years, Brazil’s infrastructure has been experiencing improvements. Adrian Garcia, Schenker’s sales manager in Sao Paulo noted that “intermodal connections between the key [southern Brazilian] cities of Sao Paulo, Rio de Janeiro and Belo Horizonte have improved significantly in the last 3-4 years, as have connections outside the triangle” (South America Transport & Logistics 2011, 2011). However, most of logistics providers in Brazil still peg infrastructure as detrimental to the industry as it appears it is not improving at the pace it needs to (South America Transport & Logistics 2011, 2011).

The US economy is the largest and most technologically powerful in the world (The World Factbook). It is a market-oriented economy in which US organizations enjoy more flexibility than any other countries in “decisions to expand capital plant, to lay off surplus workers, and to develop new products” (The World Factbook). Thus, it is a greater challenge for Americans to “enter other countries’ home markets than foreign firms face entering the US.” Although, the Economic downturn in 2008 brought a very challenging era for American businesses some of which have not yet fully recovered, the US still maintains a dominant economy in the globe.

The American logistics infrastructure, unlike Brazil’s, has always been strong and supply chain executives agree that to date, it has not been a concerning issue for the industry. Nevertheless, while trillions of dollars are being spent in deteriorating infrastructure around the world, the U.S. is not adequately investing in theirs. The latter fact might not be noticeable or problematic now, but it is believed that it will weaken competitiveness in the future (Area Development Online, 2011). Like in Brazil, the largest percentage of U.S. freight is carried by trucks (60%) but the quality of U.S. roadways surpasses that of Brazil. The country “has, on average, 0.0275 km of paved highways for every square kilometer (sq km) of land” (Goldsby, 2000). The second largest transportation mode used in the U.S. is pipelines (18%), followed by rail (10%), ship (8%), and air (0.01%) (“Transportation in the United States”). Unlike, the 50,000 km of navigable rivers that Brazil enjoys, the U.S. has almost 42,000 km or 0.00045 km/sq km. Moreover, the U.S. has the world’s longest national railroad network (approximately 150,000mi (240,000 km of mainline track).

**Figure 5**  Comparison of Economic Forces between Brazil and the U.S
3.2.3 Socio-Cultural Forces

Hofstede (1991), who gained international recognition for describing the significant influence that culture has on organizational management, describes culture as “an abstract construct affecting human behavior”. After a multi-country study of national work related values, he demonstrated that culture is more often “a source of conflict than of synergy” and those cultural differences can prove disastrous (WHY CULTURE COUNTS, 2005). To facilitate understanding, he has identified five cultural dimensions: long vs. short term orientation, individualism vs. collectivism, low vs. high power distance, low vs. high uncertainty avoidance, and masculinity vs. femininity. In-depth review of the business literature with focus in Brazil and the US has proved that the first four dimensions are often used as a foundation for discussion (e.g., Lin and Miller, 2003; Chan Yie and Botelho, 2010; Macedo and Canen, 2009; Wallenburg et al. 2010). In the following subsections, the above mentioned dimensions are discussed in detail.

3.2.3.1 Uncertainty Avoidance

According to Hofstede’s studies, as in many other Latin American countries, the highest dimension in Brazil is Uncertainty Avoidance, meaning that society feels uncomfortable by uncertainty; thus, maintain a risk adverse attitude. Authority and organizations provide detailed plans and adopt many rules, laws, policies and regulations that are strictly implemented in order to avoid change or the unexpected (Geert Hofstede Cultural Dimensions, 1987-2009). On the other hand, the US has a very low Uncertainty Avoidance (UAI) level, which explains why they do not impose rules or structure unless necessary and all outcomes are not meant to be as strictly controlled. In addition, a low UAI level in America leads to a “greater level of tolerance for a variety of ideas, thoughts, and beliefs,” a higher willingness to accept risks and actually, a feeling of motivation brought by change (Geert Hofstede Cultural Dimensions, 1987-2009). Therefore, organizations maintain a very innovative and entrepreneurial spirit (Leng, Botelho, 2010).

Figure 6 Comparison of the level of Uncertainty Avoidance in the Brazil and the U.S.
3.2.3.2 Individualism

Moreover, Brazil has also been proven to be a society with a slightly higher level of Individualism (IDV) than the average Latin population; but still low enough to be considered a collectivist society (opposite of individualism). Therefore, not as strongly as in neighboring societies, the Brazilian culture still manifests “a close long-term commitment to the member ‘group,’” which can be a family, extended family, or extended relationships. In addition, collectivist cultures consider loyalty as superior to many other societal rules. In contrast, the US has individualism as its highest dimension, which explains the independence and common attitude of looking out for yourself and your closest ones (Geert Hofstede Cultural Dimensions, 1987-2009). Hence, unlike Brazil, “achieving one’s objective” might be more important than loyalty in a partnership. [3]

**Figure 7**  Comparison of Individualism (IDV) between Brazil and the U.S.

![Diagram showing comparison of Individualism (IDV) between Brazil and the U.S.]

3.2.3.3 Power Distance

American culture is known for having a low power distance dimension indicative of equality among different hierarchical levels within the government, organizations and even families. This leads to cooperative communication and interaction across all power levels. Thus, collaborative and stable environments are common within an organization or firm. On the other hand, high power distance predominates in the Brazilian society meaning that the less powerful members of organizations and institutions (such as the family) accept and expect power to be distributed unequally. “It suggests that a society's level of inequality is endorsed by the followers as much as by the leaders” (Geert Hofstede Cultural Dimensions, 1987-2009). In all societies, power and inequality are significant subjects to analyze; however, “anybody with some international experience is aware that ‘all societies are unequal, but some are more unequal than others’” (Geert Hofstede Cultural Dimensions, 1987-2009).
3.2.3.4 Long Term Orientation

Hofstede emphasizes that American culture was one of the few countries to which he added a Long Term Orientation Dimension, because it was its lowest dimension. He adds that a strong tendency towards a Short Term Orientation behavior is indicative of the populace’s belief in “personal steadfastness and stability”, fulfilling obligations and “protecting ones ‘face’” (Geert Hofstede Cultural Dimensions, 1987-2009). Consequently, it is more common in American business environments to note a strong commitment to one’s job and a stronger attempt to go an extra mile for customers. In contrast, Brazil’s society leans more towards a long term orientation, where persistence, thrift and a strong work ethic are two behavioral characteristics that predominate. Thus, it makes sense for businesspeople to remain in their business partnerships for longer even in the case of not being as successful as expected; moreover, businesspeople are very cautious before running the risk of terminating a partnership and not finding a suitable one afterwards. Ordering relationships by status and observing this order and, having a sense of shame are other common behaviors in a long term orientation society. Thus, it makes sense that Brazil is also characterized by having a high power distance dimension.

Cultures with higher levels of long term orientation like Brazil are characterized by their strong work ethic and their tendency to order relationships by status and observe this order. For instance, if it is a top 3PL with a good reputation or one that the client has a closer relationship with, probabilities are that work will be performed as expected. Besides, a low level of individualism is indicative of a culture that has loyalty as a societal rule; thus, a firm would feel committed to choose the 3PL they made business with before or have a closer relationship with over the one which might be a better option (Making Sense of Cross Cultural Communication).
4. Data Collection

After exhaustively analyzing the available literature to understand the institutional environment and the state of logistics outsourcing in each country, specific case-studies with executives from multinational 3PL and 3PL users where developed in the form of semi-structure interviews. Tables 1 and 2 provide a list of the case study participants by the industry of the company they belong to, the current position they hold, the time they have been in this position and the time they have been working in, or with, the logistics outsourcing industry.

Table 1  Study participants from companies operating in the US

<table>
<thead>
<tr>
<th>Participant</th>
<th>Industry</th>
<th>Position</th>
<th>Years in Industry</th>
<th>Years in Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Consumer of Packaged Goods (3PLuser)</td>
<td>Director of Wal-Mart Global Supply Chain</td>
<td>34</td>
<td>7</td>
</tr>
<tr>
<td>2</td>
<td>Consumer of Packaged Goods (3PLuser)</td>
<td>Transportation Security Manager</td>
<td>25</td>
<td>1</td>
</tr>
<tr>
<td>3</td>
<td>Logistic Outsourcing (3PL)</td>
<td>Global Network Solutions Director</td>
<td>33</td>
<td>6</td>
</tr>
<tr>
<td>4</td>
<td>Logistics Outsourcing (3PL)</td>
<td>USA Regional VP Managing Director of Customer Strategy</td>
<td>25</td>
<td>11</td>
</tr>
<tr>
<td>5</td>
<td>Logistics Outsourcing (3PL)</td>
<td></td>
<td>13</td>
<td>1</td>
</tr>
</tbody>
</table>

Table 2  Case Study Participants from companies operating in the Brazil

<table>
<thead>
<tr>
<th>Participant</th>
<th>Industry</th>
<th>Position</th>
<th>Years in Industry</th>
<th>Years in Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>Consumer of Packaged Goods (3PLuser)</td>
<td>Customer Service Manager</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>7</td>
<td>Consumer of Packaged Goods (3PLuser)</td>
<td>Corporate Manager Domestic Logistics and Sales Manager</td>
<td>23</td>
<td>0.5</td>
</tr>
<tr>
<td>8</td>
<td>Oilfield Services (3PLuser)</td>
<td>Director of Sales for Latin America</td>
<td>5</td>
<td>1.5</td>
</tr>
<tr>
<td>9</td>
<td>Logistics Outsourcing (3PL)</td>
<td>Latin America VP</td>
<td>19</td>
<td>4</td>
</tr>
<tr>
<td>10</td>
<td>Logistics Outsourcing (3PL)</td>
<td></td>
<td>25</td>
<td>2</td>
</tr>
</tbody>
</table>

5. Findings and Propositions
In the paragraphs below we provide propositions on how the institutional forces outlined in Section 3 may shape the behavior of logistics outsourcing practices in Brazil and the US. Propositions were developed based on the observation of institutional forces and the behavior of logistics outsourcing practitioners. For purpose of this study, logistics outsourcing practices where divided into three categories: Contracting and Selection, Operations and 3PL-3PL User Relationships.

Figure 10  The relationship between institutional forces and logistics outsourcing behavior

5.1. Contracting and Selection

**Proposition 1:** A non-facilitative governance and relation-based regulation in Brazil leads to the irrelevance of Brazilian 3PL clients towards contracting procedures. The effect is the opposite in the U.S. which is exposed to a facilitative government with a rule-based regulation. In addition, personal steadfastness and stability, common behaviors in a society with a low level of long-term orientation like the American, contributes to the use of short term contracts with a subject to renewal.

As explained in Section 3, a society exposed to a non-facilitative; thus relation-based regulation type of governance, is that one that would rely more on reciprocal relationships and personal networking than on following the rules imposed by governmental, judicial, or professional institutions. Thus, a contract would not mean as much to 3PL customers; instead, the reputation of the partnering 3PL or whether they already have an established extended relationship with the latter or not, is a more promising factor in regards to the protection of business arrangements than contracts would be. Participant 9, points out that local 3PL customer do not commonly require contracts in Brazil; generally it is multinational customers that do because they are following the business procedures applied in their corporate office in the US (Participant 9, personal communication, October 12, 2011, table 2).

In contrast, contracts are widely used in the American 3PL industry. To begin with, the rule-based regulation mode of governance is indicative of a facilitative government where the society’s trust towards rules imposed by the government and professional institutions is common. Consequently, contracts are relied on and there is no need for reciprocal relationships
to protect interests. In any case, the low level of long term orientation in America adds to the importance of contractual procedures. As described in Section 3, “personal steadfastness and stability” are common societal behaviors of such a cultural dimension (Geert Hofstede Cultural Dimensions, 1987-2009). Thus, when a firm is doing business with a third party, it is very common for rules, deals and performance expectations to be secured under a contract. Moreover, these contracts are generally short term which further demonstrates the importance of having everything under control. Logistics practitioners would avoid holding to a 3PL partnership that might not be contributing to the stability of their organization.

**Figure 11** The impact of the Brazilian mode of governance on contracting

**Figure 12** The impact of the U.S. mode of governance on contracting
Proposition 2: Differences in cultural dimensions impact the 3PL selection process. Specifically, lower levels of long-term orientation and higher levels of individualism in the U.S. leads to a stricter process while selecting a 3PL if compared to Brazil.

Like personal strength and stability, “protecting one’s face” and achieving one’s objective are additional common societal behaviors for a culture with a low Long Term Orientation and high Individualism Dimension; hence, 3PL users in the US are much more cautious in their selection of a 3PL than in Brazil. Results from the case studies demonstrate that 3PL users strictly look for quality, service and cost in a 3PL (the first being the most important). To assure these benefits in the 3PL, all respondents working for 3PL-users in the U.S., indicated to follow similar procedures to those provided by participant 2 specifically. The latter explained that the procurement group in charge of hiring a 3PL for transportation services makes an initial selection of 12-15 3PLs. It then narrows them down to a group of 2-5 and continues with a quality assessment until reaching a final decision. She then explains that the process for manufacturing services is simpler but this is because of the lower number of 3PLs that can offer such services in the market. In the latter case, they directly choose 3-5 3PLs before implementing the quality assessment (Participant 2, personal communication, August 16, 2011, table 1).

Nevertheless, not only 3PL customers, but 3PLs themselves are also selective of the clients they target. For example, participant 3, states that as a 3PL, they apply the so-called “Investment vs. Desirability” grid which measures two factors. First, they look at how transactional the company thinks; more specifically, if “they are all about rate, don’t want any system integrations, they change providers frequently, the commodity that they ship is really cheap or they are very careful on cost,” then they are not a convenient client. Probabilities are that a client with such low margin would not be able to invest on a relationship that would last long enough to be profitable. The second factor would be the profile of the customer’s actual logistics. As an example, imagine the company ships furniture in containers from China to the US; this practice would only focus on transit time and rate per container, it would be very repetitive, and transportation would be too commoditized and lack innovation opportunities for the 3PL to work on and make a profit (Participant 3, personal communication, August 22, 2011, table 1).

Certainly, if you see this cautiousness on selection processes in Brazil, it is because either the 3PL or the 3PL user is a US-based company following the procedures of its corporate office in the US. Cultures with higher levels of long term orientation like Brazil are characterized by their strong work ethic and their tendency to order relationships by status and observe this order. For instance, if it is a top 3PL with a good reputation or one that the client has a closer relationship with, probabilities are that work will be performed as expected. Besides, a low level of individualism is indicative of a culture that has loyalty as a societal rule; thus, a firm would feel committed to choose the 3PL they made business with before or have a closer relationship with over the one which might be a better option (Making Sense of Cross Cultural Communication).
Figure 13  The impact of long-term orientation (LTO) and individualism (IDV) on 3PL’s selection process in the U.S.

U.S.

Low Long Term Orientation (LTO)

- Personal steadfastness and stability
- Protecting one’s face

High Individualism (IDV)

- Societal Rule: achieving one’s objective

Impact on Selection

- Strict and careful process for 3PL selection

Figure 14  The impact of long-term orientation (LTO) and individualism (IDV) on 3PL’s selection process in Brazil

BRAZIL

High Long Term Orientation (LTO)

- Ordering relationships by status and observing this order
- Strong work ethic

Low Individualism (IDV)

- Societal Rule: loyalty

Impact on Selection

- Selection of the 3PL would be based on its reputation or on the extended relationship the latter shares with the client.
5.2. Operations

**Proposition 3:** Lower levels of uncertainty avoidance in the U.S., leads to higher levels of innovation in logistics outsourcing relationships as compared to Brazil.

In the U.S., customers encourage innovation and change because they are constantly looking “for continuous improvement” (Participant 1, personal communication, August 19, 2011, table 1). For instance, participant 2 pointed out that in theory 3PLs serve multiple suppliers “so they should know the best of what businesses are doing and should be bringing more innovative things to us as opposed to just meeting their needs.” She highlights the company’s expectations of 3PLs: “they should look at our business, not just do business” (Participant 2, personal communication, August 16, 2011, table 1). For instance, she mentions a business she handles as a second job and points out that for every quarterly business review, suppliers are required to offer two innovation ideas that would drive service and cost (Participant 2, personal communication, August 16, 2011, table 1).

Nevertheless, customers in Brazil with a high level of uncertainty avoidance and a risk–adverse attitude seem to fear and avoid change. Participant 9, director of sales in Latin America for a U.S.-based 3PL, explains that selling an innovative idea or solution to the client is challenging in Brazil: “what would take 3 calls and a couple of memos and analysis in the US, would actually take six to eight months in Brazil” (Participant 9, personal communication, October 12, 2011, table 2). He follows by pointing out that there is the set mind that change (e.g.: acquisition of technology) would take off jobs and increase costs” (Participant 11, personal communication, October 12, table 2). Moreover, he suggests that it is the history of bureaucracy and corruption in the society that contributes to this behavior. It should be noted that this occurs with mid-sized local companies but not with multinational customers based elsewhere, where decisions for change are generally made at the corporate office (Participant 8, personal communication, October 12, 2011, table 2).

**Figure 13** The impact of Uncertainty Avoidance (UAI) on Operations in Brazil and the U.S.

![Diagram showing impact of Uncertainty Avoidance on operations in Brazil and the U.S.](attachment:diagram.png)

**Proposition 4:** The Brazilian non-facilitative government contributes to the myriad of taxes and the highly complex import and export regulations that the logistics industry has to deal...
with. Inversely, the American facilitative-government prevents logistics practitioners from having to deal with these types of burdens.

The complex tax and import-export regulations in Brazil hurt operational costs, infrastructure, and the speed of transactions in the logistics arena. For instance, the tax rate for the Tax on Circulation of Goods and Services (ICMS) has a variation of 7-19% depending on the state and product. The latter affects 90% of truck shipments and can increase transportation costs by up to five times (Hofer & Armstrong, 2008). Consequently, sub-optimal truck routes are constructed regularly so that firms can take advantage of tax incentives. Thus not only do costs end up being too high, but infrastructure is also negatively affected. Moreover, import and export practices in Brazil involve a large number of regulations, duties, and customs channels; these make the process very lengthy and challenging for shippers or 3PLs when trying to deliver the product to the market in a timely manner. Participant 9, who has been nineteen years in the logistics outsourcing industry, insists that often times, foreign trade suffers from national protectionism in Brazil: “duties and taxes are levied to protect local industries and, are a major revenue generator versus being a trade facilitator” (Participant 9, personal communication, October 12, 2011, table 2). Figure 15 provides some of the most commons mistakes that 3PLs in Brazil have to face in the import process, together with the consequences that these might bring and the preventive actions that can be taken. Evidently, bureaucracy is still a problem but it can be controllable by applying the appropriate rules and measures, and “following up with the constant change in the foreign trade and customs laws, careful customer service and, communication efforts between the logistics provider and the importer” (Participant 9, personal communication, October 12, 2011, table 2).

In contrast, the American facilitative-government contributes to easing both interstate and foreign trade. The Commerce Clause in the U.S. Constitution specifically exists to avoid complexities with taxes or any type of difficulties on interstate commerce. Moreover, it is a market oriented economy; thus, import and export regulations are not as complicated as they are in Brazil. The firms in the US enjoy more flexibility than any other countries in “decisions to expand capital plant, to lay off surplus workers, and to develop new products” (The World Factbook). Consequently, it is a bigger challenge for Americans to “enter other countries’ home markets than foreign firms face entering the US” (The World Factbook).

Figure 14 The impact of Regulative Forces on Operations in the Brazil and the U.S.
Proposition 5: Poor logistics infrastructure in Brazil adversely affects operational efficiency and lead to higher inventory levels and higher transportation costs. In sum, poor logistics infrastructure in Brazil contributes to inefficiency and higher logistics costs as compared to the U.S.

Participant 9, a VP with nineteen years of experience in the 3PL industry, puts it simply: “Infrastructure in Brazil can be looked at similarly to Eastern Europe and India, where customers are moving quickly, but logistics infrastructure is in catch-up mode” (Participant 9, personal communication, October 12, 2011, table 2).

As explained on Section 3, roads, railroads and ports lack infrastructure and as Ricardo Ciarello, the Volkswagen de Brazil’s head of Logistics, assures, an inefficient infrastructure can easily add 20% to transport, fuel and maintenance costs. As an example, he mentions the commonality of accidents blocking the only highway that connects Sao Paulo and Curitabo City. As a consequence, Volkswagen parts need to be held in-house for three days minimum, “more than in countries in Europe or in US” (South America Transport & Logistics 2011, 2011). Interestingly, it is estimated that companies in Brazil must hold inventory for 65 days as compared to 43 days in the US, which translates into $118 billion in excess inventory (Armstrong and Hofer, 2008). Utilizing rail instead of road as the transport mode would lessen costs for the logistics industry in Brazil because it costs $27 per 1000km as opposed to $117 by road. However, as mentioned in Section 3, the rail network is in a worst state of repair; thus, even though costs are higher, more than half of freight shipped in Brazil, is transported via road (South America Transport & Logistics 2011, 2011).
Besides the increase of costs, logistics providers are challenged by getting the suppliers’ products to the market in a timely manner. For instance, it is not only the required documentation that makes import and export practices very time consuming processes, but it also has to do with congestion and the lack of capacity at ports. Eike Batista, a mining mogul, expresses its frustration with the “constant delays in getting iron ore from its mines onto ships bound for China” (South America Transport & Logistics 2011, 2011). Especially during peak seasons, there is not enough ships for departures and that is all they talk about in the news (Participant 8, personal communication, October 12, 2011, table 2). Logistics outsourcing practitioners have to constantly deal with these complexities at ports since the majority of international cargo that moves into the country moves via ocean (South America Transport & Logistics 2011, 2011).

Nevertheless, the fact that the Brazilian infrastructure has been improving in the past few years, has led major logistics providers to increase their investments in warehousing and related logistics services. For instance, Penske Logistics, “recently opened a new 110,000 square foot distribution center in Manaus to support their customer Whirlpool” (South America Transport & Logistics 2011, 2011). Clearly, further heavy investment is expected by the industry.

While many of the respondents in Brazil referred to infrastructure as a challenge for the industry, none of the respondents in the U.S. suggested that infrastructure might be a problem.

**Figure 16**  The impact of Brazil’s poor infrastructure on logistics operations

![Diagram showing the impact of Brazil's poor infrastructure on logistics operations: Poor logistics infrastructure leads to high inventory levels, high holding costs, high transportation costs, and delays on deliveries to the market.]

### 5.3 3PL-3PL User Relationships

**Proposition 6:** Regulatory forces such as a facilitative vs. non-facilitative government and, a rules-based regulation vs. relations-based regulation mode of governance, may strongly impact the evolution of the logistics outsourcing industry in Brazil and the U.S. Specifically, while 3PLs and 3PL clients in the U.S. are developing a more strategic relationship, Brazilian clients seem to “have only evolved to a more upgraded transactional relationship” (Participant 9, personal communication, October 12, 2011, table 2) with 3PLs in Brazil.
As explained in Section 2, many 3PLs throughout the world are changing from being a business “for execution of transactions to being a supply chain partner who actually helps clients not only design but also operate activities in their supply chain” (Participant 3, personal communication, August 22, 2011, table 1). On the one hand, it does not seem to be a challenge for 3PLs in the U.S. to go beyond executing transactions and be fully engaged in their client’s supply chain helping them drive the chain and performance (Participant 3, personal communication, August 22, 2011, table 1). On the other hand, as figure 3 demonstrates earlier in Section 2, in Brazil, 3PLs do not seem to have developed this strategic relationship yet with their mid-sized and local clients and they seem to “have only evolved to a more upgraded transactional relationship” (Participant 9, personal communication, October 12, 2011, table 2).

The non-facilitative and relations-based type of governance in Brazil contributes to Brazil’s slower pace in the industry’s major transformations as compared to the pace the U.S. has been able to develop. As mentioned earlier, the historically bureaucratic environment in Brazil has led the populace to be skeptical of rules and intentions from the government or other professional institutions (Vaquerio, 2010). Likewise, unless there is a mutual relationship already set before doing business, 3PL users in Brazil would more than likely distrust a 3PL to contribute at a strategic level. Instead, 3PL users trust 3PLs contribution on simpler needs like picking up shipments, preparing documentation, etc. (Participant 9, personal communication, October 12, 2011, table 2). Thus, while clients in the U.S. have no second guesses on the 3PL’s objectives and seem to trust the 3PL for more sophisticated needs that involve sharing their supply chain conflicts and strategic goals, Brazilian clients have no open communication or transparency with their 3PL; this, in turn, delays the development of a more strategic relationship between the Brazilian client and its 3PL.

Nevertheless, it should be noted that even in America, “the commitment to collaboration and trust is still emerging” (Participant 3, personal communication, August 22, 2011, table 1). Participant 9, highlights that, “this is a history of behavior and we (3PLs) need to train people to think differently; 3PLs have to be the first ones to show that they can be trusted and the customer will reciprocate by being more candid with us” (Participant 9, personal communication, October 12, 2011, table 2).
Proposition 7: The contrast between each country’s socio-cultural forces such as the level in Uncertainty Avoidance Dimension (UAI) and Individualism (IDV) leads to very different ways of relating with business partners. US-based 3PLs that move operations to Brazil may have some difficulties at first in their relations with prospective Brazilian clients and even with their recently recruited Brazilian staff.

As explained earlier, it is common in societies with a high Uncertainty Avoidance Dimension (UAI) as it is in Brazil, to communicate often and “express their emotions through hands gestures and raised voices” (Mind Tools, 1996 - 2011). Differently, a society with a low UAI, like the American prefers to minimize communication and their emotional responses. Participant 11, who has served twenty five years in the 3PL industry, shared what he learned from his experience as a VP of Latin America:

“Many times we (American 3PL industry) try to impose the ideology of logistics in the US to Brazil and we fail to listen. Here in Brazil, we need to take time to meet people and have a conversation before actually doing business but in the US it takes only a meeting” (Participant 11, personal communication, October 3, 2011, table 2)

The level of the Individualism Dimension (IDV) may also explain this difference. The Brazilian society with a low IDV is accustomed to showing sympathy towards the group member. However, in American society it is, “all about “me” at work and there is no “need to slow down for a “good morning” and a conversation with teammates” (Participant 11, personal communication, October 3, 2011, table 2).
Moreover, it is common for businesspeople in societies with a high UAI, not only to communicate often but “provide detailed plans and focus on the tactical aspects of a job or project” (Mind Tools, 1996 - 2011). Thus, US-based 3PL or shippers may get impatient by this behavior because they do not impose rules or structure unless it is really necessary.

**Figure 17** The Impact of Uncertainty Avoidance on 3PL-3PL user relationships in Brazil and the U.S.

**Figure 18** The Impact of Individualism on 3PL-3PL user relationships in Brazil and the U.S.
**Proposition 8:** Higher levels of individualism (IDV) and lower levels of uncertainty avoidance (UAI) in the U.S. lead to the easier termination of logistics outsourcing arrangements when compared to Brazil.

On the one hand, as explained in Section 3, individualistic societies, such as the US, live with a strong focus on looking for oneself and achieving one’s objectives. Therefore, if a business partner is not performing as expected there would be no qualms on terminating the partnership. Consequently, it is understandable that in the U.S. “if the 3PL is not meeting the needs, then the relationship can terminate immediately” (Participant 1, personal communication, August 19, 2011, table 1). In contrast, the Brazilian society has a much lower IDV which indicates that “loyalty” to the member group or relationship is a societal behavior which surpasses any other. Consequently, a firm may remain in the 3PL relationship for longer than in the U.S., at least until proving that results would not be achieved.

A high UAI, indicative of a risk-adverse attitude, also contributes to the latter fact. More specifically, local 3PL-customers in Brazil would rather hold on the current 3PL partnership than take the risk of not finding a replacement afterwards. For instance, participant 8 mentioned that their 3PL partner was recently missing a shipping order. However, instead of going a step further in trying to find it, the 3PL simply informed the client about the issue without assuming responsibility (Participant 8, personal communication, October 12, 2011, table 2). The client called this to the 3PL’s attention; however terminating the relationship with the 3PL has not been considered by participant 8. Inversely, as participant 1 and participant 2 suggest, if this would be the case in the U.S., the client would not have had any qualms in terminating the partnership and would have already started to look for a new 3PL to partner with.

**Figure 18** The impact of Individualism on 3PL-3PL user relationships in Brazil and the U.S.
Proposition 9: Higher levels of power distance in Brazil are detrimental to the development of collaborative partnerships between 3PL and 3PL users. Specifically, local 3PLs and 3PL users do not tend to see each other as equals and, therefore, do not exhibit much interest in resolving conflicts. Conversely, lower power distance in the U.S. is beneficial to such development.

The unequal distribution of power among hierarchical levels in Brazil is expected and respected at all levels but many times, in a business setting, the respect for senior personnel turns to fear and intimidation. Thus, local 3PLs in Brazil would not feel as comfortable as those 3PLs in the U.S. pointing out to the customer that something is wrong in their supply chain network, which in turn, hinders the development of a supply chain strategic relationship (Participant 3, personal communication, August 22, 2011). Likewise, a U.S.-based 3PL operating in Brazil may have no qualms in pointing out the need for change in the customer’s supply chain network; however, the former may find it challenging to sell an idea to the Brazilian firm because of the power distance within the client’s organization. Participant 11, VP of Latin America and in the 3PL industry for twenty five years, highlighted that in Brazil, “many times when they try to sell an innovative idea to the client, the contact employee would agree to it but would never flip it to his/her boss” (Participant 11, personal communication, October 3, 2011, table 2).

Differently, the low power distance index in the U.S. draws individuals to be more informal in sharing opinions. Participant 3, a global director in the 3PL industry for over thirty years, explains that “in America the customer is not a God but just a person. If it is the president of the company, there is respect for his experience and knowledge but if he says something on Supply Chain, I look at them kind of equal – we can both be very open, try that in China” (Participant 3, personal communication, August 22, 2011, table 1). Today, 3PL customers in the U.S. and most parts of the world, have tremendous pressure for having high performance supply chain so they need and want their partner 3PL to be able to have an equal conversation with
them; which could only result in a fruitful business partnership that would drive the client’s supply chain.

Figure 19  The impact of power distance on 3PL – 3PL user relationships in Brazil and the U.S.

6. Discussion of the Findings

In the current global and uncertain economic environment, the logistics outsourcing industry continues to increase in importance. Companies can focus on their core competencies while third party logistics providers (3PLs) improve their logistics practices and cut costs. As the number of firms outsourcing their logistics services increase, the number of logistics activities being outsourced keeps extending as well. Moreover, there is an ongoing evolution in 3PLs’ capability developments that is still emerging throughout the globe, in some countries faster than others. More specifically, 3PLs have been upgrading their services from simple execution of transactions such as arranging to pick up shipments and preparing all needed documentation for it, to more strategic services such as the collaboration on the design and operation of the client’s supply chain. Nevertheless, as 3PL users such as manufacturers and shippers, and 3PLs expand operations to other countries, they may fail to understand that what works in one location may or may not work somewhere else.

Semi-structured interviews with executives from 3PL users and 3PLs in Brazil and the U.S. provide evidence that indeed, institutional forces do play a role in several aspects of logistics outsourcing, such as contracting and selection, operations, and the relationship between service providers and their customers. Evidence illustrates that some institutional forces may have a stronger impact than others in the logistics outsourcing industry in both countries.

On the one hand, it seems that socio-cultural and regulative forces are the most critical and the ones that impact the Brazilian logistics outsourcing behavior the most. In regards to socio-cultural forces, higher levels of uncertainty avoidance in Brazil hinder firms’ openness towards 3PL’s suggestions on major innovational changes; Brazilian clients have the mindset
that it may bring unexpected outcomes or put jobs or expenses at risk. Thus, you do not see many 3PLs serving the clients in driving their supply chain and performance. However, many times in the U.S., firms that partner with 3PLs, look for continuous improvement in their supply chain and expect innovative solutions to be brought. Furthermore, a combination of high uncertainty avoidance and low levels of individualism in Brazil, may lead to the preservation of a partnership with an unfruitful 3PL. The high levels of uncertainty avoidance suggest that the customer may not want to terminate a 3PL partnership in order to avoid the risk of not finding a 3PL that would fulfill their needs afterwards. Additionally, because of the weight that loyalty has as a societal rule in collectivist (opposite of individualist) cultures, many times for Brazilian clients, it is not all about the service that the 3PL may offer; a previous or extended relationship with the partnering 3PL may surpass the former factor. Thus, even if there is a better 3PL in the market, the client would feel committed to partner with the 3PL they share a closer relationship with.

A final socio-cultural consideration is that higher levels of power distance among hierarchical levels in Brazil hinder the development of true and collaborative 3PL-3PL user partnerships. Specifically, local 3PLs and 3PL users do not see themselves as equals, and the respect of 3PLs towards their clients may turn into fear and intimidation. Consequently, 3PLs feel uncomfortable pointing out problems in the client’s supply chain. However, there needs to be space for open and equal conversations in a true partnership so that together they work on resolving the conflicts in the client’s supply chain and drive the chain and performance. Likewise, the power distance within a Brazilian firm can present challenges to a U.S–based 3PL trying to sell an innovative idea to a Brazilian client. More specifically, the employee may agree to the idea but for reasons of power distance would fear trying to sell it to his/her boss. Moreover, 3PLs expanding operations to Brazil should be aware that their sales staff needs to be able to speak the language of sophisticated potential U.S-based customers that actually encourage change and innovation, as well as being able to sell towards more standardized and commoditized services, which is the case for the majority of small and mid-sized Brazilian clients.

Concerning regulative forces, a non-facilitative and relation-based type of governance in Brazil, explains the lack of trust on governmental, judicial and professional institutions and this portrays the irrelevance of Brazilian 3PL clients towards contracting procedures as a tool to secure agreements. For the most part clients use contracts infrequently and rely on social networking and personal relationships in protecting their business arrangements. Additionally, the myriad of taxes and trade regulations imposed by the Brazilian non-facilitative government hurts the transportation infrastructure, hinders the product from getting to the market in a timely manner, and increases operational costs. Finally, the history of bureaucracy in Brazil contributes to the lack of trust among businesses; this behavior hinders the development of more collaborative and strategic relationships between 3PL and the 3PL users which would ultimately drive supply chain performance.

On the other hand, it seems like the logistics outsourcing industry in the U.S. is mostly impacted by the difference in socio-cultural forces. For instance, higher levels of individualism and lower levels of uncertainty avoidance in the U.S. lead to a stronger focus on achieving the firm’s objective; and unlike Brazil, businesspeople have no fear towards sudden changes. Thus, Brazilian 3PLs may need to be aware that unlike their clients back home, US-based firms expect 3PLs to go that extra mile if necessary and may have no qualms in terminating the partnership if that is not the case. Additionally, high levels of individualism and low levels of long-term orientation in the U.S. is indicative of a society that has a strong emphasis on achieving one's
objectives and maintaining one’s strength and stability. Consequently, while 3PL users in the U.S. run strict quality assessments on a prospective 3PL, 3PLs also have a selection procedure that they cautiously follow in order to identify the clients that would be profitable to them from the ones that would not. Brazilian 3PLs should be aware of the stronger relevance that quality and service have for American firms.

To conclude, managers should be attentive to all these aspects. Understanding the institutional forces inherent to each country may better prepare firms in the coordination of logistics outsourcing practices and engagement of 3PL-3PL user relationships with foreign companies.

7. **Limitations**

To prove that the logistics outsourcing behavior varied between Brazil and the U.S., and, that these differences came from the contrast in each country’s institutional forces, 3PLs and 3PL users that operate in both countries have been selected to participate on the semi-structured interviews. However, the firms representing Brazil, where US-based; thus, many would follow the same procedures imposed by the corporate office in the U.S. Nevertheless, the interviewed US-based 3PLs operating in Brazil also serve local and mid-sized firms so they were able to provide valuable insights on the country’s logistics outsourcing behavior. Adding local 3PLs and 3PL users in the sample representing Brazil would be suggested for future research.
References


APPENDIX 1

CASE STUDY PROJECT – RESEARCH PLAN

I. Goal: 6 In-depth Case Study Profiles
   A. Statement of Purpose
      The purpose of this research is to depict a comprehensive picture of the state of logistics outsourcing practices in Brazil and the US. The researcher will shed some light on the unique intricacies of both markets regarding aspects such as 3PL selection, contracting, and relationship management. Moreover, the researcher will investigate the relative impact of institutional forces (economic, socio-cultural, and regulative forces) on logistics outsourcing practices in both countries. This research will contribute to firms currently or with interest in operating in both countries in identifying more suitable strategies.
   B. Research Questions/ Issues
      1. Current State of the Company
         - Major business & organization of the company
         - Company’s current changes, issues, challenges and/or goals
      2. 3PL Selection
         - Decision process – who or what areas are involved?
         - The process followed for selection – any methodology?
         - Factors considered for selection
      3. Contracts
         - Handling of negotiations for the contract’s design
         - Short Term or Long Term Contracts?
         - Level of fixation or level of flexibility throughout time regarding rules set at the starting point
      4. Services
         3PL Users:
         - Services mostly outsourced
         - Services mostly insourced
         3PLs:  
         - Services provided the most
         - Least provided services
      5. Operations
         - Issues or traits when involved in logistics outsourcing / 3PL-3PL user partnership
            Personal Issues
            - EG: 3PL’s lack of understanding; scarcity of logistics professionals
            Infrastructural Issues
            - Impact on Supply Chain practices & flow
            - Impact on Costs
            - Impact on Security
            Economic Issues
            - EG: Lack of Financial Stability in 3PL
            Governmental & Regulatory Issues
            - Tax Regulation
            - Import/Export Regulations
            - Any Government Logistics Plans?
            Operational Issues
            - Agility & Creativity
            - Flexibility
            - Visibility
6. 3PL – 3PL user relationship
   - Factor perceived as key for successful relationship?
   - Perception of collaboration regarding:
     - Strategies & Tactical Planning
     - Technology
     - Operations
   - Management of 3PL-3PL user relationship
     - Progress reporting and/or revision of needs, changes or goals
     - Measurement performance and achievements
   - What is sufficient to ensure retention of 3PL partnership
   - What would lead to the termination of the 3PL partnership

C. Unit of Analysis—Information collected from the semi-structured interviews (both 3PLs and 3PL users) and from the literature review (secondary research).

I. Methodology/Case Study Design
   A. Multiple Case Design
      1. Each case is part of and a replication of the experiment rather than a single response to a survey. Not sampling.
      2. Develop a standard case format and write up each case individually and immediately after terminating conversation (conversations will be taped)
      3. Identify patterns, inferences from findings and do an overall write up of the latter.

   B. Sample Selection
      1. 3PL firms and firms known to be involved in partnerships with 3PLs or some form of logistics outsourcing in the US and Brazil.

      2. Cooperation
         a. 1 executive or employee with enough experience in the industry
         b. Willingness to share knowledge obtained from past experience and to provide examples to support opinion/point if relevant.
         c. Have this information utilized as aggregated data for the thesis report (without divulging the participant’s name or identifying answers with that of the company)

      3. Firms from a variety of industries, both manufacturing and non-manufacturing

   C. Basic Outline of overall study report
      1. Introduction
         a. Current Growth of Logistics Outsourcing
b. Challenges brought by growth

c. Importance Manager’s Awareness of Issues and Differences to better deal with them

d. Main contributions of this research
   - To research
   - To practitioners

e. Institutional Theory to investigate factors that impact practices in the US and Brazil
   - US and Brazil important economies

f. Figure on scope of the study

g. Structure of the thesis

2. Current State of Logistics Outsourcing in US and Br

3. Theoretical Framework

4. Findings
   - Propositions regarding the impact of theoretical forces on logistics outsourcing behavior

5. Discussion of Findings

6. Limitations and Future Research

7. Bibliography

8. Appendices

D. Pilot Study

E. Collecting Evidence

1. Four Crucial ideas
   a. Multiple sources of evidence (more than one source to converge on same topics)
   b. Literature Review:
      i. Secondary data to be traceable
      ii. Outline to be filled (intro, theoretical framework, etc…)
   c. Case Study data base – Primary data to be observable
   d. Chain of evidence to link questions asked, secondary and primary data collected, and the conclusions drawn.

2. Sources of evidence
   a. Documentation
      - Copy of articles (saved by author and key words)
      - Companies’ Internal memos, reports, announcements
      - Taping Records
   b. Archival Records
      - Article Reference Chart
      - Bibliography
      - Chart of Figures to use
   c. Interview
      - Key: Open ended questions, key events or examples and options of those events, why did firm involved in logistics outsourcing
      - Focused: 1hr interview to cover a lot; no need for all questions to be open ended
   d. Establish a Data base (for case study reliability)
      - Taped conversations
      - Case Study notes: Interviews & document analysis
      - Tabular materials
- Narratives
APPENDIX 2
INTERVIEW GUIDE FOR 3PL USERS

BACKGROUND

Name ____________________________________________________________

Company Name ___________________________________________________________________________________________

Division _________________________________________________________________________________________________

Industry _________________________________________________________________________________________________

Job Title _________________________________________________________________________________________________

Years in Position __________________________________________________________________________________________

Years with Company _______________________________________________________________________________________

Years in Logistics Outsourcing ______________________________________________________________________________

Annual Revenue ___________ Annual Sales _______________________________

1. What is the major business of your company?

2. Are you experiencing any changes in your supply chain division or practice? Have you experienced any in this year to date? Please discuss.

3. How is the Supply Chain/Logistics division organized?

3PL SELECTION & CONTRACTS

4. At what company level is the decision to outsource logistics practices to a 3PL made?

5. What is the process utilized for the selection of 3PLs? Is there a step-methodology?

6. What factors are considered when selecting a 3PL? Is there a critical factor among the mentioned?
   - Do Green Supply Chain initiatives matter in the selection process?

7. How are the negotiations for designing the contracts handled?
   - Do you include penalties for non-performance?
   - Any performance incentives included?
SERVICES & OPERATIONS

8. What specific logistics services are the most frequently outsourced to 3PLs in Brazil/USA?  
   - What services does the company prefer to insource instead? Can you elaborate on that?

9. What overall benefits do you expect the 3PL to bring to the company with their service?

10. Any issues inherent to logistics practices or partnering with 3PLs in Brazil/US in regards to:
    - Personal issues
    - Infrastructural issues
    - Governmental and Regulatory Issues
    - Economic Issues
    - Operational Issues
    - Cultural Issues

3PL-3PL USER RELATIONSHIP:

11. In your opinion, what is a key factor needed for a successful 3PL-3PL user relationship?

12. How do you perceive the commitment to collaboration in your partnership with 3PLs in “x” country? In terms of:
    - Strategic & Tactical Planning
    - Technology
    - Operations

13. How do you manage the relationship with 3PLs? How do you manage the operational and/or performance expectations and achievements?

14. What factors would lead you to terminate the partnership with a specific 3PL? What factors would contribute to the retention of that 3PL?

15. Would you appreciate suggestions from the 3PL for innovative changes even if these would require modifying the rules set when starting the relationship? Or would you rather stay strict to the rules?

16. What would you advise 3PLs to consider as big opportunities to further their success in the next couple of years?
17. What is the major business of your company?

18. Are you experiencing any changes in your supply chain services or practice? Have you experienced any in this year to date? Please discuss.

19. How is the company organized?

**3PL SELECTION & CONTRACTS**

20. At what company level is the decision to serve a customer and his particular needs made?

21. What is the process utilized for this decision making? Is there a step-methodology?
   - Is there a critical factor that would lead you to reject an offer for your services?
   - Do Green Supply Chain initiatives have a strong influence on the decision?

22. How are the negotiations for designing the contracts handled?

**SERVICES & OPERATIONS**

23. What services would you say shippers demand the most from 3PLs in ‘x’ country?
   - What specific logistics services does your company provide the most?
   - What services does the company prefer not to provide? Can you elaborate on that?

24. Any issues or traits inherent when managing a 3PL in ‘x’ country? In regards to:
   - Personal issues
   - Infrastructural issues
   - Governmental and Regulatory Issues
   - Economic Issues
- Operational Issues
- Cultural Issues

**3PL-3PL USER RELATIONSHIP:**

25. How do you perceive the commitment to collaboration in your partnership with 3PLs in ‘x’ country? In terms of:
   - Strategic & Tactical Planning
   - Technology
   - Operations

26. How do you manage the relationship with your customers? Is there a process followed to make sure that the operational and/or performance expectations of the customer are being met?

27. What factors would lead you to terminate the partnership with a customer?

28. Would you suggest any innovative and beneficial changes to a customer’s operations even when not asked for consultation?
   - Generally, do shippers in ‘x’ country maintain a positive attitude towards possible innovative changes?

29. What overall benefits do you want the customer to acknowledge/receive from the partnership?
   - In your opinion, what is the one key factor needed for a successful 3PL-3PL user relationship?

30. What do you see as a big opportunity to further 3PL’s success in the next couple of years?
APPENDIX 4
LETTER OF INTRODUCTION AND ATTACHMENT

Dear ____,

I am a senior at the Sam M. Walton College of Business majoring in Transportation & Logistics; I requested the favor of being introduced to you via email because I am writing my honors thesis on International Logistics Outsourcing in Brazil and the US at the moment, and your company may be able to contribute greatly to this. As part of my research, I am asking some managers from 3PLs (third party logistics providers) and 3PL users (shippers) as sources to participate in semi-structured interviews with me. I was wondering if someone from the supply chain area would be willing to volunteer. To express my appreciation, I would prepare a copy of the thesis and an executive summary report upon completion in December for you.

Please find attached:
- **Informed Consent**: contains relevant information about the project and confidentiality factors.
- **Statement of Purpose**
- **Interview Guide for 3PL Users**: These are tentative questions that would be asked during the conversation. I am looking for insights and examples under any of these areas; not necessarily all of them.

It would be great to have a volunteer from the office in Brazil and/or another one in the US. I would be scheduling a 45min-1hr Skype or phone call appointment with each; time and dates would depend completely on your availability.

Your contributions would be of great value to my project.

With much appreciation,
Attachment I

International Logistics Outsourcing: An Institutional Theory perspective on Brazil and the U.S.

Statement of Purpose

The purpose of this research is to depict a comprehensive picture of the state of logistics outsourcing practices in Brazil and the US. The researcher will shed some light on the unique intricacies of both markets regarding aspects such as 3PL selection, contracting, and relationship management. Moreover, the researcher will investigate the relative impact of institutional forces (economic, socio-cultural, and regulative forces) on logistics outsourcing practices in both countries. This research will contribute to firms currently or with interest in operating in both countries in identifying more suitable strategies.
Attachment III

Informed Consent

Title  International Logistics Outsourcing: An Institutional Theory Perspective on the U.S. and Brazil

Description: The purpose of this research is to depict a comprehensive picture of the state of logistics outsourcing practices in Brazil and the US. The researcher will shed some light on the unique intricacies of both markets regarding aspects such as 3PL selection, contracting, and relationship management. Moreover, the researcher will investigate the relative impact of institutional forces (economic, socio-cultural, and regulative forces) on logistics outsourcing practices in both countries. The semi-structured interviews with logistics executives will contribute to the information gathering and discussion process for the report.

Risks and Benefits: The benefits include contributing to firms currently or with interest in operating in any of the two countries in identifying more suitable strategies; also, contributing to the literature of researchers and consultants that have already looked at few several countries at the same time. Participants in the semi-structured interviews will be receiving a copy of the thesis and an executive summary report after completion in December 2011.

Voluntary Participation: Your participation in this interview is completely voluntary.

Confidentiality: Only the researcher will know your name and will not divulge it or identify your answers with that of your company to anyone unless you indicate allowance in the introductory phase of the interview. All information will be kept confidential to the extent allowed by law and results from the research will be reported as aggregate data and used only for the thesis report.

Right to Withdraw: You are free to refuse to participate in the research and to withdraw at any point in time during the process. Your decision to withdraw will bring no negative consequences—no penalty to you.

Informed Consent: I __________________________________________ have read the description, including the purpose of the study, the procedures to be used, the potential risks and side effects, the confidentiality aspects, as well as the option to withdraw from the study at any time. Each of these items has been explained to me by the researcher. The researcher has
answered all of my questions regarding the study and I believe I understand what is involved. My signature below indicates that I freely agree to participate in this study and that I have received a copy of this agreement from the researcher.

_________________________________  _____________________________
Signature                                   Date
APPENDIX 5
Sample of a Semi-structure interview (Typed question and answers)

BACKGROUND

Name __________________________________________________________

Company Name __________________________________________________

Division ___

Industry  Logistics Outsourcing

Job Title  Regional VP USA – Director of ______________________________

Years in Position _________________________________________________

Years with Company  11 years

Years in Logistics Outsourcing  25 years

Annual Revenue  ________  Annual Sales  __________

Are you experiencing any changes in the supply chain services that you provide? Have you experienced any in this year to date? Please discuss.

Not really; everything just fluctuates with the economy supply and demand.

3PL SELECTION & CONTRACTS

At what company level is the decision to serve a customer and his particular needs made?

Each branch runs independently; on top of each branch the company has a district director and underneath him, a management team and a sales team. The latter, would be responsible in outsourcing business and bringing that into the district director to review the requirements, determine how he would like to pledge that, and get a proposal back to the customer who would get back to the 3PL. Hence, it is the district director who would make those decisions as long as it fits with the company’s parameters: get paid within 30 days in all of their terms and conditions, and that the customer is not wanting anything outside of those terms and conditions.

What is the process utilized for this decision making? Is there a step-methodology?

Answered on previous question

Is there a critical factor that would lead you to reject an offer for your services?
Yes, not agreeing to our terms and conditions, asking for extended payment terms where the net revenue per transaction does not warrant the business and if there are no synergies with existing business.

**Do Green Supply Chain initiatives have a strong influence on the decision?**

We are starting to see an increase in company’s measuring their carbon footprint so we have designed a program that measures ours and it has been well received. We see this on average about 3 out of 10 times we go into large corporate out sourcing.

**How are the negotiations for designing the contracts handled in the U.S?**

If it’s a big company, and they want the company to sign their contract, it would go through the company’s in-house legal department/council. The contract is read and the legal guide would red-light discrepancies if any.

In the case of a small company, they would have the customer sign their contract. Customers would sometimes red-light something and depending on our legal counsel, this would go to the VP or president level for approval.

**Short Term vs. Long Term Contracts**

Most of the contracts have a 30 or 60 day out by either side; so you can get out of it. However, it depends; some are for 1 year with a subject to renewal for another year. However, in today’s environment it is pretty rare for customers not to put those out for a Request for Quote (ROQ) on an annual basis.

**SERVICES & OPERATIONS**

**What services would you say shippers demand the most from 3PLs in the U.S?**

The most demanded services would be warehousing, inventory management and transportation.

**What specific logistics services does your company provide the most?**

Transportation and warehousing

**What services does the company prefer not to provide? Can you elaborate on that?**

Our company looks at every opportunity; they are a very fluid company, non-asset, lot of talent. They provide services all the way from consulting through the entire term key operations; hence, it would depend on what the customer requirements are, what our company’s level of confidence is on performing that, and what the respective margin or return on business would be for that.
However, they prefer to stay on the transportation, warehousing, visible side of it but they do endeavor other opportunities depending on what they are and the customer.

At times some customers request for our company to go into their facility and do some consulting as they are looking for cost cutting initiatives, productivity enhancements or onsite training of their employees. In these particular instances it is our practice to go in and do an assessment of the scope of work prior to presenting the client with a cost of services.

Are there any issues or traits inherent when managing a 3PL in the U.S? In regards to:

- **Infrastructural issues**

Since we are a service business, not asset based, there are always issues. So we handle these issues through proactive and timely communication. Timeliness and speed of communication is what mainly resolves the majority of problems by notifying the customer, if there is a problem, getting the carrier setting up the solution and communicating it back to the customer. We are strict on the customer receiving all communication from us regarding any potential failure and possible resolution.

- **Governmental and Regulatory Issues**

The biggest issues that we may be facing right now in N.A. are:

- **Over the road trucking**: Hours of service have changed which conflicts recruiting drivers (there is a shortage). There is not the same influx of the young American anymore as in Czech Republic, Russia, or others, where driving a vehicle is not a bad job but good for a living.

  Up to the 1990s, nobody wanted to go to college, but drive a truck but now, these people want to join the army services because of what is going on around the world.

- **Freight via Aircrafts**: Home Land Security and Transportation Security Association – there are no unknown regulations. Instead, there are all kinds of security protocols to follow before you can put that product intra the USA or export the US on a commercial plane.

- **Economic Issues**

- **Operational Issues**
The biggest area that impacts the company nowadays is that they majority of the big forwarders and big carriers are trying to cut back the cost due to the economy (fuel). The “A” customers (largest companies) tend to get all the attention and the “B” and “C” customers, get neglected or not communicated with. Foot side of that, it allows the company to retain and pick up customers because they are not being treated the way they were being treated. The company can treat them as an “A” customer, because they are a smaller niche company. Moreover, while other companies fail, the big customers give us an opportunity because of all their experience and relationships they have had in the past.

The biggest drowning fact operationally speaking is how the economy, among other factors has affected consumer confidence thus we are seeing less consumer spending in the USA which is a huge importer of goods. Also after the down turn in 2008 purchase managers are very concerned about being over stocked with unsold inventory. These two factors have largely impacted the previous peak seasons that the industry was accustomed to experiencing.

When the price of fuel reached its record because of the decline, it did affect the company’s operational margins but only when it was first coming through. Right away we realized that we had agreed to some contractual terms with a few customers that didn’t allow us to charge the increased amount back to the customer. We immediately renegotiated those contracts to more favorable terms.

Fuel is not an issue for our company; they pass it through the customer – on an operational issue. Some larger companies are cutting back and not using as many people or have as many employees (cutting back their services as well). This, in turn, results in a less than positive customer experience and has allowed our company to gain market share by focusing on the customer, providing excellent service and proactive communication.

Have you had any customer reluctant to the acquisition of IT or other technologies?

No customers reluctant to acquire more technology; the company has a very robust IT platform and all customers have dived into it very well.

- Cultural Issues

That would be communication. At our company we understand that it is the responsibility of the person delivering the message to make sure it is received as intended. When you are speaking with some Asian and other societies that have a tendency just to listen and nod in agreement it can be difficult to ensure understanding. These issues can become frustrating at times but we must remain diligent in ensuring complete intended interpretation of the communication.

3PL-3PL USER RELATIONSHIP:
In your opinion, what is a key factor needed for a successful 3PL-3PL user relationship?

Communication, service execution, value, clear scope of work

How do you perceive the commitment to collaboration in your partnership with 3PLs in ‘x’ country? In terms of:

- Strategic & Tactical Planning
- Technology
- Operations

This is seen on larger customers to whom our company presents a proposal that they think they would consider, introducing the service and presenting the benefits (EG: get distribution hubs, cut costs, bring everything on west coast into the country, cut damages) Customers are very receptive to that because if you wins those types of bids, you are chosen on top of companies so they expect you to deliver on everything you are presenting to them.

But for smaller type companies, like BNC—where our company mostly specializes at, it is mostly about service and cost more than planning, technology, operations, etc…

How do you manage the relationship with your customers? Is there a process followed to make sure that the operational and/or performance expectations of the customer are being met?

Quarterly visit reviews. Once a quarter they visit the company and discuss about past services, where they have had issues, processes that where put in place to correct those issues, and at the same time, they use the current high level of raw on time performance of 93 % on time through all services and use those opportunities to solicit for additional businesses as well.

What factors would lead you to terminate the partnership with a customer?

A change in the scope of work that the customer isn’t willing to compensate or payment concerns.

Do customers in the U.S. maintain a positive attitude towards possible changes in innovation that you might suggest them to implement?

Every situation is different. Our company does not normally solicit to do consulting; it would be the customer asking them to come in. Hence, in their case, customers would be very willing and open to advices and changes.
[Participant mentions that their company maintains a very organized facility and warehouse].

**What overall benefits do you want the customer to acknowledge/receive from the partnership?**

Improved service at a competitive price

**In your opinion, what is the one key factor needed for a successful 3PL-3PL user relationship?**

A key factor would be bilateral communication and clear and concise scope of work.

**What do you see as a big opportunity to further 3PL’s success in the next couple of years?**

The fluctuating economy and a company’s drive to increase productivity by outsourcing
BACKGROUND

Name ____________________________________________________________
Company Name ___________________________________________________
Division _________________________________________________________
Industry ___________________________ Logistics Outsourcing Service Provider
Job Title _______________ VP of LATAM _______________________________
Years in Position _________ 1 year _________________________________
Years with Company ______ 3 years _________________________________
Years in Logistics ______________________________________________
Outsourcing _________ 25 __________________________________________
Annual Revenue ____________________ Annual Sales __________________

What is the major business of your company?
Full logistics offering: customs brokerage, air imports, ocean imports, ocean exports, air export, warehouse management, customs brokerage, supply chain consultation.

Are you experiencing any changes in the supply chain services that you provide? Have you experienced any in this year to date? Please discuss.

- Expanding market crating issues in capability into the market
- Visibility demand through Brazilian brokerage to end user
- Communication protocol to manage the Brazilian complex and bureaucratic supply chain.

How is the company organized?
The company is organized in Brazil in order to enhance communication, flexibility service and high demand. The company is led by a country manager who is supported by branch managers and local operations.

3PL SELECTION & CONTRACTS

At what company level is the decision to serve a customer with whom you have never done business with before, made? (New customer)
Customers are treated based on potential revenue and capability to our company’s services offering. The initial determination is done at field level. Then, through a company process (customer set- up), the determination in analyzed.

What is the process utilized for this decision-making? Is there a step-methodology?
A "customer set up process” that contains a credit check, a background check and an agreement to terms and conditions, (rates).

Do Green Supply Chain initiatives have a strong influence on the decision?
Companies in Brazil might tell you that green initiatives are of much importance to their business culture but many times it is because it is the right thing to say; I do not know if it reaches the level of importance it should. In other words, green supply chain do come into play at corporate level but are not usually a strong influence in Brazil.
How are the negotiations for designing the contracts handled in Brazil?
- Are these short term or long term contracts?
  Contracts are typically two years.

SERVICES & OPERATIONS

What services would you say shippers demand the most from 3PLs in Brazil?
Basic transportation, air import and ocean import and supply chain consulting

What services would you say shippers demand the least?
That would be warehousing services, due to existing models. They prefer to insource these practices or rent distributions centers from big Brazilian companies and let them do it. Differently, in the U.S., warehousing is one of the most demanded. They also like to in-source the brokerage piece.

What specific logistics services does your company provide the most?
Air and ocean import and air and ocean export; and this, is because of the infrastructure.

Any issues inherent when managing a 3PL in the Brazil in regards to:
- Personnel issues:
  There are some cultural differences with some of the local personnel (E.g.: labor laws, expectations, use of cell phones, hours worked, cultural differences, etc..)

- Logistics Infrastructural issues:
  There is no infrastructure! It is a tough market. E.G.: it takes 14 days to get from Sao Paulo to Manaus. The distribution southbound is very complex. This definitely increases operational costs.

- Governmental and Regulatory Issues:
  Complex tax structure, much depends on what and where you are importing to; road taxes; political state

- Economic Issues:
  The biggest economic issue is the cost of salaries. The infrastructure cost/ operating expense has gone up almost five times in a two to three year period for 3PLs and any other organization.

- Operational Issues
  The biggest operational issue is in the market of exports. The import market is not bad; everything is coming. In the export market we are having issues with 1.capacity and 2. staffing people. The economy is going very fast and they are overpaying jobs - E.g.: clerical jobs have gone from 3000 – 6000

Are there any customers resistant to change?
Yes, what would take three calls and a couple of memos and analysis in the U.S., would actually take six-eight months in Brazil. Employees fear that change (e.g.: acquisition of technology) would put many of them out of work. There is bureaucracy built in it. However, the majority of our customers are global customers where the decisions for change are made elsewhere (e.g.: at headquarters in the U.S.). Hence, they serve these customers and use this type of service to leverage their customer base. Hence, the account management follows the global strategy of the company.

Cultural Issues or traits
Many times, being in the U.S., we come to operate in Brazil and we try to impose the ideology of logistics in the U.S. and fail to listen. Here, we need to take time to meet people and have a conversation before actually doing business; something that we do not do in the U.S. where it takes only a meeting to start doing business. The American society does not need to slow down for a “good morning” and a conversation with teammates; it is commonly more about “me” at work.

Additionally, there are communication barriers due to the first versus second languages. Many times, I would ask them to repeat what they have just heard me saying – sometimes you realize they can say what they listened but many times that does not mean that they have actually understood.

Moreover, there is a strong distance among power levels. E.g.: if our company would try to sell an idea to the corresponding employee of the organization (customer), many times, the employee agrees to it but never flips it to his/her boss (never tries to sell it to his boss due to the power distance in the culture).

3PL-3PL USER RELATIONSHIP

In your opinion, what is a key factor needed for a successful 3PL-3PL user relationship?
Open communication and transparency regarding internal issues. The more you communicate the more you get a continuous improvement. Much of the lack of communication in Brazil occurs because of the bureaucracy; lack of honesty and trust. E.G.: one of our competitors insists that their biggest line of business emerges in storage; there is no consulting approach which does not drive continuous improvement

How do you perceive the commitment to collaboration and trust in your partnership with 3PL users in Brazil? In terms of:

Strategic & Tactical Planning:
Once you get in the partnership, the challenging part is getting going; to continue the partnership.

Technology:
There are not many issues other than getting people to use it (at the beginning).

How do you manage the relationship with your customers? Is there a process followed to make sure that the operational and/or performance expectations of the customer are being met?
We do quarterly business reviews and exception reporting. Exception reporting refers to managing the exceptions so if something does not work, to face it and find a solution.
The process followed to make sure expectations are being met, is the same as our division in the U.S.

**What factors would lead you to terminate the partnership with a customer?**

The majority of times it would be the lack of payment. If not, it may be the inability to foster the relationship due to circumstances (e.g.: they would not give you the necessary data in order to be helpful).

**Are customers in Brazil open to possible changes in innovation (IT, technology, etc.) that 3PLs like yours might suggest them to implement?**

Most definitely, the resistance to change is in technology. There is this set mind that it takes off jobs and increases costs. There is a lot of people making money from pay offs. There is no trust and the presence of corruption is still there.

**What overall benefits do you hope the customer to acknowledge/receive from their partnership with your 3PL?**

That would be growth. Brazil is the largest market in Latin America and our company wants to expand to Latin American countries; thus, Brazil is a great place to start leveraging this growth.

**What do you see as a big opportunity to further the success in the logistics outsourcing industry in the next couple of years?**

Keeping operating income low and continue to grow. The challenge now, is that the dollar has gotten stronger than the ‘real.’ So we need to keep inflation down and operation costs in check.
BACKGROUND

What is the major business of your company?

Are you experiencing any changes in your supply chain division or practice? Have you experienced any in this year to date? Please discuss.
It was a decentralized company in the past; a year and a half ago a new employee was brought in to be in charge of Global Supply Chain processes and to learn how to work around those pillars (procurement of raw materials, planning). The new employee is a Board Level Supply Chain Leader. He has end-to-end responsibility for the supply chain for all 3 sectors. It is very different to have a corporate supply chain lead vs. decentralized by the 29 manufacturing operating companies.

How is the Supply Chain/Logistics division organized?
Board – Supply Chain lead
One VP: Customer Experience, owns the deliver space (order to cash)
VP Operations for each sector reports to VP Customer Experience (Consumer, Pharmaceutical, Medical Device)
One VP for each sector (Consumer, Pharmaceutical, Medical Device) – owns supply chain strategy

3PL SELECTION & CONTRACTS

At what company level is the decision to outsource logistics practices to a 3PL made?
Divisional level (decision made as a franchise).
For transportation, those decisions were made years ago, so they have contractors. In our department we do the negotiating. For manufacturing, the company has a Vice President of Operations Council who makes the decisions. Comprised of Planning, Manufacturing, Strategy, and New Product Development Lead.

What is the process utilized for the selection of 3PLs? Is there a step-methodology?
For Transportation: the procurement group gets 12-15 different 3PLs; these are then narrowed down to a selection of 2-5; a site & quality assessment is made to make the final decision. For Manufacturing: the procurement group gets 3-5 different 3PLs; a site
What are the most important items/factors in considering using a certain 3PL over another?
In order of importance:
   - Good manufacturing principles and SOPs
   - Our company looks for a compliant 3PL with items like centered SOP (Standard Operating Procedures) that they would follow; they have to protect the company’s principles, have good manufacturing qualities.
   - Trucking companies/carriers have to protect the company’s manufacturing principles and processes. Recently, the company had problems with manufacturing and had to be closed. The quality of their products had been compromised and actually it was at our plants.
   - The company was asked by FDA not to produce these products until they can be produced safely and securely. Plants now go through FDA compliance and quality audits to make sure products pass before they are put on the market. For the manufacturing testing, they used a third company for quality testing on products; for transportation and distribution, they used a 3rd party that tests and audits and a private investigator to evaluate from a security perspective.

Do Green Supply Chain initiatives matter in the selection process?
Yes, it is one of our key performance metrics; for all departments, we have a sustainability goal; embedded in all contracts and carriers are responsible for proving that they have a sustainability initiatives. EG: Greenway and Smart-way certification.

31. How are the negotiations for designing the contracts handled?
   - Do you include penalties for non-performance?
   - Any performance incentives included?
Contracts for transportation: close to 2 years, some with renegotiation
Distribution centers: 5-7 years because there is a physical asset in property involved
For contract manufacturing: 2-3 because there is a long time to qualify a manufacturing site.

We have approximately twelve major personal carriers and there are slight differences between their contracts even though the basic contract is the same; hence, yes, there can be modifications made based on service expects.

SERVICES & OPERATIONS

32. What are you looking for when outsourcing logistics to a third party?
Service, quality, price, reliability, flexibility

What logistics services are the most frequently outsourced to 3PLs in Brazil/USA?
Manufacturing, distribution, transportation, customs and brokerage, and we outsource the brokerage piece (compliance piece in house)

What services does the company prefer to insource instead? Can you elaborate on that?
- Compliance piece, procurement, customer service (we want to maintain face to customer), accounts receivables and payable,
- We want to be able to look across the network. The company has a person at the VP level in charge of manufacturing, displays, and development of overall strategy
- The same for transportation (1 buyer)

Any issues inherent when partnering with 3PLs in Brazil/US in regards to:

Personal issues

Infrastructural issues
- All brands are on the same market and there is competition among them in manufacturing. Brands work independently and compete with each other and this causes conflicts in the production plant. We fight for resources amongst themselves. This is an infrastructural issue because there is not enough capacity and the demand is too variable. It comes in the form of conflicts with 3PLs because they don’t know who to listen to; they are all customers.
- For manufacturing and procurement, we have a conflict account manager to avoid conflict; responsible for all negotiating and operating of the sight
- For transportation, we have a distribution manager on site.

Governmental and Regulatory Issues
- Certain states where it is better to do business at

Economic Issues
- Looking at Total Cost, it’s cheaper to get things from China or even Brazil but transportation time and costs can be very expensive as the transportation forms have changed; many of the products coming from Brazil and Puerto Rico and not much going out; so expensive; driving costs up even though it is still the best manufacturing
- Captured correctly – would add, changes to the balance of trade so cost vs. inventory carrying need to be investigated frequently

Operational Issues
- Capacity concerns – not owning the “line time” and can lose to another customer

Cultural Issues
- Maybe language barriers; communication
- Holidays calendars interfere and it’s conflicting. A lot of areas close during holiday seasons; if manufacturing closes on Aug 1st nobody cares till September and that can be a huge challenge; however in US they were 365 days a year.
- Her experience in France: People wouldn’t work overtime to keep plant open; it was closed.

**3PL-3PL USER RELATIONSHIP:**

**In your opinion, what is a key factor needed for a successful 3PL-3PL user relationship?**

Trust, accountability

**How do you perceive the commitment to collaboration in your partnership with 3PLs in “x” country? In terms of:**

“Collaboration is very important.”

**Strategic & Tactical Planning**

There is more opportunity for all 3PLs; they should be bringing more innovative things to us; as opposed to just meeting their needs; If truly collaborative partnership, they should be challenging them to do things differently and better; in theory they will be working for multiple suppliers so they should know the best of what business are doing and the participant wishes 3PL would give them some over

[Example given after I talked about the high uncertainty avoidance in other cultures vs. the low uncertainty avoidance in American culture and related that to innovative changes):

- I own freight security now and works with suppliers that offer *GPS – Global Tracking Device in Austin TX (Irish-owned company but now U.S. based company). Anyways, for every quarterly business review, we require two innovation ideas from them to drive service and cost; we want them to look at our business not just do business.
- **Technology** (Just okay; part of that is that they tend to dictate tech they use;)
- **Operations** (scale 1-10 , a 7)

**How do you manage the relationship with 3PLs? How do you manage the operational and/or performance expectations and achievements?**

- Quarterly business reviews across the business; keep performance metrics, trend analysis. For service providers (contract manufacturing and distribution), they ask them to present performance to company (they get a score card to follow).

**What factors would lead you to terminate the partnership with a specific 3PL? What factors would contribute to the retention of that 3PL?**

- Any kind of ethical challenge, i.e.: severe quality issue with them, doing anything against an SOP that would allow bad product in market place; in case of a carrier, lying about temperature while transporting products that need refrigeration would be cause for dismissal. We had a few carriers that
lost business with us because they couldn’t prove that they could maintain required security of products. Actually, anything that would affect the end consumer (their health) would be a reason for dismissal; so quality of product would be the number 1 reason; but anything ethical that would impact the health of the consumer.

Would you appreciate suggestions from the 3PL for innovative changes even if these would require modifying the rules set when starting the relationship? Or would you rather stay strict to the rules?
   Yes, (suggested in previous answers)

What would you advise 3PLs to consider as big opportunities to further their success in the next couple of years?
   To offer more changes in innovation.
Are you experiencing any changes in your supply chain division or practice? Have you experienced any in this year to date? Please discuss.

We are going through a Worldwide Initiative for continuous excellence (worldwide):

- Implementing Lean Supply Chain—“Kaizen” practices (take waste out of system, simplification in layers of management, etc.)
- This is not just an operational approach but a total business approach: it impacts factories, DCs, Customer Service, Marketing, etc…
- In Brazil they are leaders in Lean Supply Chain One of the first markets in our company’s world to implement lean manufacturing/distribution principles.

How is the Supply Chain/Logistics division organized?

Manufacturing, Logistics, Purchasing, and Customer Service

3PL SELECTION & CONTRACTS

At what company level is the decision to outsource logistics practices to a 3PL made?

The decision would usually be taken by the Supply Chain Head along with the department level; it generally is a high level decision (E.G.: VP level) in every division in the world.

Sometimes a warehouse would be leased from a 3PL and but for it to be operated by our people.

What are the most important items/factors in considering using a certain 3PL over another?

The criteria for decision making process:

- Strict on following our company’s guidelines and criteria. (Food handling, a must: GMPs Good manufacturing practices) Participant side note: even
though this is a limitation in some countries, our company manages to have that quality in all their facilities e.g.: South Africa has great facilities.
- Good IT/technological capabilities (E.G.: SAP) Requirement in Br will not be the same as in the US; customers in Br don’t really have the advanced EDI that the US has (depends on market).
- Cost benefits

How are the negotiations for designing the contracts handled?

- Do you include penalties for non-performance?
- Any performance incentives included?

If there is the use of contracts, these are typically standard contracts. Any contract would go through the legal department (any required criteria to protect goods would be spelled in the contracts). Moreover, there are resources in the headquarters in Switzerland that would coordinate global contracts (E.G.: with Kuehne & Nagel and other large operators); our businesses try to leverage their global scale too from a negotiation standpoint.

- Short Term or Long term contracts?

These can be as long as 5 years or as short as 6 months if was recently started. The length depends on the occasion; it varies but there is not a standard time by country. For example, in Argentina, Ryder Logistics went out of business, so they moved and went through a renegotiation process.

In the U.S., they are cautious when starting a relationship. Contracts vary by operating company, and terms are appropriate for the market, and may have a cancellation clause.

SERVICES & OPERATIONS

Side note: In US they don’t really have the distributor/broker network; these, are more focused on development of trade but in America they are lead towards a more traditional warehouse market. Like in Brazil, there can be cases, where they would use a 3PL and some where they would not; it all depends on what is the cost efficient model to use (E.G.: staffing the warehouse themselves or not).

What logistics services are the most frequently outsourced to 3PLs in Brazil/USA?
In the U.S.: Transportation is outsourced directly to carriers more than 3PLs but 3PLs are used for other services like inventory control, technology.

What services does the company prefer to insource instead? Can you elaborate on that?
Manufacturing (E.G.: Packaging). In the US: they might use a 3PL for pallet display (E.G.: for a bonus back)
Any issues inherent when partnering with 3PLs in Brazil/US in regards to:

- Personnel issues
- Infrastructural issues
- Governmental and Regulatory Issues
- Economic Issues
- Operational Issues

Not too much in supply chain. Try to increase efficiency to offset cost. It depends on the business unit. High volume business will turn inventory 2 times per month. Seasonal business units need to build inventory for peak seasons. E.G.: Pumpkin or Confectionary. In the US there are no infrastructural or regulatory issues; per the participant, the issues and biggest hurdles with 3PLs would come from the business expectations that our company has from 3PLs: They are very strict on all guideline parameters to be followed (E.G: food safety, temperature control).

- Cultural Issues

No one of our strengths is that we are truly an International Company. Visit our HQ in Switzerland and you will feel like you are at the United Nations

From your experience, have you had issues finding 3PLs that would meet these requirements? No

Also, because our company is a fully integrated SAP house so they expect the 3PL to have a good technology standpoint; with the technical abilities that our company would require (E.G.: EDI, electronic invoicing, etc...) The participant recognizes that different customer’s (E.G.: P &G, Master Foods, Uniliver) have different criteria or requirements; this adds to the level of complexity for a 3PL and they have to be able to provide all those services efficiently and transparently to transport products and service customers. He mentions that from his experience, he would give a rate of 7 out of 10 to 3PLs in America regarding their technical and IT capabilities. It is due to our customized requirements. Takes time to learn and execute well

3PL-3PL USER RELATIONSHIP

In your opinion, what is a key factor needed for a successful 3PL-3PL user relationship?
A good relationship comes from the 3PL meeting their performance and providing transparency; “A good 3PL is an agent that would allow us to service our customers and would do it in such a way that they would not even recognize it” 3PL’s role is to act as our agent – good performance is doing your job without issue. Compliments are fine Customers will buy from us and simply utilize 3PLs to deliver the goods; a good 3PL
would do it very efficiently. A 3pl with a problem is: ….” Not meet our needs for cost and service

How do you perceive the commitment to collaboration in your partnership with 3PLs in “x” country? In terms of:

- **Strategic & Tactical Planning**

  In Strategic planning, our company does not involve the 3PL as much; however for tactical, yes they do. Strategic decisions are made internal by our company’s team and once the latter determines what capabilities will be needed for the next 5 years, they look for a 3pl which might be able to fulfill those capabilities – it is part of the assessment design implementation; part of the decision making process.

- **Technology**

  From a rate of 1-10, the participant would say 3PLs get a 7 for collaborative with Technological, IT capabilities.

- **Operations**

  How do you manage the relationship with 3PLs? How do you manage the operational and/or performance expectations and achievements?

  Regular business reviews
  - KPIs (Key Performance Indicators), Score Carding Process, tiding in cost structure.
  - Penalties if inappropriate damage rate, fill rate, labor standards. Our company looks at the key criteria that they are doing to operate business
  - There is an audit process utilized with 3PLs before and during the relationship— an ongoing process. (E.G.: Food safety audit)
  - There is a team, in the headquarters office, who have all the key capabilities of Supply Chain (ESP, Customer Service, Transportation, 3PL Warehouse management). They have a repository; a best practices library which is sort of the “teach;” a great resource to use as a guide. All decisions are local but businesses are able to leverage the headquarters in Switzerland in case they are using global 3PLs like Ryder, K & N, etc...)  E.G.: If a supply chain executive is in Angola and wants to understand capabilities at that location, they would go to the library and look for our company’s Criteria Guidelines and capabilities for setting up a 3PL. They may do some modifications and not follow exactly the same process, but typically that is not the case.

What factors would lead you to terminate the partnership with a specific 3PL? What factors would contribute to the retention of that 3PL?

  E.G.: If the 3PL is not meeting the needs, then the relationship can terminate immediately (score card process). Ties to Cost and Service KPI’s
Would you appreciate suggestions from the 3PL for innovational changes even if these would require modifying the rules set when starting the relationship? Or would you rather stay strict to the rules?

Our company in the U.S. would encourage anyone to come up with a way that is going to be better. They encourage decision making at the most appropriate level – They are always focused on continuous improvement.