



Articles

Outsourcing to a non-developed supplier market: The importance of operational aspects in outsourcing



Jakob Rehme^{a,*}, Daniel Nordigården^a, Staffan Brege^a, Daniel Chicksand^b

^a Department of Management and Engineering, Linköping University, SE-58183 Linköping, Sweden

^b Operations Management Group, Warwick Business School, Warwick University, United Kingdom

ARTICLE INFO

Article history:

Received 15 August 2012

Received in revised form

18 June 2013

Accepted 28 June 2013

Available online 11 July 2013

Keywords:

Outsourcing

Supplier market

Operational aspects

Case study

Wood products

ABSTRACT

This article investigates how firms manage outsourcing in situations of a non-developed supplier market. This study followed the initial outsourcing activities and strategies of two case companies in the wood product manufacturing industry. The findings show that greater focus needs to be placed on operational aspects associated with non-developed supplier markets, which contrasts with the traditional strategic view of outsourcing. For practitioners, this article suggests that it is important to emphasise that the learning curve for a supplier can be lengthy, and also that alternative outsourcing routes are available when outsourcing to a non-developed supplier market.

© 2013 Elsevier Ltd. All rights reserved.

1. Introduction

A developed supplier market is a basic outsourcing requirement. However, supplier markets can be inefficient; for instance, due to oligopolistic or monopolistic market structures (for example, Bain, 1968; Scherer, 1971a, 1971b; Ono, 1982; Scherer, 2005), or asset specificity and opportunistic transaction behaviour between buyer and seller (for example, Williamson, 1975, 1985, 2008; Rindfleisch and Heide, 1997). The supplier market could also be undeveloped or even non-existent. The present article deals with so-called non-developed supplier markets, which are defined those in which it is difficult to find suppliers with developed production systems and experience of the components considered for outsourcing (Walker et al., 2005; Andersson et al., 2007; Brege et al., 2008). This situation differs from the traditional view of a few dominant suppliers controlling elements such as market conduct and prices.

A non-developed supplier market may occur in global sourcing situations where a key question is to plan what should be manufactured where and how supplier capacity and capabilities can be developed, particularly in low-cost countries (see, for example, Oke et al., 2009; Kumar et al., 2010; Horn et al., 2013). However, similar situations can also occur in more established

industries in which no prior outsourcing has occurred, as in, wood product manufacturing (WPM), the present article's empirical basis. A 'lack of a suitable market for outsourcing' is symptomatic within WPM because of the absence of an intermediary industry for component manufacturing that is positioned between sawmilling and the manufacturers of wooden (building) products. WPM firms have traditionally managed most manufacturing in-house (including component manufacturing) and have extensive experience with purchasing standard or bulk delivery of raw material from multiple suppliers (Brege et al., 2010). Firms in the WPM sector do not have great confidence in the ability of their suppliers to take over component manufacturing (Brege et al., 2008). This lack of confidence has been mutual when suppliers state that WPM firms do not plan their raw material needs sufficiently and often search for lower prices. This situation has resulted in an arms-length customer–supplier relationship under standardised interfaces. Despite the circumstances, WPM firms continue to emphasise outsourcing (for example, Andersson et al., 2007; Brege et al., 2010).

The outsourcing literature has predominantly assumed the existence of a developed supplier market and has addressed markets that are characterised by dominant supplier opportunism (see, for example, Walker, 1988; Lonsdale and Cox, 1997; Lonsdale, 1999, 2001; Holcomb and Hiitt, 2007; McIvor, 2008). However, few studies have focused on how firms manage outsourcing in a supplier market that, from the outset, could be regarded as 'non-existent'; a market with a low degree of competition between suppliers, which also lacks knowledge and other resources necessary to implement value-added

* Corresponding author. Tel.: +46 13284447.

E-mail addresses: jakob.rehme@liu.se (J. Rehme), daniel.nordigarden@liu.se (D. Nordigården), staffan.brege@liu.se (S. Brege), Daniel.Chicksand@wbs.ac.uk (D. Chicksand).

strategies. The present article addresses this gap by investigating strategies and other issues that are illuminated by the decision to outsource without an intermediary industry that could act as a suitable partner for component manufacturing.

The article makes three distinctive contributions to the more general field of purchasing and supply management research. Firstly, with the help of our longitudinal case studies, we illustrate how firms manage outsourcing when they lack an initial supplier market. One could contend that a non-existing market essentially leaves a company with two obvious strategies. It can either (a) decide not to outsource because it feels that no other company could do the job better, or it can (b) proactively build a supplier market to which it can outsource. However, the research has found that this process is more multifaceted, with alternate routes and issues to be addressed. Secondly, we combine the resource-based view and transaction cost economics, and contribute by adding greater depth to the understanding of outsourcing to a non-developed supplier market. In particular, the findings increase the understanding of the operational level of outsourcing decisions vs. the strategic level, as well as the value of the traditional core/non-core logic in outsourcing strategies. Earlier studies have called for more research in both areas (e.g., Momme and Hvolby, 2002; Marshall et al., 2007; Mclvor, 2009; Boulaksil and Fransoo, 2010; Dekkers, 2011). Thirdly, our proposed outsourcing framework provides managers with an *aide memoire* when considering outsourcing in non-developed supplier markets.

The remainder of this article is organised as follows: the next section conducts a literature review, and then addresses the research methodology. This is followed by descriptions of the two case companies and their outsourcing activities and then the analysis. Finally, we draw conclusions with implications for theory and practitioners as well as for future research.

2. Literature review

The literature review is divided into three parts. We start by introducing the two most common theoretical underpinnings of outsourcing: the resource-based view (RBV) and transaction cost analysis (TCA). We then review outsourcing decision frameworks. Finally, with help of our case studies, we apply RBV and TCA frameworks to the specific study context.

2.1. Theoretical starting points of outsourcing

Outsourcing decision frameworks are most often approached with theoretical starting points taken from transaction cost analysis (TCA) or the resource-based view (RBV), either singularly or combined (see, for example, Busi and Mclvor, 2008). These two perspectives have two contrasting points of departure for outsourcing (Mclvor 2008), as shown in Fig. 1.

While TCA considers economic rationales for companies to organise some transactions in either in-house or external governance

(Williamson, 1979, 1985), the RBV argues that firms' specific assets are heterogeneous, meaning they become competitive by focusing on resources that are rare, highly valuable for customers, and imperfectly imitable (Barney, 1991; Grant, 1991; Peteraf, 1993).

Using TCA in outsourcing frameworks highlights the 'make-or-buy' question from a cost efficiency perspective. Most TCA-originating make-or-buy frameworks are based on publications written by Williamson (for example, Williamson, 1979, 1985, 1991,). TCA focuses on minimising both transaction and production costs by selecting the most appropriate governance structure: market, hybrid (various forms of strategic alliances), or hierarchy (handling the activity within the firm) (Williamson, 1985). In a perfect market, transactions can be handled without costs, which arise when resources must be allocated to organise transactions between parties (Johanson and Mattsson, 1987, p. 41). Transaction costs include both *ex ante* costs (such as drafting and negotiating contracts) and *ex post* costs (such as monitoring and enforcing agreements) (Rindfleisch and Heide, 1997). If transactions are governed through markets, transaction costs will be higher and production costs lower due to economies of scale resulting from pooling resources and specialising (Williamson, 1985). Therefore, firms that use market governance must focus on lowering transaction costs to assure competitiveness.

Transaction cost theory relies on two fundamental human behavioural assumptions. The first is bounded rationality, where contracts that are incomplete at best are established; and the second is opportunism, where humans are self-interested seekers with guile, which is seldom transparent *ex ante* (Williamson, 1975, p. 21; 1985; 1990, p. 12). Opportunism is especially hazardous when only a small number of contracting partners are available in the market (Williamson, 1975). If opportunism did not exist, bounded rationality would not be a problem (Williamson, 1979, 1981).

The transaction's dimensions will also influence its costs, and therefore impact the governance mode choice. According to Williamson (1991, 2008), three dimensions define a transaction: (1) asset specificity, which is the degree to which an asset can be redeployed to alternative uses without a decreased productive value; (2) uncertainty of the transaction—that is, the frequency of disturbance; and (3) the frequency with which the transactions occur. Williamson (2008) stated that, of these three factors, asset specificity will have the most explanatory value because it creates dependency for both parties. When asset specificity is high, hierarchy is preferable. If a transaction has low asset specificity, these transactions could be governed by a market or hybrid. Hybrid agreement is preferable in cases of medium asset specificity, but only when the uncertainty is relatively low. If transaction uncertainty is high, the degree of asset specificity will decide which of the two polar modes is preferable (Williamson, 1991, 2008).

The use of the RBV in outsourcing frameworks raises the question of what should be considered a core competency and kept in-house (for example, Quinn and Hilmer, 1994). Other peripheral activities can be outsourced in order to lower costs and access world-class innovation capabilities (for example,

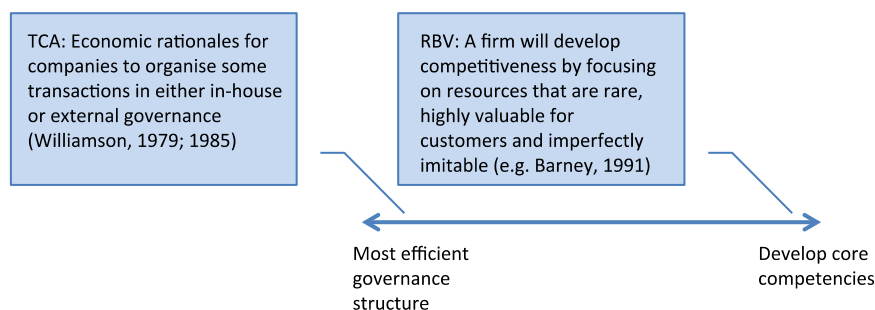


Fig. 1. TCA and RBV as two starting points for outsourcing.

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات