Outsourcing: When to Ally

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Key Considerations

- **Asset Specificity** - degree to which assets are specific to one particular relationship
- **Information Application** - appropriate, accurate and timely flow of information
- **Efficiency of Relationship** - lowest total cost and optimal resource use
- **Effectiveness of Relationship** - seamless integration enabling optimal replenishment

Asset Specificity

<table>
<thead>
<tr>
<th>Degree of Asset Specificity</th>
<th>Theoretical Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Transactional (e.g., commodity purchase)</td>
</tr>
<tr>
<td>High</td>
<td>Alliance (e.g., customized packaging)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type of Supplier Service</th>
<th>Degree of Information Application Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Transactional (e.g., limited transportation or overflow warehousing)</td>
</tr>
<tr>
<td>High</td>
<td>Alliance (e.g., fully integrated logistical services)</td>
</tr>
</tbody>
</table>

Relationship Options

- **Transactional**
- **Alliance**
- **Vertical Integration**

- Greater Flexibility
- Market-driven
- Low Asset Specificity
- Greater Control
- Ownership
- High Asset Specificity

Which Relationship is Best?

<table>
<thead>
<tr>
<th>Decision Determinants</th>
<th>Transactional</th>
<th>Alliance</th>
</tr>
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<tbody>
<tr>
<td>Asset Specificity</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Information Application</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Relationship Development Cost</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Transaction Cost</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Efficiency</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Effectiveness</td>
<td>Low</td>
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Why Alliances?

- Traditional adversarial relationships are being challenged by the development of successful alliances
- Alliances allow improved supply chain efficiency and effectiveness without the cost of ownership
- Only one in five firms has guidelines for creating and monitoring alliances

Alliances: Defined

An alliance is a long-term relationship where participants cooperate and willingly modify their basic business practices to reduce duplication and waste while facilitating improved performance

Success Breeds Success

- Enthusiasm
- Organizational learning
- Participants’ motives differ

Formalized Operating Procedures

- Well defined roles, responsibilities, and measures
- Comprehensive, two-sided measures
- Provision for sharing measures
- Low Cost is only one measure

Information Technology

- Needs differ by participant
- Opportunity for improvement

Dimensions of Trust

Character-Based Trust: Examines the qualities or characteristics inherent in philosophies/culture
- Integrity
- Identification of Motives
- Consistency of Behavior
- Openness
- Discreteness

Gabarro (1978, 1987)
Dimensions of Trust

*Competence-Based Trust: Examines specific operational behavior and performance*
- Specific Competence in Knowledge/Skills
- Interpersonal Competence
- Competence in Business Sense
- Judgment

Gabarro (1978, 1987)

United Front

- Represents the social contract for the alliance
- Organizational risk and adaptation
- Non-traditional rewards

Conclusions

- Alliances work
- Successful alliance partners share many similarities
- Performance and relationships are critical
- Supply chain position affects roles and perspectives