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Should we make or buy? An update and review

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ABSTRACT

Whether firms should perform manufacturing activities on their own or buy them from an external provider is a strategic question that many managers from all firm areas have historically asked themselves. The present paper seeks to address this question by developing a theoretical framework which can help managers evaluate sourcing decisions. After discussing a make-or-buy literature review on 7 prestigious academic journals, the most relevant determinants and theories supported from the literature are identified and illustrated within this framework. The results are subsequently outlined, our research work concluding with a reflection on the extent to which this paper can improve the academic understanding of make-or-buy approaches. Our results suggest that practitioners should combine the resource-based view, strategic management and transaction cost economics theories in order to assess manufacturing location decisions.

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1. Introduction

Even though the dilemma faced by managers when it comes to choosing insourcing or outsourcing specific products or services was studied by many researchers in the past, they failed to consider hybrid and plural sourcings. Whereas hybrid sourcing refers to the procurement of the entire volume from a single mode that exhibits mixed governance, plural sourcing results from the simultaneous use of insourcing and outsourcing (Jacobides & Hitt, 2005; Park & Ro, 2011; Parmigiani, 2007; Puranam, Gulati, & Bhattacharya, 2013). Not only the historical and dichotomous make-or-buy perspective should be taken into account by decision makers, but also hybrid and plural sourcing views as well as the creation of strategic alliances. Furthermore, a distinction needs to be drawn within make-or-buy decisions manufacturing activities and those associated with research and development (R&D) (Brem & Elsner, 2018).

According to Doz, Prahalad, and Hamel (1990), joint ventures provide low-cost, fast access to new markets by sharing risks and borrowing expertise from local partners. Managers and decision makers want to know both which factors are likely to influence a

firm's decision to buy a specific part or service rather than to produce it internally and how the relevant factors should be evaluated to ensure that the right decision will be made, thus avoiding future problems and extra costs. A number of researchers have argued that quite a few make-or-buy decisions have an instinctive nature or are based on an ad-hoc response – without a predetermined plan – when an obligation exists to reduce cost and/or improve the quality of a product or service (Moschuris, 2007). The staff from R&D and quality departments, in addition to those working for controlling and legal departments, should play a relevant role as well (Brem, Gerhard, & Voigt, 2014). After all, the consequences of make-or-buy decisions can determine the firm's future.

During the last few decades, academic research on make-or-buy has rapidly evolved favoring above all the outsourcing option. Indeed, the extremely fast growth experienced by the make-or-buy research field has hardly left any room for scholars to carry out a global, thorough assessment of the research activity undertaken to date. This article has as its aim not only to provide a more comprehensive historical literature review about make-or-buy decisions, but also to analyze the determinants triggering those decision within the framework of supply chain management. The goal sought with our work is threefold: examining the extant literature available – insofar as it reveals both past and current trends – identifying possible gaps; and offering potential research opportunities for future researchers. The analysis of the literature will identify the most relevant journals in this area, additionally highlighting

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Table 1
Number of papers per journal.

Journal	JCR index 2016 (Q)	Area	No (%)
International Journal of Operations and Production Management	3.339 (Q1)	Management	21 (21%)
Journal of Supply Chain Management	5.789 (Q1)	Management	18 (18%)
Strategic Management Journal	4.461 (Q1)	Business/management	18 (18%)
European Journal of Operational Research	3.297 (Q1)	Operations research	15 (15%)
Journal of Operations Management	5.207 (Q1)	Operations management	12 (12%)
Academy of Management Review	9.408 (Q1)	Business/management	10 (10%)
Journal of Purchasing and Supply Management	3.240 (Q1)	Management	5 (5%)

the most important determinants, as well as the most commonly supported theories and trends in the make-or-buy literature.

2. Literature review approach

Our work process began with the systematic identification of renowned academic journals in the field of make-or-buy decisions – also referred to as insourcing or outsourcing decisions in the literature. A search for the keywords “make-or-buy” and “insourcing or outsourcing” in academic databases was performed, following a database search methodology similar to the one adopted by [Durst and Edvardsson \(2012\)](#); and [Butkovic, Kauric, and Mikulic \(2016\)](#). In particular, this review sought to screen the existing studies (published in the period comprised between 1982 and 2017) by means of three databases – ProQuest, Scopus and Web of Science – chosen because of their strong reputation when it comes to academic articles.

Articles and publications dealing with make-or-buy decisions were listed on a spreadsheet along with some basic information, namely: author; country of origin provenance; topic; and year of publication – with the possibility of including additional comments. Our electronic search was completed with a manual one, especially focused on tracing the papers cited in the bibliography of the previously selected articles.

The journals which serve as the basis to analyze the literature revolving around make-or-buy decisions fulfill the requirement of appearing in the databases mentioned above and in the Journal Citation Report (JCR) database. The impact factor index of the reviewed journals is based on the data registered at the JCR published by Thomson Reuters in Q1–2016. The search for make-or-buy papers, which began without limiting their publication date, took place between January and February 2017.

The original sample of 123 articles was reduced to 99 articles, priority being given to articles based on empirical analysis and examinations of the topic over theoretical ones. Only articles from the journals listed in [Table 1](#) were included. The aforesaid reduction meant eliminating articles which, by way of example, might have focused on marketing or physics rather than on our research topic. Working papers, reports and conference papers such as the Outsourcing Process and Theories from the POMS 18th Annual Conference held in Dallas ([Perunović & Pedersen, 2007](#)) and books like the Make vs. Buy revisited, reassessing your company's manufacturing strategy by the A.T. Kearney consulting Agency, were not considered ([Monahan, Van den Bossche, & Tamayo, 2010](#)). Previous literature review papers had also been exclusively based on the analysis of articles, leaving aside other sources, such as books or conferences (i.e. [Gonzalez, Gasco, & Llopis, 2006](#)). Thus, a total of 99 articles – listed in the Appendix (see Supplementary Materials¹) – were finally analyzed.

¹ The supplementary materials section contains a table with the 99 articles analyzed, as well as references to those articles that are in that table, but that do not appear throughout the text of the paper.

3. Results

3.1. Period covered and journals analyzed

We analyzed 99 articles published during three decades, categorizing this period of time into three phases – shown in [Fig. 1](#) – for the purpose of identifying research trends over time. The first stage of our analysis, focused on papers published before 1996, revealed that only 6 articles (6% of the reviewed papers) were published in this period. The second stage of analysis dealt with articles published between 1996 and 2006 (29 articles, or 29% of those reviewed), and the third stage comprises articles published after 2006 (64 articles, or 65% of the total).

One of the relevant articles, authored by [McIvor \(2013\)](#), highlights the convenience of using the Transaction Cost Economics and Resource-Based View (TCE-RBV) theories to understand the manufacturing location decision. This author illustrated complementary and contradictory prescriptions of both theories, his article belonging to the third and most relevant stage for our research work (i.e. articles published after 2006). [Fig. 1](#) illustrates a constant and steady growth in the publication of articles on make-or-buy decisions throughout the period under study. The preference for outsourcing may have influenced the outcomes of make-or-buy decisions too, the most outstanding aspect being the rising trend in the number of papers published after 2006.

Our findings reveal a considerable number of articles published in journals which combine the area of production with supply chain and strategic management (57 articles in all (21 + 18 + 18)). However, the relevance acquired by journals which deal not only with purchasing but also with management review (15 articles) should be taken into account as well. [Table 1](#) lists the number of papers analyzed per journal, the *International Journal of Operations and Production Management* (IJOPM) appearing as the most prolific journal in relation to the make-or-buy subject, with 21 articles published (21% of those reviewed).

IJOPM is closely followed by *Strategic Management Journal* and the *Journal of Supply Chain Management*, both of them with 18 articles published, after which can be found the *European Journal of Operational Research*, with 15 articles published, and the *Journal of Operations Management* with 12 articles. Finally, the *Academy of Management Review* and the *Journal of Purchasing and Supply Management* published 10 and 5 of the articles examined, respectively.

3.2. Research methods and relations

3.2.1. Research methods

The papers were reviewed according to more than one dimension in this respect. After dividing them into empirical and non-empirical based on whether they applied some type of empirical method or not ([Alavi, Carlson, & Brooke, 1989](#)), we adopted the well-known empirical research categorizations ([Van Horn, 1973](#)) used in several research works with the aim of understanding the methods followed in the literature. The distinction between empirical strategies stems from the definition formulated by [Yin \(2017\)](#).

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