

Influential Factors for Location Decisions of International Business Ventures for Logistics Hub Operations: The Case Study of Sri Lanka.

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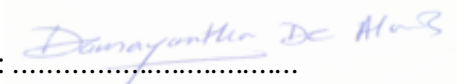
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Sri Lanka

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ABSTRACT

Sri Lanka is strategically located in the middle of the East-West main shipping lane has the right location to operate as a Regional Logistics Hub. Due to the location advantage, ever since in the history, country was an attractive destination for the sailors and international traders as a transit point. After the independence in 1948, various governments appointed took many initiatives to develop Sri Lanka as regional commercial, manufacturing, and logistics hub. The thirty years of civil war hindered the progress of developing the country and discourage the foreign investment. Government attention was diverted towards protecting the nation from terrorist activities. During this period, internationally, manufacturing bases started moving from West to East looking for low cost of factors of production. International shipping was boomed with sourcing raw materials and supplying the finished goods all over the world. Countries like Hong Kong, Singapore, Dubai capitalized on the geographical location advantage to support the growing international trade by developing as regional logistics hubs. Thereby achieved the commercial and financial objectives. After the independence in Sri Lanka, many initiatives were taken to develop the country as a regional logistics and commercial Hub. Expansion of Colombo Port, establishment of Free Trades Zones, construction of Hambantota port and Matthala International Airport, introduction of Commercial Hub Regulations to facilitate the regulatory reforms are the initiatives taken by the government. In reviewing the statistics of Sri Lanka comparing to the other well performing logistics hubs for the post war ten years period, Sri Lanka is still the lowest performing county as a regional logistics hub even though Colombo port was leading in the region in the past. Regardless of the location advantage and the improvements done in varies sectors to attract international trade, Sri Lanka is still not given the first preference by the international business ventures to operate their regional logistics activities. Therefore, the focus of this research is to identify the factors prioritized by the international business ventures to locate their regional logistics hubs and benchmark Sri Lanka against the well performing Logistics Hubs to identify the areas for the improvements.

Based on the literature review conducted; the influencing factors identified as decision-making criteria for deciding the location for the regional logistics hub is categorized under five main areas as follows.

- a) Location related factors,

- b) Port facilities, Air / Sea connectivity related factors,
- c) Business friendly legislation related factors,
- d) Operating cost related factors,
- e) Quality of the infrastructure related factors.

According to these factors, survey is conducted to capture the primary data from a sample of the selected population to identify the influential factors for location decision and benchmark Sri Lanka against the successful regional logistics hubs in Asia. The target population for capturing the primary data for the research is identified as the senior management experienced in the international supply chain management and regional hub operation. To assess the psychological aspects, they consider while making the decision of the regional hub location in terms of numbers, Analytical Hierarchy Process (AHP) technique is used. AHP is basically used for identifying and prioritizing the most influencing factors for certain complex decision making. Therefore, AHP technique is identified as the most suitable technique to identify the priorities given by the industry experts in deciding the regional hub location.

Based on the response to the questionnaire and the feedback received in the personal interviews, the most important factor for deciding the regional logistics hub was identified as the geographical location. At the same time, feedback reveals that industry experts have given similar high importance to the other main factors identified in the literature review. In reviewing the responses received for benchmarking Sri Lanka with the other successful regional logistics hubs, reveals the areas to be improved to bring up Sri Lanka as a preferred regional logistics hub.

In conclusion, as per the facts gathered in the literature review, questionnaire feedback and the personal interview responses, recommendations are provided for the improvements to be done to make Sri Lanka the most preferred regional logistics hub in the Asia.

Key words: Benchmarking, International Logistics Hub, AHP Method.

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LIST OF ACRONYMS

BOI- Board of investment

3PL – Third Party Logistics.

MCC- Multi Country Consolidation.

LSI- Liner Shipping Connectivity Index.

LPI- Logistics Performance Index.

UNCTAD- United Nations Conference on Trade and Development.

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