What Makes Outsourcing Effective-A Transaction Cost Economics Analysis

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Abstract

The extant supply chain literature applied Transaction Cost Economics (TCE) to determine the choice and benefits of outsourcing. Most of the studies used transaction attributes (e.g., asset specificity, risk) to predict the efficiency of outsourcing and did not offer much implications on the performance of outsourcing. This study extends the discussion of TCE and outsourcing to the selection of governance mechanisms for an effective outsourcing transaction. Specifically, our objective is to provide a better understanding as to how firms follow up on their outsourcing decisions to enhance manufacturing competitiveness through the governance mechanism, such as contract and relational adaptation (buyer-supplier cooperation). A TCE-based outsourcing model is developed to depict the relationships among key TCE variables, including transaction attributes (asset specificity, risk, and measurement ambiguity), governance mechanisms (contractual clauses and relationship adaptation), and manufacturing competitiveness. Based on the data collected from 969 manufacturing plants in 17 countries, we found significant meditational effects from contractual clauses and relational adaptation. Firms in our sample rely on either or both types of governance mechanisms to safeguard uncertainties and opportunism inherent in outsourcing, which enhances manufacturing competitiveness. The important managerial and research implication is that, for making an outsourcing decision, it is insufficient to merely examine the transaction attributes without recognizing how various forms of governance mechanisms can be implemented to enhance outsourcing effectiveness.

Keyword：Outsourcing, transaction cost economics, survey