

A Review of Constraints on Performance-Based Logistics: A Case of the Republic of Korea Air Force

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Abstract

Performance-based logistics or PBL, which is a type of logistics outsourcing with agreed performance criteria between a customer and a provider, has become a popular strategy for military logistics. PBL customers have perceived that PBL brings a significant improvement to the efficiency of the supply chain management by changing roles, responsibilities, and authorities of players in the supply chain. The key reason for adopting PBL is to maximize the long-term aggregate supply chain benefits by distinctive collaboration between or among the players. However, the best practice recommendation in PBL literature states that PBL does not bring the benefits automatically to the customers if PBL customers do not know their costs for achieving the same goals.

A common claim among military logisticians or end-users is that the vision of the new practice (PBL), however, has not been realized as was intended during its planning stage. This discrepancy has been documented in many assessment reports issued by government agencies. We claim that there are some inherent obstacles that inhibit full-scale collaboration between a customer and a contractor. First, information sharing between the customer and the contractor is highly limited, maybe, due to the lack of trust. The contractor usually does not release cost data to its customer since the contractor regards the data as proprietary information or a business secret. Moreover, the specific information on the work performed by the contractor is not provided with the similar reason like the cost data. This information asymmetry between players is significantly serving as a barrier to ideal collaboration. Second, there exists a structural limit on the degree of collaboration under PBL environments. Because the contractor expects to make a pre-determined goal of profits by wielding its bargaining power that comes from its sole source position, even without this new collaborative practice (PBL), contractor's incentive for reducing total supply chain costs and sharing profits is not as desperate as customer's. Third, every military has its own goal of retaining and further developing its sustainable capabilities, which might not be consistent with an optimal strategy across the entire supply chain, to secure nation's long-term industry base by maintaining core logistics capabilities. Because this goal has a higher priority than the efficiency of the supply chain does, political factors arising from national security objectives are involved in determining the scope of collaboration and assigning the roles and responsibilities of supply chain players.

We examine these constraints on supply chain collaboration in PBL and suggest practical approaches that will facilitate strategic collaboration between players. Especially, we will focus on the perspectives of PBL customers by utilizing cases in the Republic of Korea Air Force.