CHAPTER 6

FACTORS INFLUENCING THE TOP MANAGEMENT OF TRANSPORT CORPORATION OF INDIA LTD

6.1 INTRODUCTION

Logistics operations have come up as a source of gaining competitive advantage in the business world. Due to pressures from increased competition, globalization of logistics operations, organizational restructuring, high level of service, the importance of logistics chain will continue to intensify.

In contrast there are tremendous opportunities for creating world class logistics operation with the support of Information Technology (IT) and new management concepts. To create sustainable logistics know-how, organizations not only have to pay attention to designing environment-friendly processes, but also have to ensure safe disposal of logistics. The focus is now more on integrated finance logistics model. Partners in the franchiser-to-customer continuum continue sharing facilities, technology and information. It is going back to the basics to redefine internal and external relationship with customers, franchiser, bankers and insurance agents.

With the change in the competitive environment in the past decade, the logistics operations have also changed significantly. Hence, strategic importance is placed on logistics to deal with the challenge of finance in logistics operations. A shift from transactional to collaborative partnership is
required to enhance the finance logistics operations. In short, the integrated finance logistics model will lead to the establishment of dynamic relations and effective flow of finance in logistics operations.

6.1.1 Factors Influencing the Top Management of Transport Corporation of India Ltd

This study highlights seven emerging issues that are likely to determine the efficiency of management. The following factors have been identified as critical.

6.1.2 Less Competence To Face Uneven Demand

Transport Corporation of India Ltd customers’ requirements were challenging for the management to provide service and to decide on the variety of services to be given to all its customers in a single window.

6.1.3 Operations and Services Quality Perception

Transport Corporation of India Ltd is the market leader for logistics services; however ever-escalated customer’s requirements have made the market place more competitive. Management has to strategically plan on high – quality operations with zero escalations. It now calls for expertise management solutions to help Transport Corporation of India Ltd consistently maintain and perform all logistics operations.

6.1.4 Conscious Cost Optimization

Traditionally cost-cutting focused on distribution networking design and outsourcing, however keeping in mind the environmental changes, the management need to take a call on collaborative supply chain systems, along
with the expertise service providers so that Transport Corporation of India Ltd is able to manage complex operations over great distance and across borders.

6.1.5 Lack of IT Connectivity

IT is perceived as a platform for building information systems internally in an organization, The reality is that organizations were pushing to maximum limits and there prevailed a fair competition in the market between organizations. Transport Corporation of India Ltd as a growing Logistics firm has to focus more on security, network and integration of its value chain.

6.1.6 Lack of Collaborative Relationship

A Market leader has to take initiative and bring all its partners under its supervision in order to take effective control of overall operations. Transport Corporation of India Ltd can strengthen its relationship with all its network partners to avoid internal conflicts, external high cost in operations and customer escalations.

6.1.7 Lack of Effective Constrain Management

Constrain any element that limits the performance of the system, where performance measured relative to the system’s goal. Transport Corporation of India Ltd should identify its weakness and constrains and must device a strategic plan to overcome the constrains by providing overall direction to its executives in its operations.

6.1.8 Poorly Trained Executives

Global organizations and change in perceptions of partners call for a competent work force. Logistics executives in Transport Corporation of India Ltd should be trained on communication abilities, adaptability and soft skills.
This will take Transport Corporation of India Ltd logistics firm to a world class unit. Supply chain partners except supply chain managers to be sensitive to the cultural context in which they are intending to institute change.

6.2 THE LOGISTICS FINANCE MODEL AND ITS APPLICATION IN LOGISTICS INDUSTRY

The firms on the logistics chain, the Indian small and medium enterprises, find it very difficult to get the financial support from the bank, for the development of logistics the launch of the logistics finance paves the road for the integration of the logistics firms and finance sectors to a certain extent, and it popular in India. With the increasing trend of globalization, many multinational companies fall into the category of off-shore production and outsourcing in lower cost countries worldwide. One of the consequences to prolong the demand and supply chain. Providing finance to trade along the supply chain has recently become a fundamental business of bank to create the value added for firms who are on the supply chain as well as for banks themselves. The road that major enterprise were seeking for more value added, comparative advantage among companies, countries, and even among areas in a country, which continuously built and strengthened. It has become increasingly important that both the suppliers and buyers of the logistics chain need timely manufacture and delivery of products, and they have been crying for financing to support both the trade and the manufacture. It is proved to be valuable that well structure finance to the firms on the logistics chain is indispensable for accelerating turnover of inventory, logistics finance enable them to promote business at a reasonable cost, that of course benefits the firms on the logistics chain and the banks.

There are two streams to create the value for the customers on the logistics chain. First, the lean management by integrating the product
flow, information flow and capital flow; second financing logistics chain by losing the finance constraint of the core logistics firm so as to improve the stability and efficiency of the logistics chain. It is said that during the last decades, the supply chain finance have been the most prominent growth source among the international invest bank.

6.2.1 The Logistics Finance

There are three flows in the process of the material moving, that is product flow, capital flow and information flow that appear spontaneously. No matter products are in transit or in stock, the three flows go forward at the same.

The logistics chain consists of suppliers, the logistics firms, the franchisers, and final customers. They all related one another and connected with the intermediate service departments, such as banks, insurance companies, administrative departments, and so on, to create the value for customer as well as themselves.

Figure 6.1 Value Chain of Logistics
6.3 THE VALUE CHAIN OF LOGISTICS

Now, the competition of logistics marketplace is more fiercely than ever. For the logistics enterprises, the average rate of profit is only 2 percent because of the value of each participant increasing in the line of logistics chain. The ruthless competition forces the logistics firm to search for new source of profit by reengineering logistics process.

The bank is traditionally exogenous of logistics chain for its not providing the fund to the logistics directly. To integrate financial sector into the logistics chain is inevitably the potential profit source for firms on the logistics chain, especially for small and medium enterprise (SMEs). Because of weak “voice” of SMEs, it is very difficult for them to join in the integrated logistics chain compared with the large-scale company.

As for the whole logistics chain, logistics finance calls for the involvement of the financial sector, such as bank, insurance company, and benefits the financial sector by minimizing negative effects stemming from the “adverse selection” and moral hazards. Hence, the logistics finance can be put as follows, located at the intersection of logistics firm, supply chain management, collaboration, and finance, it is an approach for two or more enterprises in the logistics chain, including external service providers, jointly creating value through means of planning, steering, and controlling capital flow on an inter-organizational level.

6.4 THE MODEL OF LOGISTICS FINANCE

Globalization, technological change, and demanding customers promise to make mediocrity an endangered species. To succeed in this exciting but challenging world, logistics managers have begun to pursue business models that enable them to follow Peter Drucker’s advice (Drucker,
In their quest to know, develop, and exploit their own strengths, logistics managers have reexamined their companies’ competencies, placing more emphasis on what they do extremely well. They then work to build strong relationships with supply chain partners who possess essential complementary capabilities.

In order to integrate different participants, logistics firm and financial sector have been trying to design more effective business models aiming to meet the needs of members of the logistics chain than competitors. Success depends on building processes that can gather and deliver the products to the final customer demand. As managers try to do this, they often find that their companies and partners lack in needed fund; they look proactively beyond their company’s walls to consider how the financial resources can be got and utilized to create value. While doing so, logistics firms once again turn to the financial section, i.e. banks and insurance companies, to get support for the members of logistics chain and themselves alike.

6.5 BANK ORIENTED MODEL

The bank-oriented model identifies the situation in which the bank authorizes the credit for members of the logistics chain, and asks for the third party to supervise the products, no matter they are in transit or in stock, and coordinates the receivable links including traditional mortgage, confirming pool, future loan pledge, etc.

The confirming pool model says that the banks provides fund for supplier by signing the agreement among four parties, i.e. the supplier, the franchiser, the logistics firm and the bank.
**STEP 1:** The supplier signs contract with the franchiser;

**STEP 2:** The bank asks the supplier to store the products that it has the right to buy back products on condition of cash deposit;

**STEP 3:** The franchiser applies for the bank acceptance;

**STEP 4:** The logistics firm guarantees the franchiser;

**STEP 5:** The franchiser provides the back bond for the third party logistics using the products;

**STEP 6:** The franchiser pays the cash deposit to bank, and takes the products in parts accordingly Of course, all the activities are based on the relationship between Bank and the Logistics firm.

Figure 6.2  The Bank oriented logistics finance model
The advantage in this model is that the bank can control the risks deriving from the firms the logistics chain, and trade off all participants. One of the disadvantages is that other participants haven’t been developed, and the bank is responsible for the most risk, i.e. to supervise the business which maybe not on the list of their core competency. The possible consequences is, on the one side, the logistics finance couldn’t spread broadly; and on the other hand, the bank may fail to get much revenue, and even incur the loss, which of course is not their original willing. In fact, most of the current logistics finance fall into this category.

6.6 LOGISTICS FIRM ORIENTED MODEL

Besides playing the role of supplying the logistics service on the chain, another important service for logistics firms is to vouch for other firms on logistics chain to get the loan, and at the same time, to help the bank to evaluate, supervise, dispose of asset, etc. Banks, who launche the logistics finance firstly in India, proposes the model of “Total Logistics” that the core logistics firm, authorized by the bank, supervises the products on the chain, no matter they are in transit or in stock.

There are many banks that provide the financial service solution for SMEs of the logistics chain, i.e. credit service support, purchase payment support, stock rotation support, and account receivable support by integrating the supply chain finance, e-business and off-shore bank.

6.7 THE GENERALIZED MODEL

The model can be generalized by substituting the bank for insurance company, and the core logistics firms for any other enterprises, i.e. the supplier, the franchiser, the dealer, etc; it is also possible to integrate the model above into the generalized value chain.
The insurance affairs in the logistics finance model, just like bank-oriented model, the involvement of the insurance company, which is in charge of all the insurance affaires of others, benefits the core insurance company and other enterprises on the chain as well.

![Figure 6.3 The Generalized Logistics Finance Model](image)

Information platform is added to generalize the situation, all enterprises on the logistics finance chain exchange the information they possess. At the same time, by substituting the core logistics firm for the other enterprise, i.e. the supplier, the producer, and franchiser, who is in charge of the loan for other firms, we could get more general model.

Considering the duty and capability of the core logistics firm in the rigid model, if we take the bank as a department of the logistics chain, just like the marketing, production, Research and Development division, just a few examples, we can put them together to form the value chain.
For instance, UPS merged the First International bank and take it as a department, UPS Capital, which provided the financial service for UPS, which focuses on the four categories, cash flow, trade risk management, international trade and business petty loan (Research team, 2008).

In fact, the logistics finance includes mediator platform, such as law office, association, mass media, advertising, consultancy, and even governmental platform including administrative departments of industry, commence, taxation, notarization, and custom, etc.

![The Integrated Logistics Finance Model](image)

**Figure 6.4 The Intergrated logistics Finance model**
6.8 CONCLUSION

With the booming of logistics, more and more enterprises on the chain find it very difficult to get the sufficient fund to sustain their development, the emerging of the logistics finance shed a light for all those connected with the logistics chain. Not surprising, then, good communication skills, logistics operations skills, understanding new technology and the ability of logistics managers to plan and forecast for the logistics chain are highly regarded as desired skills of future logistics managers for having effective control on logistics operation. In order to be successful in handling the global demands Transport Corporation of India Ltd needs to demonstrate new levels of leadership and risk taking. Transport Corporation of India Ltd will have to take initiative either by inventing new solutions or by looking at best practices across the industry and implementing them with vigorous and speed.