

The Pros and Cons of Outsourcing

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As Logipi reported in an October [newsletter](#), Oliver E. Williamson, Ph.D., a co-recipient of the 2009 Nobel Prize in economics, is no stranger to supply chain. Williamson, who is the Edgar F. Kaiser Professor Emeritus of Business, Economics, and Law at the University of California, Berkeley, is also an advisory board member of the Journal of Supply Chain Management. You may also remember him as a contributor to a Journal article entitled, "Outsourcing: Transaction Cost Economics and Supply Chain Management," which ties in nicely to an article by Workforce Management staff writer, Jeremy Smerd.

As Jeremy observed, "The Nobel Prize seldom has practical applications for workforce management." This year was a little different. In fact, much of Williamson's research and theories focus on the pros and cons of outsourcing the production of goods. Specifically, when it is more efficient to produce a product in-house as opposed to outsourcing it to another firm. In the supply chain community, determining when outsourcing makes sound financial sense can be practically applied on many different levels -- from demand planning and sourcing to manufacturing, storing, transporting and even managing returns -- virtually every task can be outsourced.

As Williamson points out there are many costs to consider. For example, what kind of time, training and resources will have to be committed internally vs. externally, and can those investments be repurposed? What if modifications are necessary, does everything come to a screeching halt while you renegotiate your contract with a supplier? How much visibility do you give up? And, does it increase your risk of a significant supply chain disruption, or a create quality issue that could be costly to you reputation?

The list of pro and cons is endless, which is why the work Oliver Williamson did was Nobel Prize worthy -- he changed the way microeconomists view corporate decision-making processes and delivered something that can be applied to any company looking to create an outsourcing strategy.

Which direction are you leaning? Will your company be outsourcing more or less in the years to come, and what insights can you share with the Logipi community that could help others with their sourcing strategies?

[Nobel Prize Winners Provide Insight on Outsourcing, Contract Work](#)

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