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LOGISTICS SERVICE ORIENTATION: AN INTEGRATED STRATEGY TO BUILD LOGISTICS SERVICE COMPETENCY

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ABSTRACT

While the importance of logistics service competency is widely acknowledged, more research is needed to investigate its antecedents. In this conceptual paper, we synthesize extant marketing and logistics/supply chain literature and propose a new concept – logistics service orientation, which consists of both logistics service’s internal and external market orientation. It is argued that a firm’s logistics service orientation has direct impacts on its logistics service performance. In addition, it is also proposed that this impact can be indirectly achieved through enhanced internal integration. This research contributes to existing knowledge by offering new insights on the development of logistics service competency.

INTRODUCTION

Building core competency in logistics services has important strategic implications for all firm executives. A firm’s core competencies are its valuable resources and capabilities that are deemed to be unique, not imitable by competitors, and sustainable over time (Prahalad and Hamel, 1990). Likewise in logistics services, a core competency refers to a firm’s unique and inimitable ability to provide superior customer and physical distribution services for its customers (Mentzer, Gomes, and Krapfel, 1989). When attained, logistics service competency may become one of the key drivers of customer equity. In today’s dynamic marketplace, customer equity is arguably a firm’s most valuable asset (Rust, Lemon, and Narayandas, 2005). In order to enhance their customer equity, firms invest enormous amounts of resources to build loyalty and to improve satisfaction among profitable customers. Logistics service competency helps this strategic

cause by providing customers with the right product, in the right quantity, at the right place, at the right time, and for the right price (Stank, Goldsby, Vickery, and Savitskie, 2003; Daugherty, Stank, and Ellinger, 1998). Customers that are continuously satisfied with supplier performance in logistics services, then, face high switching costs when they consider an alternative supplier (Burnham, Frels, and Mahajan, 2003). Continuous satisfaction and high switching costs lead to high retention rates and ultimately to improved customer equity (Rust, Lemon, and Zeithaml, 2004). Previous empirical studies have confirmed that competency in logistics services leads to such outcomes as customer satisfaction, loyalty, and repurchase intentions (Innis and La Londe, 1994; Daugherty, Stank, and Ellinger, 1998; Mentzer, Flint, and Kent, 1999; Mentzer, Flint, and Hult, 2001) and ultimately to market share and shareholder value (Stank, Goldsby, Vickery, and Savitskie, 2003; Lambert and Burduroglu, 2000). These findings validate the nature of

logistics service competency as a source of superior firm performance, i.e. competitive advantage (Hunt and Morgan, 1995). Therefore, the number of firms considering logistics service competency as a source of competitive advantage is on the rise internationally.

While logistics service competency's importance is widely acknowledged and confirmed by extant literature, it is equally critical for both logistics/supply chain researchers and managers to identify the ways in which firms can attain logistics service competency. Although Fawcett, Stanley, and Smith (1997) called for more research on antecedents of logistics competency more than ten years ago, our literature review revealed that only a few studies have attempted to explore antecedents of logistics service competency. For example, Fawcett, Stanley, and Smith (1997) proposed that information support and strategic planning facilitate the development of logistics competency. Closs, Goldsby, and Clinton (1997) found that effective use of information technology significantly impacts the development of world class logistics competency. More specifically, Closs, Swink, and Nair (2005) argued that information connectivity significantly contributes to a key logistics service competency – logistics flexibility. Richey, Daugherty, and Roath (2007) suggested that a firm's technological readiness is critical to the development of logistics service competency. While these studies provide valuable insights on logistics service competency development, more research on this topic is warranted. Therefore, the current study was undertaken to expand the current knowledge base.

In their seminal article on "Defining Supply Chain Management", Mentzer et al. (2001) emphasized the importance of supply chain orientation, which is defined as "the recognition by an organization of the systemic, strategic implications of the tactical activities involved in managing the various flows in a supply chain" (p. 11). They also argued that the systemic view

and strategic view embedded in supply chain orientation are the key antecedents of supply chain management. In line with their approach, we propose the concept of logistics service orientation, which is defined as the recognition by an organization of the systemic and strategic implications of the tactical activities involved in managing a firm's logistics services. Due to the exploratory nature of this paper, we limit the discussion to a single firm for feasibility consideration.

The rest of the paper is organized as follows. First, the concept of logistics service orientation is developed and discussed based on extensive literature view. Then, a conceptual framework is presented, along with the discussion of proposed relationships. Finally, research and practical implications are discussed.

LOGISTICS SERVICE ORIENTATION

Effective logistics management ties all logistics activities together in a system which simultaneously works to minimize total inbound and outbound costs and maintain desired customer service levels (Kenderdine and Larson, 1988). Therefore, an integrated approach is critical to logistics management (Daugherty, Ellinger, and Gustin, 1996). Strategy researchers have suggested that successful implementation of a strategy depends on the firm's adoption of an appropriate strategic orientation (Day and Wensley, 1983; Voss and Voss, 2000; Noble, Sinha, and Kumar, 2002). In line with Mentzer et al.'s (2001) argument related to supply chain orientation and supply chain management, we propose that a firm's view or perspective on its logistics services/activities is different from the actual implementation of logistics management. Thus, we introduce the new concept of logistics service orientation and explore its relationship with logistics competency development. As discussed previously, logistics service orientation views a firm's logistics management from an overall system perspective and each of the logistics activities is seen within a broader

strategic context. In other words, logistics service orientation is a management philosophy related to a firm's logistics service.

In reviewing the literature on logistics service competency, we identified two separate streams of research. The first one is the external market oriented approach, where the focus is on understanding the needs and expectations of the customers and other supply chain members so the firm can provide solutions to meet such needs and/or expectations in a more efficient and effective manner (e.g. Mentzer, Rutner, and Matsuno, 1997; Min and Mentzer, 2004; Lambert and Burduroglu, 2000; Zhao, Droge, and Stank, 2001; Richey, 2003; Panayides, 2004). The other research stream that investigates logistics service competency is the internal market oriented approach, where the focus is on satisfying employee needs and expectations since they are the ones that interact with customers during the service experience (e.g. Keller, 2002; Keller and Ozment, 1999a; Keller and Ozment, 1999b; Autry and Daugherty, 2003; Gooley, 2001; McAfee, Glassman, and Honeycutt, 2002; Gammelgaard

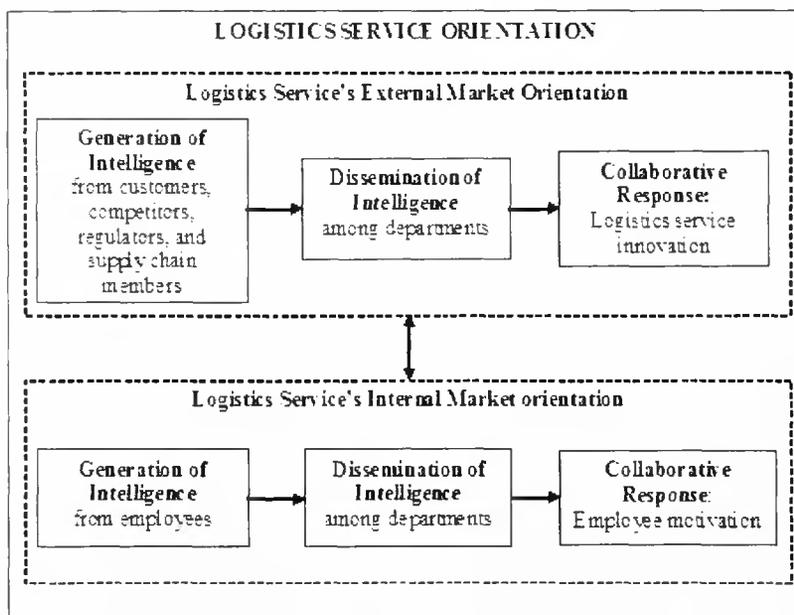
and Larson, 2001; Richard, LeMay, Taylor, and Turner, 1994). To this point, little research has been done to investigate the interplay between the two research streams.

In the process of conceptualizing logistics service orientation, we believe it is necessary and appropriate to develop the concept based on extant literature. Therefore, we argue that a firm's logistics service orientation has two key dimensions: logistics service' external and internal market orientation. Next, we further review and synthesize the marketing literature on market orientation and apply it to the logistics service context. Our conceptualization of logistics service orientation is presented in Figure 1.

Logistics Service's External Market Orientation

In this section, we first review the external market orientation concept and then examine the three external market orientation dimensions and how these dimensions relate to logistics service orientation. We refer to market orientation as

FIGURE 1
CONCEPTUALIZATION OF LOGISTICS SERVICE ORIENTATION



being external to differentiate it from the newly developed internal market orientation concept (Lings and Greenley, 2005). Two strongly connected studies have been the basis for a large part of the external *market orientation* research. First, Narver and Slater (1990) conceptualize *market orientation* as an organizational culture that “most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers, and thus, continuous superior performance for the business.” Moreover, Narver and Slater’s market orientation conceptualization involved three dimensions – namely, customer *orientation*, competitor *orientation*, and inter-functional coordination. However, several researchers oppose the idea of conceptualizing market orientation as an organizational culture (e.g. Deshpande and Farley, 1998). These opposing scholars (Deshpande and Farley, 1998, p.233) argue that market orientation is rather a set of “activities” related to continuous assessment of customer needs than a “culture”. Kohli and Jaworski (1990, p.1), on the other hand, refer to market orientation as “implementation of the marketing concept” and provide a more process-driven framework that deems the dimensions of generating, disseminating, and responding to market intelligence as the core of market orientation.

These two models of market orientation share many essential notions, such as the focus on customer needs, importance of competitive intelligence, and cross-functional collaboration within the firm. Nevertheless, Matsuno, Mentzer, and Rentz (2005) developed an extended version of Kohli and Jaworski’s (1990) market orientation scale and compared it to the two preceding scales of market orientation. Matsuno et al. (2005) concluded that the Kohli and Jaworski (1990) model was superior to Narver and Slater’s (1990) scale in terms of theoretical consistency and scale operationalization. Moreover, Matsuno et al.’s (2005) extended market orientation scale not only provided a theoretical improvement to

Kohli and Jaworski (1990) scale, but also had “better internal consistency, unidimensionality, and fewer items than the Kohli and Jaworski scale” (p.7). In the light of these inferences, we adopted Matsuno et al.’s (2005) extended conceptualization of market orientation.

We extend the “customer” focus of the above literature to include in the concept of “market orientation” an expanded view which includes various supply chain partners in addition to customers. These partners could include components suppliers, carriers, 3PL’s, and all the other relationships with suppliers that help develop a supply chain orientation that provides value to customers.

From the logistics services perspective and according to our expanded conceptualization, logistics service’s external market orientation comprises three interrelated dimensions (see Figure 1). First, the generation of intelligence which may involve customer or supplier surveys, monitoring of government regulations, technology, competitive activities, and transparent communications with supply chain partners. Therefore, the scope of domains that intelligence is gathered from goes beyond customers and competitors (as suggested by Kohli and Jaworski, 1990) and includes other supply chain partners like suppliers, transportation outsourcers, 3PL firms, governmental regulators, etc. (Matsuno et al., 2005). The gathered information then helps firms anticipate such customer needs as timeliness, cost efficiency, accuracy, responsiveness and other logistics service attributes (Sterling and Lambert, 1987; Stank, Daugherty, and Ellinger, 1999). Information that is obtained could also be used to help better understand how suppliers can play a role in helping the firm to better serve customers. For instance, manufacturers should gather information on their suppliers’ perceptions about the relationship with the manufacturer buyer (Zhang, Henke, and Griffith, 2009). Strong supplier relationships can help the firm innovate

in a way that will provide added value to customers

The second dimension in logistics service's external market orientation is the dissemination of the gathered intelligence across various functional areas such as logistics, purchasing, and marketing. As Kohli and Jaworski (1990, p.5) suggest "effective dissemination of market intelligence is important because it provides a shared basis for concerted action by different departments." While many firms use such tools as newsletters and formal electronic communications, truly effective information sharing occurs when different departments collaborate with each other. Due to differential job functions and expertise, different departments can all generate valuable information. For example, the logistics department generates and houses intelligence related to customers, supply chain partners, and logistical government regulations whereas marketing maintains the customer and competitor information, and purchasing maintains information on supplier desires and capabilities. Thus, intelligence sharing through cross-functional interaction is an important element of logistics service's external orientation (c.f. Kahn and Mentzer, 1996).

Through combining their informational resources, logistics, purchasing, and marketing departments can better understand the needs and expectations of their customers for which they can develop a collaborative response – the third dimension in logistics service's external market orientation. A collaborative response may take the form of a just-in-time (JIT) or a material requirement planning (MRP) system that answers such customer needs as order timeliness and accuracy (Herron, 1987) as well as an electronic data interchange (EDI) or an extranet system that satisfies information quality and convenient ordering procedure needs (Emmelhainz, 1989; Murphy, Daley, and Hall, 1998). The response is developed collaboratively among different departments based on the

information gathered from external sources like customers and/or suppliers, and it comprises an innovative solution to meet the needs of customers. Innovation is defined as the generation, acceptance, and implementation of new ideas, processes, products, or services (Hurley and Hult, 1998). Competitive pressures usually call for new ways of identifying and satisfying buyers needs (Scheuing and Johnson, 1989). In order to adopt successful new ideas or innovations, different departments should work together to create a collaborative environment that focuses on exploration of innovative scenarios, joint expeditions with leading customers and/or suppliers, and development of intellectual capital in a flatter, customer-focused, boundary-less organization (Morash and Droge, 1997; Ellinger, Daugherty, and Keller, 2000). Therefore, we propose that the third dimension of logistics service's external market orientation involves a collaborative response by different departments in the form of a service innovation.

Logistics Service's Internal Market Orientation

In this section, we first review the internal marketing concept and then the three dimensions of logistics service's internal market orientation are discussed. The term internal marketing was defined by Berry (1981) as viewing employees as internal customers, viewing jobs as internal products that satisfy the needs and wants of these internal customers while addressing the objectives of the organization. The key assumption underlying the internal marketing concept is the notion that "to have satisfied customers, the firm must also have satisfied employees" (George, 1977, p.86). Attraction, selection, retention, and motivation of high quality staff is especially critical in situations where the quality of service is the only real differentiating factor between competitors (Harvey and Richey, 2001; Richey and Bachrach, 2004). Gronroos (1981) emphasized the front line employees' interaction with customers and the importance of being

responsive to customers' needs. In this view, it is not sufficient that employees are motivated to perform better, but they must also be customer oriented. More recent studies on internal marketing suggest that the scope of internal marketing activity is much wider than motivation of employees towards customer orientation (Rafiq and Ahmed, 1993; 2000). In fact, it can also be used to motivate non-contact employees towards behaving in a manner that enhances the service for end-customers and helps an organization achieve superior customer service compared to their competitors. This is especially relevant in the supply chain world, where purchasing, production scheduling and other departments have a critical role in assuring customer satisfaction. Hence, Rafiq and Ahmed (1993) defined internal marketing as "planned effort to change and to align, motivate, and integrate employees towards the effective implementation of corporate and functional strategies."

In order to examine internal market orientation, Lings and Greenley (2005) adapted the external market orientation conceptualization. Thus, logistics service's internal market orientation is comprised of three dimensions, namely internal information generation, internal communications, and responsiveness to the internal market (Lings and Greenley, 2005) (see Figure 1). Rather than customers and competitors, the internal market consists of employees. Regarding the internal information generation dimension, two major factors are deemed to be important when gathering information from employees – namely, the type and the mode of information (Mohr and Nevin, 1990). While the type of information may include the benefits the employees seek, the sacrifices that they are willing to make, how much they value their jobs, their perceptions of job fairness and organizational justice, and the alternatives that they consider, the mode of information gathering may be formal (face-to-face or written) or informal (hallway conversations) (Lings and Greenley, 2005). The

information gathered from employees can be then utilized to make the jobs more attractive, to retain the skilled employees, and to motivate them towards the achievement of strategic goals (Wheeler, Tokman, Richey, and Sybanski 2007).

The second dimension of logistics service's internal market orientation is the internal information exchange. Internal information exchange is a key factor in aligning employees' attitudes and behaviors with the organization's strategic goals (Guest and Conway, 2002) and can be best performed – once again – when different departments collaborate. Similarly, different departments can contribute valuable information from different perspectives.

For example, human resource (HR) departments gather employee related information and logistics determines roles the employees should play in attaining strategic logistics goals. At the same time purchasing employees have vital information on suppliers and market conditions that must be shared effectively across the organization. And it is critical that logistics and purchasing employees share information and cooperate in efforts to lower costs and improve service. Examples of information that must be shared and processes that must be jointly carried out include those related to sales terms, freight payment terms, order sizes, product flow routings, etc. Yet companies oftentimes experience a great deal of difficulty in driving coordination and information sharing across departments.

As a result of merging their informational resources, departments can better understand the needs and expectations of their employees for which they can develop a collaborative response. This collaborative response is then the third dimension of logistics service's internal market orientation.

A collaborative response may take the form of rewarding, coaching, empowering, training, and/or providing a vision to skilled logistics employees so that they can be retained and motivated to perform their logistics service

duties in a satisfactory manner (Ahmed and Rafiq, 2003; Foreman and Money, 1995). In other words, firms can combine strategic HR tools (e.g. rewarding, coaching, training, etc.) with strategic logistics goals (e.g. order timeliness, accuracy, etc.) to provide their employees with clear job roles and motivation to perform. In fact, several logistics researchers have emphasized development of HR strategies to retain and motivate logistics employees (Keller, 2002; Keller and Ozment, 1999a; Keller and Ozment, 1999b; Autry and Daugherty, 2003). Therefore, we propose that the third dimension of logistics service's internal market orientation involves a collaborative response by departments in the form of employee motivation.

THE CONCEPTUAL FRAMEWORK

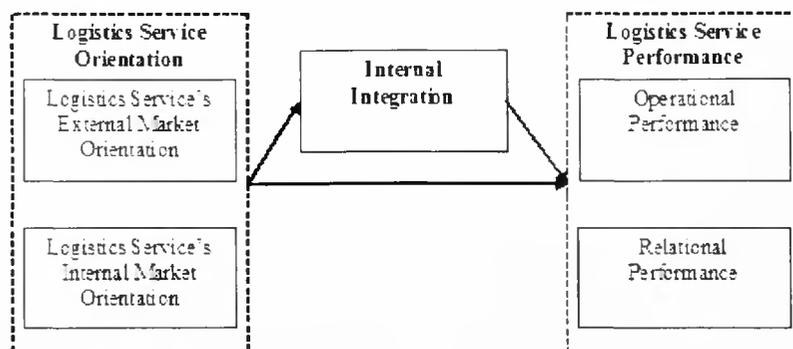
Having reviewed relevant literature, we now attempt to provide the conceptualization of logistics service orientation and further explore its impacts on the development of logistics service competency and how the proposed positive impacts can be achieved. We propose that logistics service orientation can improve a firm's logistics service competency both directly and through enhanced internal process integration. As discussed previously, the scope of the current study is limited to a single firm for feasibility consideration, we nonetheless suggest that internal process integration mediates the

positive relationship between logistics service orientation and logistics service competency. The proposed conceptual framework is shown in Figure 2, and proposition development will be presented next.

Relationship Between External and Internal Market Orientation

Research in services marketing suggests that the customer's service quality perceptions are largely affected by the performance of the frontline service employees (Wasmer and Brunner, 1991; Hartline and Ferrell, 1996; Bitner, 1990; Bitner, Booms, and Tetrault, 1990). In consequence, Sasser and Arbeit (1976) suggested that service employees are at the vanguard of the firm's image, and, therefore, highly skilled and well-motivated employees are, in effect, the firm's products. Moreover, Sasser and Arbeit (1976) expressed that managers should focus on satisfying and motivating their front-line personnel by regarding jobs as primary products and employees as the most valuable customer. In addition, Rosenbluth and Peters (1994) went beyond the preceding arguments and suggested that the needs of the employees should come before the needs of customers since the customers can only be satisfied if the employees are satisfied with their jobs.

FIGURE 2
AN INTEGRATED FRAMEWORK OF LOGISTICS SERVICE ORIENTATION



The preceding arguments imply that once the firms collect and share intelligence from external sources, they recognize that they have to cope with such customer needs as response timeliness and accuracy as well personnel honesty, knowledge ability, and promptness (Stank, Goldsby, and Vickery, 1999; Mentzer, Flint, and Kent, 1999). Much of these external customer needs can only be satisfied by well-motivated frontline service employees. The way to motivate the logistics employees, in this case, is contingent upon the logistics and other departments' mutual commitment to understand the needs of the service employees by collecting and sharing the necessary relevant information. By undertaking a collaborative approach, HR and logistics can satisfy logistics service employees and motivate them to perform better in the service encounter with the external customers, and so increase customer satisfaction (Sasser and Arbeit, 1976). In sum, firms that adopt external and internal market orientation have a better understanding of the importance of the employee's role in satisfying customers' needs, and employees within different departments are thus treated as internal customers.

Because both logistics service's external and internal market orientation emphasize inter-functional collaboration, it is appropriate to suggest that collaborative relationships among different departments within a firm contributes to the development of both orientations. Therefore, we propose that

PI: Logistics service's external market orientation is positively associated with logistics service's internal market orientation.

Summarizing the above discussion, we propose that logistics service orientation is a higher-level construct, which consists of two related dimensions: logistics service's external market orientation with suppliers and customers and logistics service's internal market orientation. However, caution must be taken when managing

these two related dimensions. Although we suggest logistics service's external and internal market orientations are related to each other, this does not mean a firm will automatically achieve a high level of internal market orientation if it possesses a high level of external market orientation; or vice versa. Instead, we argue that a firm should actively manage logistics service's external and internal market orientations simultaneously with a systematic approach. More detailed discussion will be provided in the later in this section.

Logistics Service Orientation and Internal Process Integration

Because inter-functional collaboration is a key dimension of both logistics service's external and internal market orientations, it is necessary to differentiate the concepts of collaboration and integration. Collaboration refers to collaborative partners working together toward common goals to achieve mutual benefit (Mentzer et al., 2001; Stank et al., 2001). Extant literature suggests that collaboration involves information sharing, joint decision-making, joint problem-solving, joint performance measurement, and leveraging resources and skills (Min et al., 2005; Spekman et al., 1997; Stank et al., 2001). While sometimes researchers use collaboration and integration interchangeably, a more accurate definition of supply chain integration provided by Chen, Daugherty, and Roath (2009) suggests supply chain integration involves a much higher level of synergy across different supply chain entities. According to them, internal process integration refers to "the management of restructuring activities that aims at seamlessly linking relevant business processes and reducing redundant processes within a firm" (p. 67) for the purpose of building a better functioning supply chain. In other words, integration not only involves working together but also aims at developing seamless process connectivity and reducing redundancies through organizational restructuring. This is in line with Kahn and Mentzer's (1996) definition of inter-functional

integration, which indicates that integration is more than interdepartmental collaboration and is targeted at bringing departments together into a cohesive organization.

As discussed previously, logistics service orientation consists of both external and internal market orientations. Since extant literature has explicitly suggested the linkage between market orientation and integration, we argue that logistics service orientation is significantly associated with internal process integration. A firm's strategic direction or orientation develops from an awareness of opportunities and needs (Chandler, 1962). However, a firm may need to restructure operations to implement a chosen strategy or orientation. When a firm fully embraces market orientation as its strategic priority, all functional activities and organizational processes need to be focused toward anticipating and responding to changing market and customer requirements ahead of competitors. Researchers have suggested that the implementation of market orientation naturally leads to integrating all functions (Felton, 1959). To be more specific, creating value for customers involves the synergistic efforts of the entire business and not merely of a single department or function in it (Narver and Slater, 1990; Webster, 1988).

Researchers, thus, have argued that the coordinated integration of the business's resources in creating superior value for customers is tied closely to market orientation (Narver and Slater, 1990; Wind and Robertson, 1983). In reality, firms often use cross-functional teams to manage various processes in order to meet customer needs rather than managing each function independently. This parallels the underlying rationale of Bowersox, Closs, and Stank's (1999, p. 59) definition of internal integration: "the competency of linking internally performed work into a seamless process to support customer requirements." Firms with strong market orientation are likely to implement integration programs such as

Customer Relationship Management (CRM). For example, it might be necessary to redesign the personal selling process to better integrate it with other sales and support activities of the firm or redesign and align incentive structure across the firm.

In the current research context, logistics service's external market orientation includes the generation of intelligence (both from the external environment and employees), dissemination of the gathered intelligence across various functional areas, and developing a collaborative response (in the form of service innovation or employee motivation). Due to logistics activities' unique cross-functional feature, logistics service orientation is in a unique position to contribute to the integration process. Based on the above discussion, these initiatives and activities are likely to contribute to enhanced internal process integration. Thus, we propose:

P2: Logistics service orientation - (a) external market orientation and (b) internal market orientation - is positively associated with internal process integration.

Internal Process Integration and Logistics Service Competency

La Londe, Cooper, and Noordewier (1988, p.5) define logistical services as "a process for providing significant value-added benefits to the supply chain in a cost effective way." Moreover when developing their logistics service quality scale, Mentzer, Flint, and Kent (1999) recognized the need to integrate marketing aspects of customer service with physical distribution and reflected this integrative view when identifying the specific value-added benefits of logistical services. Mentzer et al. (1999) found nine value-added benefits including information quality, ordering procedures, ordering release quantities,

timeliness, order accuracy, order quality, order condition, order discrepancy handling, and personnel contact quality. Many of these benefits encapsulated the 17 universal logistical capabilities identified by Michigan State University's Global Logistics Research Team (1995).

Paralleling Mentzer et al.'s (1999) research, Stank, Goldsby, and Vickery (1999) also examined the value-added service benefits using the conceptual model of service quality (SERVQUAL) developed by Parasuraman, Zeithaml, and Berry (1985; 1988). Parasuraman et al. (1985) defined SERVQUAL as the gap between customers' expectations and perceptions of service performance and identified five distinct dimensions of SERVQUAL: (1) reliability (the ability to perform the promised service dependably and accurately); (2) responsiveness (the willingness to help customers and to provide prompt service); (3) assurance (the knowledge and courtesy of employees and the ability to convey trust and confidence), (4) empathy (the provision of caring, individualized attention to customers), and (5) tangibles (the appearance of physical facilities, equipment, personnel, and communications materials). Even though the SERVQUAL model has been criticized for not being consistent across industries (Babakus and Boller, 1992; Cronin and Taylor, 1992), Stank et al. (1999) identified two major elements of value-added benefits related to logistics services: relational and operational service performance. Within Stank et al.'s (1999) framework, operational performance captured the reliability and tangible aspects of SERVQUAL, whereas relational performance encapsulated the responsiveness, assurance, and empathy dimensions. While Stank et al.'s model provides logic and practicality, the Mentzer et al. (1999) model included a larger set of variables such as information quality, order discrepancy handling, and order release quantities. Therefore, we adopted an extended version of Stank et al.'s model for the purposes of this study. Our

extended version integrates Stank et al. and Mentzer et al. models and proposes logistics service competency is reflected as logistics performance which consists of the dimensions of relational and operational performance (see Table 1).

Studies have shown that integration can help firms develop logistics competency. Gustin, Stank, and Daugherty (1994) found that integrated firms are more likely to computerize their business processes, thus achieving significant tangible results including substantial inventory savings and lead time reductions. Process integration also ensures that operational interfaces within firms are synchronized to reduce duplication, redundancy, and dwell time (Rodrigues, Stank, and Lynch 2004). In order to satisfy customers in a volatile environment, an increasing number of firms consider prompt reaction to changes as a priority (Daugherty, Stank, and Rogers 1996). Internal process integration can help firms respond to changing customer demands. A firm's responsiveness to customers requires the support of integrated logistics processes (Daugherty, Sabath, and Rogers 1992), because where there is a lack of integration, sub-optimization with inevitable conflict between departments and activities tends to be the norm (Stuade, 1987).

Closs and Savitskie (2003) further found that internal logistics information technology integration can significantly improve the firm's responsiveness to key customers and delivery time flexibility. While it is obvious that extant literature support the positive link between internal process integration and the operational aspect of logistics service performance, internal process integration in fact also enhances the relational aspect of logistics service performance. When a firm is highly integrated internally, it can be expected that different functional areas will be "on the same page" when interacting with outside customers – that is the customer interfaces are standardized. Therefore, we suggest that,

TABLE 1
LOGISTICS SERVICE COMPETENCY

Operational	Relational
<ul style="list-style-type: none"> ● Delivery timeliness ● Order accuracy ● Order condition ● Order quality ● Order discrepancy handling ● Ordering procedures ● Price 	<ul style="list-style-type: none"> ● Personnel contact quality ● Information quality ● Courtesy ● Responsiveness ● Assurance ● Individualized attention

P3: A firm's internal process integration is positively related to (a) the operational aspect and (b) relational aspect of logistics service performance.

Logistics Service Orientation and Logistics Service Competency

Although we argue that logistics service orientation impacts logistics service competency through enhanced internal process integration, we also suggest that logistics service orientation has direct impacts on logistics service competency. A large number of previous studies found a link between external market orientation and firm performance (e.g., Narver and Slater, 1990; Jaworski and Kohli, 1993; Slater and Narver, 1994; Pelham and Wilson, 1996; Han, Kim, and Srivastava, 1998; Narver, Jacobson, and Slater, 1999; Pelham, 2000). Moreover, the positive impacts of both external market oriented strategies (Min and Mentzer, 2004) and internal market oriented strategies (Keller, 2002) on logistics service performance have been expressed in the supply chain literature. Firm executives that are committed to building logistics service competency can develop service innovations through collaborative efforts of different departments.

Often, marketing departments acquire, silo, and store information regarding specific customer needs and expectations. Purchasing departments

also have valuable information on supplier capabilities and opportunities for shared innovation and collaboration that could benefit the ultimate customers and drive service competency. And as pointed out earlier, the logistics and purchasing departments must work together with other departments to help deliver this potential value. By sharing such information with logistics, an innovative solution can be developed to create superior value to the customer which may be in the form of a JIT system for those customers that look to minimize inventory costs or an EDI system for those that require more accurate sales forecasts. These innovations in turn are expected to improve the customer's perceptions of the firm's operational performance. The relational performance, however, can only be fostered by motivated and qualified employees who are in contact with customers. Therefore,

P4: Logistics service's external market orientation is positively associated (a) directly with the operational aspect and (b) indirectly (mediated through logistics service's internal market orientation) with the relational aspect of the logistics service performance.

Internal market orientation focuses on increasing employee productivity by developing an understanding of employees' needs and

satisfying them appropriately. Motivated employees would perform their jobs more efficiently and the attained efficiency in operations may be reflected in customers' perceptions of such operational performance variables as order quality, timeliness, and procedures. The relational aspect of the business, on the other hand, can be handled by proper employee motivation (Richey and Bachrach 2004). Such expectations as frontline employee (drivers, salespeople, etc.) courtesy and honesty; service representative's care, attention, and knowledgeable; and warehouse employees' responsiveness depends on the employees' attitudes towards their jobs. To enhance such job-related attitudes and motivate employees, firms should adopt an internal market orientation toward its logistics service. Therefore,

P5: Logistics service's internal market orientation is positively associated directly with both (a) the operational aspect and (b) the relational aspect of the logistics service performance.

Most interesting is the synergistic impact of logistics service's external and internal market orientations on logistics service performance. These two strategic orientations are components of logistics service orientation and complement each other. Firms that rely only on external market orientation would have a better grasp of customer's needs and can take joint interdepartmental actions to satisfy those needs by making their order receiving and handling procedures more efficient and/or effective. However, optimal logistics service competency would not be achieved unless the employees are motivated to develop and use such order receiving and handling procedures. Even though a firm may have acquired and/or developed all the right procedures and technologies to satisfy the customer needs that are identified through logistics service's external market orientation, customers' satisfaction may still be dampened by rude, dishonest, unmotivated, and/or unproven

employees. Similarly, firms that depend solely on internal market orientation toward logistics service may have a better grasp of employees' needs and can take joint interdepartmental actions to satisfy those needs by fostering innovative rewarding and/or training methods to recruit, develop, and motivate qualified employees. However, logistics service competency would not be achieved unless the employees are equipped with the necessary procedures and technology to serve their customers better than the competitors would. By adopting both strategies simultaneously, i.e. logistics service orientation, firms can bundle their superior service procedures and technologies with their superior service employees, and bundling of superior resources would lead to competitive advantage (Hunt and Morgan, 1995) – in this case, to logistics service competency. Thus,

P6: Logistics service orientation, when both internal and external market orientation are perfectly aligned, is positively associated with both (a) the operational aspect and (b) the relational aspect of the logistics service performance.

One other key factor for building core competency in logistics services is the firm's ability to follow the market orientation procedure in logistics service. As discussed earlier, both logistics service's internal and external market orientations involve three procedural components: generation of intelligence, dissemination of intelligence, and preparation of a collaborative response. Firms need to excel in all three dimensions of market orientation to create a bigger impact on logistics service performance (Kohli and Jaworski, 1990). For instance, the marketing department may gather a myriad of information on customer needs but unless the information is shared with the logistics department, the response developed without a key department's input would be less effective. Similarly, human resource and

logistics departments may attempt to develop joint solutions to increase employee motivation, but such efforts would be less effective unless the solutions are based on disseminated intelligence gathered from employees. Therefore, firms should focus on all three dimensions of market orientation in order to build logistics service competency.

P7a: Firms that excel in all three dimensions of external market orientation would have a superior logistics service performance over those that overlook at least one of the components.

P7b: Firms that excel in all three dimensions of internal market orientation would have a superior logistics service performance over those that overlook at least one of the components.

IMPLICATIONS AND FUTURE RESEARCH

The objective of this manuscript was to develop a conceptualization of logistics service orientation by integrating the external and internal market orientation views by illustrating the synergy between the two schools of thoughts. Research in logistics service performance posits that service competency can be achieved either through customer/competitive focused (i.e. external market oriented) strategies (e.g. Zhao, Droge, and Stank, 2001) or employee focused (i.e. internal market oriented) (e.g. Keller, 2002) strategies. In our conceptual framework, we suggest that firms that are truly committed to building a logistics service competency should adopt both an internal and external market orientation – rather than choosing one or the other – in order to take advantage of the synergies between the two strategic views. It is obviously very unlikely that marketing, purchasing, and logistics will be able to operate independently over time and remain effective.

This is supported by the plain fact that logistics cannot create customer value without marketing creating sales and marketing cannot complete sales nor retain customers without logistics filling those orders consistently and correctly. It is truly unfortunate that — in this new service driven economy – research and practice in marketing and logistics still remain very much in functional silos. It is our hope and belief that adoption of a unified vision of *logistics service orientation* and strategy will assist in integrating both research and organizational practice with a goal of superior performance.

Being externally market oriented means paying attention to customer needs and demands – a normal claim in most mission statements. Being internally market oriented means hiring, motivating, and retaining qualified employees as a mechanism for driving superiority in logistics service performance. Human resource managers recognize that external market orientation cannot survive without internal market orientation. Logistics strategists know that external market orientation will not happen if operations managers and employees have not bought into the concept. Yet researchers neglect the connection as imminent in developing logistics service orientation.

Also, while we argue that logistics service orientation has direct impacts on logistics service competency, we also suggest that this relationship can be mediated with internal process integration. The inclusion of an internal process integration concept presents a more complete and robust framework to explain the proposed relationships.

As an exploratory study on logistics service orientation, the current paper provides many opportunities for future research. First of all, due to the conceptual nature of the current study, future research is needed to empirically test, validate, modify, or reject the proposed conceptualization of logistics service orientation and related relationships. While we have proposed a theoretical conceptualization of

logistics service orientation, future research on operationalizing this construct is warranted.

As stated previously, the scope of the current study is limited to a single firm. In reality, supply chain management involves more than one firm. Therefore, future research should build upon the current study and expand discussion to multiple parties in the supply chain. Similarly, only internal process integration is considered in this paper, but future research could incorporate and examine the relationships between external process integration and logistics service orientation and logistics service competency.

Furthermore, future research can extend the boundaries of the discussion presented in this paper by integrating it with the concept of supply chain orientation. Mentzer et al. (2001, p.11) define supply chain orientation "as the recognition by an organization of the systemic, strategic implications of the tactical activities involved in managing the various flows in a supply chain." Integrating supply chain orientation with the current discussion not only extends the focus of external market orientation from mere downstream customers to focusing on both upstream suppliers and downstream buyers, but also expands the outcomes beyond logistics service performance to include other outcomes.

Logistics and supply chain managers have known for years that customer service goals will not be met if frontline employees are not hired, trained, and motivated to meet and exceed customer firm expectations (Richey and Bachrach, 2004). For a firm to be a truly superior performer, executives must develop a strong logistics service orientation and commit to external market orientation supported by consistent internal market orientation. Unfortunately, the strategic management focus of many firms respects external market orientation with little attention paid to internal market orientation in most logistics/supply chain scenarios.

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philosophy is transitioning from an operational focus on transactional cost reduction and service trade-offs to a more long-term relational perspective. More and more emphasis is being placed on supply chain partners and supply chain competitive positioning based on both consistent operational and relational performance outcomes. Leading firms will adapt to reflect market orientation across internal/operational and external/strategic levels. Failure to do so will result in a strategic misfit between top management teams and operations management/frontline employees. What will the results of this misfit be? We expect unattainable or misunderstood corporate missions, subpar performance, and eventual divestiture vs. market dominance! Therefore, we propose an integrative approach to developing a strong logistics service orientation and achieving logistics service competency.

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