

How to Decide Whether to Make or Buy



Erin Anderson

• The John H. Loudon Chaired Professor of International Management and Professor of Marketing at INSEAD until her death in 2007

Anderson's impact in brief

- ▶ Anderson was a standard bearer of INSEAD's special relationship with the business community, as the first person to apply the theories of transaction cost economics to an organisational backdrop.
- ▶ Her work provided crucial models to companies to help them make the ever-pressing decision of whether to "make" or "buy".
- ▶ She was regarded as a world expert on Transaction Cost Economics in marketing, eliciting praise from Nobel Prize winner Oliver Williamson for significantly broadening the reach of TCE.
- ▶ Anderson's path-breaking research opened up new horizons for transaction cost analysis, confirming its continued relevance to this day. She is remembered as a principled risk-taker, adventurer and pioneer, as well as a warm and dedicated colleague and mentor.

Deciding whether a job is best kept in-house or outsourced is a challenging, age-old problem. It was a challenge Erin Anderson heard repeatedly from industry representatives when conducting research for her PhD dissertation on sales force management.

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The general assumption is that firms are better off doing what they do best and outsourcing work that is beyond their core capabilities. Of course, there are times when this is not possible or cost effective, or when greater control or protection is needed over the product or processes. Understanding which decision to make, when and why, was of key interest to Anderson.

Colleagues recommended she look at the work of the economist Oliver Williamson, whose new theories on Transaction Cost Economics (TCE) argued that firms are better studied not through the products and services they provide but through the transactions they negotiate and execute. The theories – which later earned Williamson a Nobel Prize – were developed from a purely economic

perspective but Anderson recognised their relevance. She took Williamson's constructs and concepts and put them to the empirical test, later expanding on them by introducing behavioural factors such as trust, mutuality, intrinsic motivation, incentives and legitimacy. By adapting them to real-life challenges she gave them a practical relevance which continues to be recognised in business schools today.

During her career Anderson became a world expert on TCE in marketing, publishing 43 scholarly articles and six book chapters on transaction costs in action. She has been cited more than 28,770 times and was in the Institute for Scientific Information's (ISI) top 0.5% most cited scholars in business and economics in 2003.

A pioneer in the field

While Williamson's theories were never short of scholarly attention, Anderson was the first person to apply them to an organisational backdrop. She developed ways to gauge his very theoretical constructs, developing innovative measures for factors such as environmental uncertainty, complexity of the sales transaction, and customer loyalty. These measurements paved the way for her subsequent research and were adopted by dozens of other scholars who continue to test the tenets of transaction cost theory in empirical settings. Anderson's work broke away from the traditional approach to sales force management research with its micro-orientated focus on the salesperson's behaviour.

Instead, using TCE, she introduced a new, more strategic perspective highlighting the way in which a firm's structure and distribution systems contribute to its success.

Her compelling and influential findings were noted by Williamson in his 2011 paper [Transaction cost economics and its uses in marketing](#): "Following Erin Anderson's perceptive uses of TCE in her 1982 dissertation, the field of marketing has made constructive uses of, and contributions to, TCE,... broadening TCE's reach, posing important challenges, and identifying opportunities still to be addressed." Anderson brought a visionary dedication to management and marketing. She created her own models, operationalising and testing the role of transaction costs in many 'make versus buy' decisions that remain central to management today.

Drawing from her background in the field of sales force management and borrowing from the fields of organisational ecology, relationship marketing, psychology and agency theory, she introduced factors such as reciprocity and trust.

Her research shed new light on the role of commitment (and perceived commitment) between firms and agents including factors such as communication, reputation, and relationship history. Her paper, [The Use of Pledges to Build and Sustain Commitment in Distribution Channels](#), co-written with Barton Weitz, Emeritus Executive Director, David F. Miller Center for Retailing Education and Research at the University of Florida until his death last year, has been cited more than 5,000 times and is recognised as a seminal work in the field of Relationship Marketing.

A framework for entering foreign markets and new product development

Anderson's far-sighted use of transaction cost analysis helped organisations develop strategies for entering new and foreign markets.

Working with her husband Hubert Gatignon, INSEAD Emeritus Professor of Marketing and the Claude Janssen Chaired Professor of Business Administration Emeritus, Anderson developed an innovative framework to help firms make decisions on whether to enter the international market as a wholly owned subsidiary, a joint venture partnership, or through contracts and licensing. Bringing together the large and eclectic literature on modes of foreign entry, they identified the risks and opportunities and the trade-off between control and the cost of resources committed.

The research produced two powerful papers including [Modes of Foreign Entry: A Transaction Cost Analysis and Propositions](#), which was named the Journal of

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International Business Studies' most influential paper in a decade.

Their chapter in the book, [Firms and the Creation of New Markets](#), introduced important ideas about the risk and benefits of developing new products either inhouse or through out-sourcing, and explored the critical role of partnerships with distributors and other economic factors vital to innovation's success.

Ongoing Impact

Throughout her career Anderson translated complex theories into practical frameworks that continue to help managers design business models and make strategic choices today.

"Erin was truly a pioneer in the path-breaking research that TCE has undertaken," Gatignon said.

"Her research opens up new horizons for transaction cost analysis in the future while her research on the role of transaction costs in new market entry and innovation and in enforcing ethical behaviour in the firm confirms the theory's continued relevance today."

Louis W. Stern, the John D. Gray Distinguished Professor Emeritus of Marketing at the Kellogg School of Management of Northwestern University and a co-author of [Marketing Channels](#), concurs.

"Erin was a forerunner in placing a microscope over the areas of distribution and the relationships between firms. She inspired a whole slew of students to follow in her wake. Her influence was in various sub-disciplines of management and in the mother discipline of economics. It's very rare for a researcher in management to also have an impact in more fundamental disciplines." Anderson's influence continues to be felt through the work of the many students and junior faculty she mentored during her career. Junichi Endo, President and CEO of NMKV and a former student of Anderson's, says her commitment was obvious both inside and outside the classroom. "Her impact on me was significant, she supported me in navigating the future."

Anderson also devoted her talents to encouraging and enabling women to succeed in academia. Acknowledging this and her example of what such encouragement can achieve, the American Marketing Association launched the Erin Anderson Award for an Emerging Female Marketing Scholar and Mentor.