

# Study on the Strategies of Logistics Enterprises' Development From the Legal Perspective<sup>1</sup>

--Taking Linyi as an Example

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**Abstract--** Modern logistics industry's development degree has become an important sign to measure the level of the national industrialization and the national comprehensive competitiveness. And yet, Chinese logistic enterprises now display such characteristics as "large in number and little in scale, loose in organization, weak in management, and underdeveloped in efficiency", which severely affects the speed and depth of the development of modern logistic industry, and makes people worry about the survival situation of these enterprises. Through the literature review combined with field research, deduction combined with induction, comparative analysis and qualitative methods combined with quantitative methods, the paper finally reaches the conclusion that in order to make the logistic enterprises become bigger and stronger, four strategies must be carried out, which are reforming the operation mode, exploring new business, strengthening contract control and boosting the construction of informatization. At the same time, the paper considers that the construction of personnel is the impetus to the development of logistic enterprises.

**Keywords--** legal perspective;logistic enterprises; large in number and little in scale, loose in organization and weak in management, and underdeveloped in efficiency; development strategies

## I. INTRODUCTION

The development degree of modern logistics industry has become an important sign to measure the level of the national industrialization and the comprehensive competitiveness. Linyi is the second largest commodity wholesale city in China. Its goal of development is to shift from a traditional business city to a modern city strong in business and logistics. Linyi's logistic industry has been developing quickly these years, even faster than the average speed of the national logistic development. The development of business and the development of logistics shall be coexistent and mutually facilitating, and yet in reality, the pace of logistic enterprises seems still to lag behind the pace of business enterprises and industry enterprises. Logistic enterprises often display the characteristics of "large in number and little in scale, loose in organization and weak in management, and

underdeveloped in efficiency" which severely affects the speed and depth of the development of modern logistic industry, and makes people worry about the survival situation of these enterprises. On how to enlarge and strengthen logistic enterprises, the predecessors' research mostly focuses on the management of logistic supply chain. Through a long time field investigation, the paper discloses that it is still too early to talk about supply chain management to the large number of logistic enterprises. The four strategies of reform of management mode, exploration of new business possibilities, perfection of contracts control, and the boost of the construction of informatization from the perspective of the law is a route choice for the logistic enterprises' enlargement and strengthening. This perspective, this maneuverability and this application are quite rare. The focus of reforming the management mode is that the logistic enterprises shall regroup into companies of limited liabilities and shall take the form of joint businesses; the focus of the exploration of new business possibilities is that the legal characteristics of packing and its applicability; the strategy of the perfection of contract control discloses the importance of contracts ,the boosting of informatization construction talks about the fact that doing so shall be combined with strengthening the enterprises' management, and the long term feature of the construction of informatization. Through the reference of literature combined with field research, induction combined with deduction, comparative analysis, and qualitative analysis combined with quantitative analysis, the paper pays special attention to the inspection on the achievements by practice. At present, these 4 strategies have been adopted by many logistic enterprises, which are believed to help more logistic enterprises to become larger and stronger.

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The authors underwent a long-term investigation, and interviewed the administration departments of communication and transportation departments, the committees of business and trade, and the guild of logistics and other related departments such as the insurance companies, economic crime investigation departments in the 5 districts of Linyi city, namely Lanshan District, Luozhuang District and Hedong District, National Open Economic Zone and High and New Technology Development Zone. Also, the authors reviewed road cargo transportation stations (later referred to 'freight yards')<sup>2</sup>, logistic companies, consignment departments, cargo information allocation stations and so on<sup>3</sup>, and gained many first hand materials.

## II. THE CURRENT OPERATING SITUATION OF LINYI'S LOGISTIC ENTERPRISES

It is known from the industry and business administration departments and road transportation administration departments that in the 5 districts and 9 counties of Linyi City, until the end of 2010, 93,608 trucks<sup>4</sup> and 121,000 employees were involved in the Linyi logistics industry, whose professional transportation routes covered the whole China. There are 17 freight yards in the 5 districts and 9 counties, among which the comparatively big ones are Jinlan, Tianyuan, and Hedong Information Allocation and so on; there are 38 registered information allocation stations, and they only provide allocation information, which are to find cargo for vehicles, and to find vehicles for cargo, and do not arrange shipment; there are 180 logistic limited liability companies and limited liability stock companies (including the logistic companies operating outside the freight yards), among which the comparatively big ones are Lichen, Luxin, Rongqing, and Zongheng; there are 1348 registered consignment departments, and they are mostly individual operated businesses and partnership businesses, but a lot of them have signboards of companies, such as xx transportation company, or xx logistic company, among which the comparatively big one are Xibei, Anxin, and Kaixuan. According to another incomplete statistics, there are other several hundred unregistered consignment departments or

those who do not have required registration certificate or who are attached, which are operating unlawfully. The logistic companies' daily operations mainly use the mode of "operating in two places and collecting payment."

At present, the logistic enterprises of the 9 counties and 5 districts have developed from the less than 10 in 1992 to the almost 2000 now, and most of them undertake road transportation. In average seven enterprises work on one route and for one "hot" route there are over ten enterprises. There is more competition in Lanshan District. But among the almost 2 thousand logistic enterprises, most are individual operated consignment businesses, and their vehicles are mostly attached or hired temporarily. There are rarely companies which undertake multi-mode transportation or international transportation. There is vicious competition among the many logistics enterprises, while they cannot compete with large international logistic corporations. Some consignment departments lower the charge or even operate under a loss, and there are often bad cases in which consignment departments collected payment and fled or sold the cargo and took the payment. In addition, the education level of the personnel of logistic companies is low, mostly junior or senior high school graduates. Fewer of them have logistician certificate. The other functions of logistics such as packing, logistic processing and allocation are rarely done. The information platform which requires more investment is at the beginning. Overall the "Large in Number and Little in Scale, Loose in Organization, Weak in Management and Underdeveloped in Efficiency" characteristics of Linyi's logistic companies make people worry.

## III. THE ROUTE CHOICE OF LINYI'S LOGISTIC COMPANIES TO DEVELOP

The "Large in Number and Little in Scale, Loose in Organization and Weak in Management, and Underdeveloped in Efficiency" situation will undoubtedly slow down the process in which Linyi develops to be a city strong in business and trade. As to how to develop the logistic companies, the authors have the following routes:

### A. *Reforming the Operating Mode*

The Ministry of Communications points out in its "Several Opinions on Boosting the Development of Comprehensive Logistic Service of Transportation Enterprises" that it shall encourage the unions among transportation enterprises, which has guidance to the logistic market of Linyi. The related government departments shall encourage the regrouping of logistic enterprises through share, holding controlling interests, annexing, union, joint venture, and thus engender large scale modern logistic enterprises which have international competitiveness. Based on the out-order or even vicious competition among the consignment departments of Linyi, the concrete *modus operandi* is to encourage the regrouping of the mostly individual operated businesses or partnership businesses and make them limited liability companies. In such companies, more transportation routes

<sup>2</sup> According to the stipulations of June 2005 order of the Transportation Department—"The Management Regulation of Road Cargo Transportation Stations (Freight Yards)," road cargo transportation stations (freight yards) (later referred to as transportation stations) means the operating locations such as the comprehensive cargo stations (freight yards), less than carload freight transportation stations, container transference stations, logistic centers which are based on the field facilities, and provide paid services such as warehousing, safekeeping, allocation, information conveying, and tallying.

<sup>3</sup> Logistic enterprises include cargo information allocation stations, consignment departments, logistic companies and road cargo transportation stations.

<sup>4</sup> Among which there were 89848 ordinary trucks, 2909 special transportation vehicles, 29 large trucks, and 822 dangerous cargo transportation vehicles and the trailers and tractors are calculated separately.

shall be kept; although their routes do not cover the whole country, yet characteristic routes shall be kept. A successful example of this is the “Lianxing Logistic Co., Ltd” established in 2006 by 18 consignment departments jointly. In the investigation, it is found that although some of Linyi’s long history, large scale consignment departments have the requirements of becoming liability companies, they do not intend to regroup into such companies, and the reason being that they are afraid that there will be more taxes and it will be harder to evade taxes. Some men at the wheel do not understand the difference among individual operated businesses, partnership enterprises and limited liability companies. But still there are some consignment departments of Linyi and other places which have advanced ideas are interested in uniting and actively seek advices on the legal issues of regrouping. If being formed the partnership enterprises, some consignment departments with better business worry about the common risks will be shared and another issue is on who to take the charge of the partnership enterprises. If being built a joint stock company, the high registration capital is a big problem. Therefore the most feasible solution is to build a limited liability company. With the help of the authors, the 5 larger consignment departments united and established “Linyi Zhonglian Logistic Co., Ltd” in August 2008, and they are operating well. They not only have more business volume, but also start to set foot on the 3rd party logistics which has contemporary logistic significance, and its reputation is pretty good. But Linyi’s managers of the consignment departments mostly have low educational level, and they are strangers to the directorate, board of supervisors and board of stockholders, which needs the related management departments to assist the managers and solve their problems. No doubt that large scale and lawful operations can avoid vicious competition and the few logistic companies’ fleeing with collected payment.

Shentong Express Delivery Co., Ltd, famous all through China, provides another good example of operation mode for logistic enterprises. After over 10 years development, it has established 600 1st level joint businesses (including remote areas such as Lhasa in Tibet) and over 2,000 2nd level joint businesses, and an annual turnover of more than ¥ 4,000,000,000RMB, and has formed perfect and smooth express delivery network in the whole country which covers cities of prefecture level and county level cities in developed areas. The quick development of Shentong has a lot to do with the adoption of the management mode of joint businesses, because this mode can reduce the cost comparing with establishing network spots throughout China. Also under this mode, the joint businesses operates individually, account individually, assume sole responsibility for their profits or losses and it does not leave unused resources of the headquarter. They only are arranged and given unified management mode by the headquarter. This mode of joint businesses enlarges the business volume and the scale,

saves costs, and raises the popularity. Logistic enterprises shall use this said for reference.

#### B. *Exploring New Business*

Logistics includes multi-function business activities such as transportation, warehouse and storage, processing, packing, conveying, and information processing. Though transportation is the main body, yet it only becomes modern logistics if it includes other functions. Logistic enterprises shall be close to the market, and actively explore new business possibilities according to the various demands of the customers, for instance, the electronic business logistic allocation service, the 3rd party logistics, warehouse service, valuable cargo channel service, processing and packing on the way etc. Take packing as an example, the authors advise that capable logistics enterprises shall start this business as soon as possible. There are two reasons to do this: 1) an issue which causes unstoppable disputes between the consigner and the shipper is the packing. In practice, the transportation contract usually stipulates that the cargo should be packed by the consigner, and yet the consigner knows little about the road situation and the weather situation of the road. Also, “The Road Transportation Regulations” issued by the Ministry of Communications has many disclaimer clauses for the shippers, for example, the 68th article the 3rd item: the inherent flaw which causes the damage of the cargo; the 4th item: the packing the cargo is intact and yet the inside cargo is damaged or vanished. The consigner should take the responsibility of the cargo damage under these said two circumstances; 2) Some consigners mix dangerous cargo or other erosive, contaminative or prohibited or restricted cargo with the shipped cargo and does not notify the shipper, or misreports or conceals the cargo’s weight, specification or quality. Because the consigner has packed the cargo or there are lots of items or little items, the shipper may only selectively examine or even do not examine the cargo, which thus causes the injury or death of the shipper, the contamination or damage of the vehicle, machine or equipment or causing the damage of the third party frequently happen. And therefore the cargo being packed by the shipper who has rich experience in transportation and becomes the professional packer can not only benefit the two parties, but also lower the risks, and that may be the best solution to the problem.

#### C. *Strengthening the Contract Control*

The authors found that the transportation contracts and consignment notes are extremely simple, whose contents are incomplete and unclear, which often contain some illegal stipulations, together with the fact that quality of the transportation service is extremely bad. Therefore there are incessant disputes between the consigner and the shipper. In fact the transportation contracts and consignment notes are the most important documents to let the shipper transport the cargo to the destination, give the cargo to the consigner or the consignee upon which the shipper receives charges, confirming the rights and

obligation relations between the shipper and the consigner. They are the final result of the transactions of the two parties, and it is also the basis to solve the disputes between the two parties. But in reality, the logistic industry is in its primitive period, and the operation of market management is in disorder. The main bodies of the market have qualities which are pretty varied, and they lack legal risk avoidance consciousness which often causes “firefighting after the accident.” Therefore strengthening the transportation contract control can let us change from “firefighting after the accident” to “fireproofing prior to the accident,” thus reducing many legal cost. Logistic enterprises shall raise their preparedness to prevent disputes from happening.

#### *D. Boosting the Construction of Informatization*

In today’s information age, the informatization level has become one of the key points by which logistic enterprises gain competitive advantage. It has also become an important instrument and basic platform for the logistic enterprises to strengthen scientific management, to drive technological progress, and to advance core competitiveness. The authors believe that two aspects should be focused on: 1) Boost the construction of informatization shall be combined with strengthening enterprise management, letting informatization to bring forth the logistic business flow reshaping and compressed organizations, which can lead the enterprises to strengthen and improve various works and therefore can advance the innovation of management; 2) Insist on the planning on the whole, implementing step by step, estimating the ability and always looking to the effect. Rushing into the mass action and formalism shall be avoided and the concept of long term informatization shall be established. Informatization is a double edged sword: correct decision and implementation can advance the management level and core competitiveness of logistic enterprises, otherwise seriously damaging the enterprises.

#### IV. CONCLUSION

Personnel construction is a prime mover for the development of logistic enterprises. According to the requirements of the Ministry of Labor, the employees of logistic enterprises shall acquire post certificate before they can pursue logistics related business. Through “the cooperation among the enterprises, universities and research laboratories”, intelligence resources shall be channeled to the logistic enterprises’ personnel resource development planning and sufficient highly skilled management personnel and technology cadremen shall be trained. Only in this way can they adapt to the need of modern logistic management. The four strategies mentioned in the paper have been proved that they are applicable, but for the logistic enterprises to enlarge and strengthen, they not only need inner strengthening, but also outer support from the legislation, from the government and from the guilds. Only by this, can the logistic enterprises of our country compete with large international logistic enterprises.

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