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## **OVERVIEW – ISSUES AND CHALLENGES FOR FREIGHT LOGISTICS INDUSTRY IN MALAYSIA**

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### **ABSTRACT**

In Malaysia, majority of the freight logistics companies has placed priority in enhancing their operational performances and its sustainable competitiveness. Ten (10) preliminary face-to-face interviews have been conducted. The informants have been selected based on the researcher's network using the snowballing techniques. The purpose of this paper intends to review the issues and challenges faced by freight logistics companies in Malaysia: Logistics Performance Index, Container Deposits Payment, Freight Logistics Workforce and Employment Compensation, Logistic Social Responsibility. The researchers have conveyed these 4 issues and challenges influencing the freight logistics operational performances in Malaysia. The freight logistics risks management model has provided a base for the future researcher in examining the relevant relationships empirically.

**Keywords:** Freight logistics, issues and challenges, logistics performance index, logistics social responsibility

## INTRODUCTION

### An Introduction to Freight Logistics Industry in Malaysia

Freight logistics services center relates to pick-up and distribution, storage and warehousing, loading cum unloading, unpacking and consolidation. As added-on services, freight logistic services incorporate packaging, product testing, assembly, installation cum inventory control, trade insurance, inventory finance, supply-demand planning, procurement and contract logistics, etc. Undoubtedly, the performance of freight logistics influences the economy of Malaysia in particularly effecting freight logistics cost structures and revenues of the country. This includes competitiveness in areas such as delivery time, product quality, and the producers' ability to respond to consumer requirements. Despite the significant contributions of freight logistics to the gross domestic product (GDP) in 2019, there still remains a need to re-evaluate its performance and to better understand the challenges facing this industry in Malaysia.

## LITERATURE REVIEW

### The Logistics Performance Index (LPI)

The World Bank created the Logistics Performance Index (LPI) in order to garner feedback on the "friendliness" of logistics of 160 countries. The LPI survey data which serves as a benchmark tool to measure the performance of the logistic supply chain of 160 countries every two years (Christina Busch, 2015; Mohd Azlan Abu Bakar et al, 2014; Arvis et al, 2014, Selina, 2011). The international LPI qualitatively assesses a country in six areas namely efficiency of customs clearance, quality of trade and transport infrastructure, logistics competency and quality, timeliness of shipment delivery, ease of arrangement of international shipments, and lastly tracking and tracing of shipments (Christina Busch, 2015; Selina Jackson, 2011). World Bank reported in 2016, Malaysia garnered the highest LPI score, alongside with Singapore within the Southeast Asian region. Table 1 illustrates the LPI rank of Malaysia among the 160 countries has declined to the 41st position (2018) from 32nd position in 2016.

Table 1

*Comparison on overall Logistics Performance Index (LPI) score and rank from 2010 to 2018 between top 10 countries with Malaysia (Logistic Performance Index (LPI), 2010 – 2018)*

Country / Overall LPI Score and Rank	2010		2012		2014		2016		2018	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank
Germany	4.11	1	4.03	4	4.12	1	4.23	1	4.20	1
Sweden	4.08	3	3.85	13	3.96	6	4.20	3	4.05	2
Belgium	3.94	9	3.98	7	4.04	3	4.11	6	4.04	3
Austria	3.76	19	3.89	11	3.65	22	4.10	7	4.03	4
Japan	3.97	7	3.93	8	3.91	10	3.97	12	4.03	5
Netherlands	4.07	4	4.02	5	4.05	2	4.19	4	4.02	6
Singapore	4.09	2	4.13	1	4.00	5	4.14	5	4.00	7
Denmark	3.85	16	4.02	6	3.78	17	3.82	17	3.99	8
United	3.95	8	3.90	10	4.01	4	4.07	8	3.99	9

Kingdom										
Finland	3.89	12	4.05	3	3.62	24	3.92	15	3.97	10
<b>Malaysia</b>	<b>3.44</b>	<b>29</b>	<b>3.49</b>	<b>29</b>	<b>3.59</b>	<b>25</b>	<b>3.43</b>	<b>32</b>	<b>3.22</b>	<b>41</b>

Table 2 illustrated the LPI ranking of Malaysia within with the ASEAN region between the year period 2010 to 2018. It should be noted that the ASEAN region encompassed some of the top logistic performers in the world while Singapore ranked within the top ten in 2018, Thailand and Vietnam outranked Malaysia in 2018. This is to be expected given that Myanmar the least developed country was ranked 137th placing while Lao PDR significantly showed marked improvement in the 2018 LPI.

Malaysia scored lower ranking than Singapore and Thailand in terms of border clearance processes, infrastructure, and quality and competence of logistic service providers. Table 3 illustrated the six LPI areas of Malaysia for the years 2010 – 2018, it is noted that further research and analysis are required in order to identify the main causes in the performance gap. Malaysia's performance on the timeliness of deliveries is noteworthy while should focus on the custom clearance procedure.

Table 2

*Comparison on overall Logistics Performance Index (LPI) ranking from 2010 to 2018 among ASEAN region (Logistic Performance Index (LPI), 2010 – 2018)*

Country / Overall LPI Score and Rank	2010		2012		2014		2016		2018	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank
Singapore	4.09	2	4.13	1	4.00	5	4.14	5	4.00	7
Thailand	3.29	35	3.18	38	3.43	35	3.26	45	3.41	32
Vietnam	2.96	53	2.94	59	3.15	48	2.98	64	3.27	39
<b>Malaysia</b>	<b>3.44</b>	<b>29</b>	<b>3.49</b>	<b>29</b>	<b>3.59</b>	<b>25</b>	<b>3.43</b>	<b>32</b>	<b>3.22</b>	<b>41</b>
Indonesia	2.76	75	2.94	59	3.08	53	2.98	63	3.15	46
Cambodia	2.37	129	2.56	101	2.74	83	2.80	73	2.94	58
Philippines	3.14	44	3.02	52	3.00	57	2.86	71	2.90	60
Brunei	NA	NA	NA	NA	NA	NA	2.87	70	2.71	80
Lao PDR	2.46	118	2.50	109	2.39	131	2.07	152	2.70	82
Myanmar	2.33	133	2.37	129	2.25	145	2.46	113	2.30	137

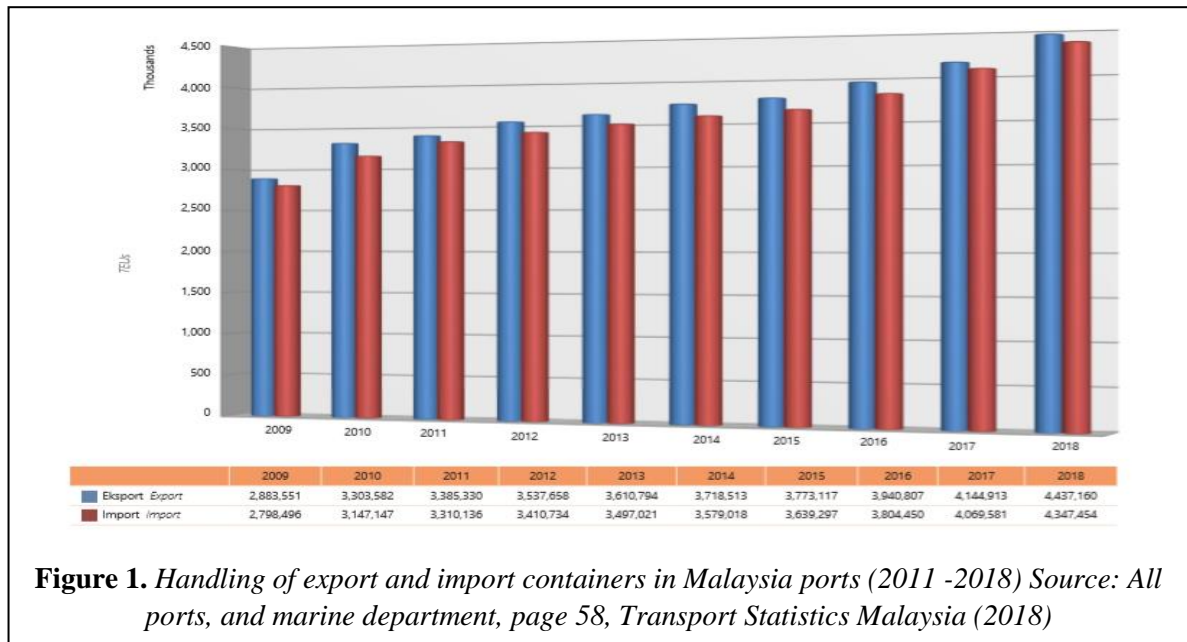
Table 3

*Comparison for Malaysia LPI and world bank ranking from 2010 to 2018 (Logistic Performance Index (LPI), 2010 – 2018)*

Year	World Bank Rank	LPI	Customs	Infrastructure	International shipments	Logistics competence	Tracking and Tracing	Timelines
2010	29	3.44	3.11	3.50	3.50	3.34	3.32	3.86
2012	29	3.49	3.28	3.43	3.40	3.45	3.54	3.86
2014	25	3.59	3.37	3.56	3.64	3.47	3.58	3.92
2016	32	3.43	3.17	3.45	3.48	3.34	3.46	3.65
2018	41	3.22	2.90	3.15	3.35	3.30	3.15	3.46

### Required Container Deposit Payment of Freight Logistics

Ship liner containers are considered as valuable assets. In some countries required to pay a deposit before the release of containers to consignors or freight forwarders. However, in developed countries such requirement is not needed. This is because in developed economies required a high level of professionalism and industrial competency among all the players in the supply chain industry. They are perceived to have the risk of containers being damaged, abandoned, detained or even stolen. As reported by Logistics Malaysia News (January 02, 2011), there were an estimated 3,500 freight logistics companies paid a deposit of up to an average of RM2 billion per year to 100 international shipping liners as coverage for damages. Figure 1 shows the statistics on how Malaysia handled the export and import of containers between 2011 to 2018. Therefore, a considerable amount of money was paid by the freight logistics industry involving more than 4 million containers in year 2018. Table 4 shows the total number of containers handled throughout the country's different ports from 2011 to 2018 and all ports faced similar container deposit payment problems.



**Figure 1.** Handling of export and import containers in Malaysia ports (2011 -2018) Source: All ports, and marine department, page 58, Transport Statistics Malaysia (2018)

Table 4

Total nos. of containers handling throughout Malaysia ports (2014 – 2018) (Transport Statistics Malaysia 2018)

	Malaysia Ports	2014	2015	2016	2017	2018
1	Port Klang	10,945,804	11,886,685	13,209,577	11,978,166	12,316,003
2	Penang	1,265,712	1,317,352	1,437,120	1,523,828	1,510,376

3	Johor	792,501	800,524	827,013	900,692	941,589
4	Kuantan	131,244	140,959	141,639	147,041	149,912
5	Bintulu	270,495	243,699	277,111	309,149	348,665
6	Kuching	227,660	225,328	223,788	226,060	245,555
7	Miri	32,892	29,377	30,711	29,848	29,939
8	Rajang	76,088	70,456	62,778	55,365	65,333
9	Sabah	398,800	363,185	357,386	353,155	374,165
10	Tanjung Pelepas	8,232,113	8,798,747	8,280,710	8,260,609	8,960,865
Total		22,373,309	23,876,312	24,847,833	23,783,893	24,941,402

### Employee Skills Requirements and Compensation of Freight Logistics Workforce

While the transportation and storage industry has witnessed a rapid growth for the past five years, it is still male dominated industry. Attracting more female employees would not be easy as compared to that of the engineering industry. The statistics department reported the transportation industry ranked number eight in the total number of employed workers in 2015 (**Table 5**). The education industry precedes the transportation industry in the given ranking while the manufacturing industry has remained consistently as the top industry in terms of number of employed workers since 2015.

Table 5

*Number of employed workers by industry, for the year 2010 – 2015 (Statistics for the employed persons by Industry, for the year 2010-2015)*

<u>Industry/ Year</u> <u>Employed ('000)</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Manufacturing	2,108.5	2,244.0	2,263.7	2,315.8	2,372.5	2,322.70
Agriculture, forestry and fishing	1,614.9	1,412.7	1,628.2	1,758.9	1,694.2	1,753.90
Construction	1,082.7	1,151.5	1,174.70	1,292.1	1,277.7	1,309.90
Wholesale and retail trade, repair of motor vehicles, motorcycles, personal and household goods	1,887.8	2,005.4	2,125.6	2,261.4	2,324.3	2,361.4
Accommodation and food services activities	856.7	951.1	965.1	1,041.5	1,149.3	1,150.8
Public administration and defence, compulsory social security	787.7	750.2	696.4	764.4	741.1	751.0
Education	779.3	782.3	784.9	816.6	874.4	899.0
Transportation and storage	554.7	604.0	624.3	626.5	598.2	615.0

Successful recruitment of employees by freight logistics companies will contribute to a promising labour pool. Despite this, the researcher perceives that diversity in gender management will still remain as a marginal issue as working conditions and benefits are crucial factors. Providing better career prospects and development of professionalism for employees will naturally enhance the growth of the freight logistics industry.

## The Social Responsibility of Freight Logistics Companies

Logistics Social Responsibility (LCR), is an integral part of corporate responsibility, particularly in logistics supply chain management. According to Carter and Jennings (2002), logistics social responsibility is the “corporate responsibility that relates specifically to socially responsible logistics management.” Certain study literature, cited several issues related to social responsibility logistics and environmental purchasing (Carter & Carter, 1998), labour supplier condition (Emmelhainz & Adams, 1999), ethics of buyer-supplier relationship (Turner, Taylor, & Hartley, 1994), and safety (Corsi & Fanara, 1988). Therefore, the freight logistics companies in Malaysia should continue to consider CSR as a significant contribution and sustainability of the freight logistics development.

## METHODOLOGY

This preliminary study presents itself as an initial study on the freight logistics and supply chain risks management in Malaysia. To augment the limited information in this paper, ten (10) preliminary face-to-face interviews were conducted. Each interview lasted for less than an hour. The questions were tailored-made according to the background of informants in the freight logistics business which they are specialized in, and their feedback on the problems they have encountered in their daily operations. Participants were selected sourced from the researchers’ available network using the snowball technique. The researchers are strictly requiring authentic replies and issues from the chosen informants. Table 6 presents background information summary of each informant.

Table 6

*The background of the informants*

Informant	Position	Number of years in freight logistics	Type of the business	Business Operating
A	Director	21 years	i. Lorry Transport ii. Warehouse	Port Klang, Selangor
B	General Manager	30 years	i. Airfreight forwarding agents ii. Custom agents	Miri, Sarawak
C	Procurement supervisor	10 years	i. Shipping agent ii. Last Mile Delivery	Kemaman, Terengganu
D	Logistics Supervisor	15 years	i. Warehouse ii. Equipment handling	Labuan
E	Managing Director	14 years	i. Warehouse ii. Lorry transport	Kuching, Sarawak
F	Operations Director	18 years	i. Maintenance Repairs ii. Equipment handling	Puchong, Selangor
G	Vice President	25 years	i. Container Hauliers ii. Courier Services	Kuantan, Pahang
H	Managing Director	22 years	i. Lorry Transport ii. Warehouse	Labuan
I	Operations Manager	8 years	i. Sea freight forwarding agent ii. Packaging material	Penang

J	Director / Founder	38 years	i. Shipping agents ii. Custom Agents	Johor Bahru
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### Research Findings Validity

To maintain the validity of the research, the conversations were recorded to serve as pieces of proof and future reference. The transcripts of such interviews had been acknowledged by the informants before data was interpreted.

## RESULTS

The preliminary interview highlighted the supply chain risk management issues of the various freight logistics companies in Malaysia. The informants had appealed to the government of Malaysia to resolve the various confronting issues facing in the freight logistics industry to enable this country to become a logistics hub in the ASEAN region (FMFF, 2019; MPC, 2008; Thong, 2007; MIMA, 2004). The issues are as follows:

### First Issue - The Logistics Performance Index (LPI) of Malaysia

The first main issue of the freight logistics industry in Malaysia is the management of supply chain risks and Logistics Performance Index (LPI). Custom clearance procedure affecting the logistics performance index ranking of Malaysia.

Informant I, emphasized the cumbersome custom clearance facilities which cause the unnecessary prolonged delayed and increased traveling costs.

*“The delay of the custom clearance at the airport. We submitted the paperwork to the warehouse office, the custom examiner done cargo physical inspection inside the warehouse and done the approval endorsement in separate office.”*

Informant C, encountered difficulties for supply delivery to clients because of unnecessary paperwork and needed approval from customs.

*“The custom procedures depend on the declaration times, and customs officer availability. The customs officer takes more than 2 days for the clearance.”*

### Second Issue - The Container Deposit Payment of Malaysia Freight Forwarders Companies

Selangor Freight Forwarders and Logistics Association (SFFLA) in Port Klang introduced the SFFLA TOR Scheme in 2011, to enable ship liners not to collect any container deposit from their members. SFFLA acts as guarantor of this TOR Scheme to improve the freight forwarders cash flow performances.

Informant A one of the SFFLA registered company, has not been made to pay the container deposit as required by the law, one of the benefits of SFFLA TOR Scheme.

Informant I shared that payment for container deposits disrupts not only cash-flow positions but also increases business costs of a freight logistics company. He further shared that the company pays between RM500.00 to RM1,000.00 per container as deposit for security and protection from damage



### **Third Issue - The Freight Logistics Workforce of and Employment Trend**

Freight logistics lags behind other sector in the field of recruitment and hiring. The researchers concluded that hiring young and qualified candidates who possess skills, competitive resources, is one of the challenges for the freight logistics industries.

Informant E emphasized that the employee referral program proves to be a practical approach on hiring new employees and managing the manpower of his own freight logistics company.

*"My team normally referral by someone, because I know very difficult to get the right candidate with good working attitude. I will call them any time; they will finish the work. Once they performed in the right track, I never terminate them"*

Informant C shared that her company's top management adopted new strategies in order attract talents who come from competitors in the East Coast of Malaysia. One of the main challenges is how to increase the company visibility and personal interest, and more positive influence of the industry competitiveness in the field of talent employment.

*"We are trying some new strategies in the small Kemaman town. We pay employee referral bonus to the existing staff that bring new forwarding and shipping agents on board".*

Informant G, vice president of one of the freight logistics companies, shared that it is important to know why subordinates leave a position after undergoing training and development provided by a company.

*"The interns in my companies do not consider freight and logistics as a desirable professional. they demand for new working challenges with higher salary, and more comfortable working environment."*

Informant E would like the younger generation to understand how the freight logistics industry plays an important role as support for all the other industries in Malaysia.

*"We are part of the industry players for engineering manufacturing, retails, foods & beverage, educations, and so on. It is very good knowledge to learn freight logistics business for sourcing materials, custom clearance and door-to-door delivery."*

Informant H, encouraged that more females should consider working in the freight logistics industry.

*"I will encourage more female to work in this industry, it is very interesting and open to many working opportunities. Even no step-by-step guidelines given, we can learn ourselves and make sure on-time delivery to our clients."*

### **Fourth Issue - The Social Responsibility of Logistics Industries in Malaysia**

To date, there exists an absence of research on CSR in the freight logistics industry. The author suggests the assessment of the implementation of CSR practices and supply chain management by the Malaysian freight logistics companies.

Informant J, has no interest in any of the CSR activities of the freight logistic industry.

*"We really have to work harder to generate company revenue and we got minimum profits only; we do not want do free charity work"*

Informant E shared that differently-abled individuals would not be able to perform any work related to freight logistics.



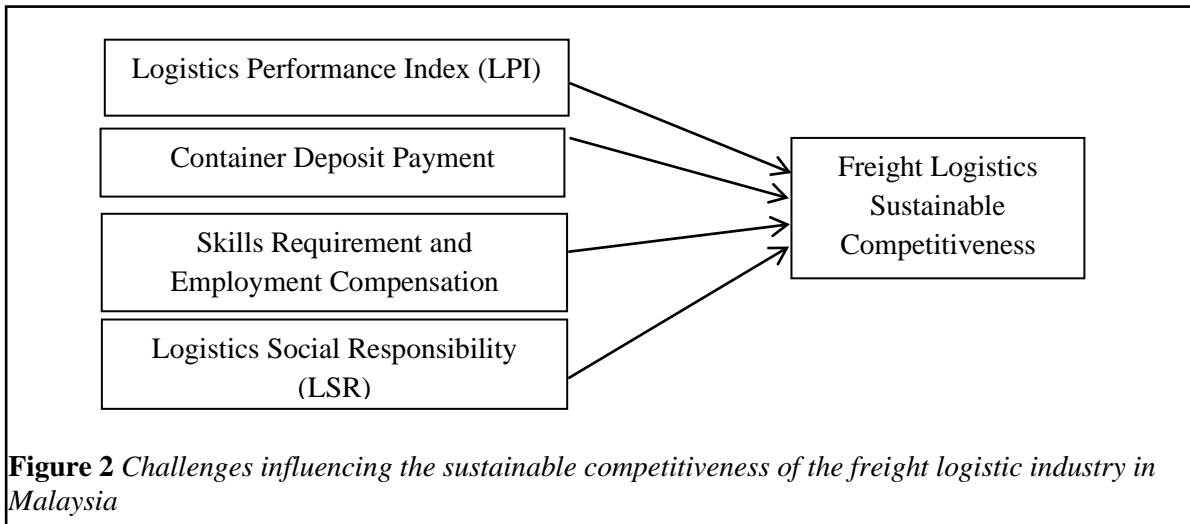
*“How can I accept to hire disability people to work at my office, I still need to ask another person to double check the work done by the same person? We cannot afford to make any single mistake custom declaration form.”*

Informant C highly-recommended that local freight logistics companies should adopt or offer more environment friendly services.

*“We are currently practicing e-filling and e-invoices to our clients. We asked for permission and approval to allow us for recycle, or re-sale un-used / returned equipment.”*

### Conceptual Framework

Based on these observations and the qualitative interview, the researcher has categorised the feedback on challenges affecting the freight logistic sustainable competitiveness in Malaysia.



**Figure 2** Challenges influencing the sustainable competitiveness of the freight logistic industry in Malaysia

### DISCUSSION

Some of the preliminary interviews conducted and confidential data gathered were not allowed to be recorded, hence the researchers have made some annotations. The researchers also recorded some observations related to the top management production planning in order to gain more understanding of the supply chain risks pertaining to the freight logistics operations. The risks that were identified by the authors and those given by the informants were addressed at the first stage of research study.

#### Suggestions to improve ranking of the Logistics Performance Index of Malaysia

The reliability and consistency of custom clearance is top priority to save time and unnecessary transportation to attain a more sustainable and competitive performance. The government of Malaysia is well aware of the pivotal role that the freight logistics industry plays in Malaysia. Given that, it has been increasingly providing incentives and support in order to locate the facilities of the freight logistics industry.

### **Suggestions to resolve the container deposit problems**

According to the Malaysia Daily News (December 20, 2018), the Federation of Malaysian Freight Forwarders Association (FMFF) President Datuk Tony Chia, expressed hope that the Malaysian government should create a regulatory mechanism for shipping not to impose any arbitrary exorbitant deposits. At present, only countries like Malaysia and India required to make such deposits by shipping liners. The Malaysia Daily News once reported (December 20, 2018), the present government has got to do something about the given problem, or else, Malaysia might lose out the competitiveness to other regional countries where such deposits are not required.

### **Suggestion to raise interest and improve the employment gap of freight logistics**

It was also suggested that the local government schools and universities should improve their syllabus courses relating to the freight logistics industry. Improving the learning environment will create more interest among the young for employment in the future. Besides, the freight logistics companies in Malaysia must seriously to review their remuneration system and to benchmark their salaries *vis-à-vis* their counterparts in other industries. Salary compensation, benefits and working conditions remains as one of the most contributing incentives for the younger generation to this chosen career.

### **Suggestion on how to do the corporate social reporting (CSR) of freight logistics**

The researchers perceived the need to improve the quality of CSR reports delivered by freight logistics companies in Malaysia. The researcher suggests that freight logistics companies create separate CSR reports apart from the annual reports in order to create benefits in corporate governance. LSR can be one of the initiatives of an inter-organizational collaboration and enhance a company becoming more competitive than its competitors (Wernefelt, 1984).

## **CONCLUSION**

The freight logistics service continues to be a growing industry in Malaysia despite the many prevailing confronting challenges and issues. Given this research highlighted some relevant issues and challenges facing this freight logistics industries. This research concluded that cost-cutting and customs efficiency are two most crucial components that the industry faces. It is important for Malaysian freight logistics industry to identify and establish a clear relationship between freight logistics sustainable performance and supply chain risks. The researchers further suggest that more researches must be done on a correlational analysis between supply chain risks and freight logistics competitiveness i.e. indicator performance of the freight logistics industries in Malaysia. Moreover, the perceptions given by the individual informants included in this research would help deliver more positive recommendations in the development of the freight logistics industries in Malaysia.

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