

■ PETER T. ITTIG, Feature Editor, College of Management, University of Massachusetts, Boston

Marc Schniederjans (University of Nebraska) recently issued a book on Outsourcing that has received some favorable attention from some of our colleagues. Robert Markland (past president of DSI) commented that the book is "Well written and thoroughly researched . . . an excellent blend of qualitative discussions and quantitative techniques . . . The international focus of this textbook makes it particularly timely, valuable, and appealing." Kalyan Singhal (founder of POMS) said that the book is "comprehensive and creative. The authors have done a superb job . . ." Kenneth Kendall (president-elect of DSI) commented that "Professors who are teaching a course in outsourcing should definitely adopt this text." For more, see the publisher's Web site at <http://www.mesharpe.com>. In the following article, Dr. Linda Sprague reviews this book.

Outsourcing and Insourcing in an International Context

by Linda G. Sprague, China Europe International Business School, Shanghai, China



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faculty supervisor for the CEIBS Internship and Group Consulting Project programs. She received her doctorate in production/operations management from the Harvard Business School and holds an MBA from Boston University and an SB in industrial management from the Massachusetts Institute of Technology. She is a Fellow of the Decision Sciences Institute, a Fellow of the Institute for Operations Management in the UK, and a Certified Practitioner in Inventory Management. Dr. Sprague is an associate editor of Decision Sciences and a member of the editorial advisory board of the Journal of Operations Management. Her current research and consulting focus on international manufacturing, distribution and supply systems, inventory management systems and the management of engineering spares, strategic management of operations, capacity management, operations information systems, and the particular problems of Small- to Medium-sized Manufacturers.

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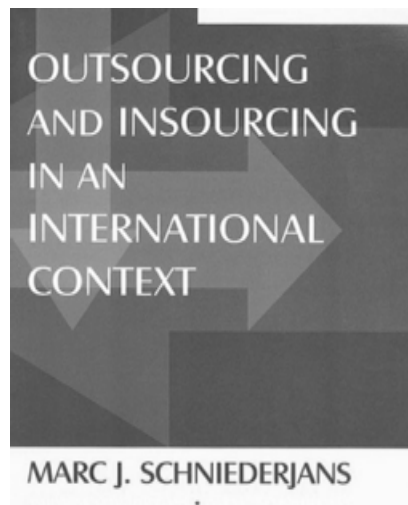
This compact textbook provides a sound introduction to the key issues involved in outsourcing decisions, as well as definitions of a variety of terms in common use in the business. Designed for "an upper-level undergraduate course or a graduate course in business," it is also appropriate for managers unfamiliar with the details of outsourcing decision-making.

The eight chapters are divided into two segments—a four-chapter intro-

duction followed by four chapters devoted to "Methodologies for Different Types of Outsourcing-Insourcing Decisions." The final chapter is an *Epilogue*: "There are Wrong Ways and Rights [sic] Ways to Outsource-Insourcing in an International Context."

At the outset, definitions are offered:

outsourcing involves allocating or relocating business activities (both service and/or manufacturing activities) from an internal source to an external source. Conversely, *insourcing* can be defined as internal sourcing of business activities. So, insourcing can be viewed as an allocation or reallocation of resources internally within the same organization, even if the allocation is in differing geographic locations. (page 3)



Outsourcing and Insourcing in an International Context

by: Marc J. Schniederjans, Ashlyn M. Schniederjans & Dara G. Schniederjans

hardcover: \$68.95

Paper: \$32.95

232pp, 2005

M.E. Sharpe publisher

<http://www.mesharpe.com/>

The operational definition of *outsourcing* is fine; the operational definition of *insourcing* is less clear. I am accustomed to the definition of *insourcing* as returning a previously outsourced process/activity to the organization. In Table 1.2 this is called *back sourcing*, a term not familiar to me. Figure 1.2 provides a brief summary of predecessor business activities which suggests an evolution from subcontracting (“traditional”) through outsourcing (“present day”) to the *virtual organization* (“future”)—this is very helpful background.

A theme which runs through the book is outsourcing as a strategic decision, not a tactical one, for the organization. This begins in the first chapter with a focus on the organization’s *core competencies*. Rationales for outsourcing are drawn from economics with introductions (very brief) of *transaction cost theory* (Coase) and *agency theory*. From social exchange theory, *interorganizational relationship theory* is introduced, again very briefly. “The motivation for outsourcing in an international context is supported in the economic theory of *comparative advantage*.”

The risks associated with outsourcing—particularly “in an international context”—are also introduced in the first chapter.

Chapter 2 is a set of brief listings of the “Advantages and Disadvantages of Outsourcing-Insourcing. There is discussion of the “Disadvantages of Outsourcing (or Advantages of Insourcing).” The entire text is focused primarily on outsourcing: there is little attention paid specifically to insourcing although it is regularly offered as the alternative to outsourcing.

The third chapter is devoted to “Outsourcing-Insourcing Strategy and International Risk Factors.” A framework characterizing the nature of the risks is developed (Table 3.2 and Figure 3.4) and subsequently used throughout the rest of the text with good effect. The risks are categorized as:

Economics: labor, capital, infrastructure

Politics: legalities, ideology, instability

Culture: language, social norms, gender roles

Demographics: migration, urbanization, population

The framework is used here to provide an example of “O-I Risk Factors Creating an Interactive Chain-effect,” beginning with government instability, resulting in inflation which leads to renegotiation of the outsourcing agreement.

Short cases on the “Complication of Risk Factors” are described for Dell (technical support offshore), Cable & Wireless plc (IT outsourcing), and Islington Council Government Service Agreement (housing benefits administration). All three were failures caused generally by inadequate consideration of language issues.

“Planning International Outsourcing-Insourcing” (Chapter 4) is reminiscent of sections in regular Operations Management texts on Facility Location, but with considerably more emphasis on risk factor analysis, establishing goals, and developing agreement specifications.

The second half of this text turns to “Methodologies for Different Types of Outsourcing-Insourcing Decisions.” Considerable enthusiasm is offered for “Executive and Board of Director Polling” because “O-I has to start at the strategic level of planning” Sample polling questions are provided. This is followed by the introduction of a *multi-criteria scoring method* (MCSM) for evaluating outsource provider candidates. The Delphi Method, External Benchmarking, and Gap Analysis are also described. Economic, Political, Culture, and Demographic Risk Factor Assessment are also discussed. None of these are described in sufficient detail for implementation in a real situation.

Chapter 6, “Financial Methodologies for the Initial Outsourcing-Insourcing Decision,” offers very brief introductions to Present Value Analysis, Break-Even Analysis, Return on In-

vestment, Internal Rate of Return, Accounting Rate of Return, Payback Period, and Cost-Benefit Analysis. The major gap here is discussion of the sources of data, assessments of their quality and reliability, alternative scenarios, etc.—all very serious problems when working in an “international context.” An “Initial Decision” for an organization is particularly fraught with difficulties for the decision makers for whom this is likely to be unfamiliar territory.

“Methodologies for Selecting Outsourcing-Insourcing Partners” (Chapter 7) includes a checklist of “Risk Factors to Consider in the Outsource Provider Selection Process” (Table 7.2). This chapter would benefit from discussion of how to identify potential partners beyond the suggestion that a particular website or pricing guide be used. A number of “Decision Theory Methods for Partner Selection Decisions” are described for decision making under risk and under uncertainty, but little attention is paid to the quality and relevance of the data available.

Game Theory, Linear Programming, and Integer LP are introduced in Chapter 8: “Methodologies for Allocating Business Activities Between Outsourcers and Insourcers.” This chapter is more about methodology than about international outsourcing.

The *Epilogue*, “There are Wrong Ways and Rights [sic] Ways to Outsource-Insource in an International Context,” brings the book back to its title. A list of seven *wrong ways* to O-I is common sense wisdom, but recall Winston Churchill’s comment that “common sense is not at all common.” Each of the seven *wrong ways* is discussed using good examples. Another chain-effect is shown starting with “Outsource providers in one nation reveal client corporation secrets to home companies” and ending with the possible collapse of the outsourcing industry. This is balanced with an example of another “Chain-effect Resulting from Positive Experience.” The text ends with sen-

sible, if difficult to implement, general recommendations:

There are two important activities that should be undertaken immediately: First, institute sensible government regulation of the outsourcing industry by all countries. Second, develop ethical practices in outsourcing that can be used as guides and benchmarks for acceptable outsourcing behavior. (page 194)

A course based on this text would benefit from the addition of selected cases as well as considerable additional information about the “international context,” perhaps through visitors to the class from parts of the world known for their outsource provider services.

China, India, and Southeast Asia come to mind.

Overall, this textbook does a very good job in terms of raising the issues which must be addressed when outsourcing is under consideration. The framework for examining risk factors is particularly helpful, as is the serious emphasis on risk analysis. The only noticeable gap is the thorny problem of access to data and information about the developing countries known for their experience with outsourcing provision—and this is probably worth a separate book.

A final note: This is definitely a family project. It would be nice to know exactly what role the Schniederjans

students (I assume children) played in the development of this text. Since both are college students, they could well have helped ensure that the material would be accessible to the intended audience—college students. The book has certainly met its objective in this regard. The writing is clear and straightforward and the tables and figures complement the text. ■

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Board of Directors Report

President Mark M. Davis (Bentley College) chaired the Board of Directors meeting that was held on Saturday, April 22, 2006, in Atlanta, Georgia. The following is a report of the actions taken by the Board and matters brought to its attention. The Executive Committee also met on Friday, April 21, 2006. Its recommendations to the Board are included in the items reported below.

1. The minutes of the January 14, 2006, Board of Directors meeting were approved.
2. The financial statement for the period ended March 31, 2006 was reviewed and accepted.
3. The proposed standstill budget for FY 2006-07 was approved in addition to the following alternative items, which become part of the approved standstill budget:
 - An expense item for a salary increase for the Home Office staff.
 - An expense for the rental cost for 30 LCD panel projectors.
 - An expense item for wireless access at the 2006 Annual Meeting.
 - An expense item for a manuscript submission and review system for DSJIE.
 - An expense item for a token memento for each focus group attendee during the 2006 Annual Meeting.

- An expense item for seed money of \$5,000 each to organize up to two miniconferences to be held independent of the 2006 Annual Meeting.
 - An expense item for programming the DSI website.
 - An increase in dues from \$100 to \$125 for regular members.
 - An increase in dues from \$33 to \$35 for emeritus members.
4. The Institute's 2006-07 Marketing Plan and Membership Statistics were reviewed and accepted.
 5. The proposal to offer reduced membership dues to residents of low/middle income countries was tabled until more information is available on the demographics of current international members of the Institute.
 6. The recommendation for the appointment of the Program Chair, Marc Schniederjans, for the 2008 Annual Meeting was accepted.
 7. The proposed 2006 Fellow nominations (Gary Klein and Marc Schniederjans) were reviewed and approved.
 8. Changes to the Southeast Region's By-laws were reviewed and approved.
 9. The State of the Southeast Region's report was reviewed and accepted.
 10. The State of the Southwest Region's report was reviewed and accepted.
 11. The Institute's Strategic Plan with Goals for 2006-07 was approved.

12. Objectives for the Board of Directors, and proposed committee (and other) charges for 2006-07 were approved.
13. Committee membership appointments for 2006-07 were approved.
14. The development of the current Annual Meeting Conference Information System was discontinued.
15. The following reports were presented, reviewed, and accepted:
 - Results of the 2006 election of officers
 - Schedules of the 2007 Executive Committee and Board of Directors meeting
 - Results of the election of a Vice President to serve on the Executive Committee
 - Hotel cancellation information
 - Annual report from Blackwell Publishing on the *Decision Sciences Journal* and the *Decision Sciences Journal of Innovative Education*
 - Report on submission statistics for the 2006 Annual Meeting in San Antonio
 - Slate of nominees for the 2007 election of officers
 - Statement of the accomplishments of the 2005-06 Board of Directors
 - Regional meeting reports from Board representatives
16. Proposed tracks for the 2007 Annual Meeting were reviewed and accepted.
17. The Fellows Appreciation Luncheon was discussed and acted upon. ■