

“THE OUTSOURCING GAME” ADDRESSES SUPPLY CHAIN POWER, INCENTIVES, & COLLABORATION



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We introduced “The Outsourcing Game” at Santa Clara University in 2003. Since then, the role-play simulation has been run more than 30 times with more than 700 participants at 11 universities (Arizona State U., IMD, MIT, Nyenrode Business U., The Ohio State U., Purdue U., Santa Clara U., Tulane U., U. of Utah, Washington U. in St. Louis, The Wharton School). It was a key part of a teaching portfolio that was honored with the POMS *Wickham Skinner Award for Teaching Innovation* for 2007.

The game provides a platform for conveying important lessons regarding the changed nature of operational decision-making in today’s highly outsourced economy. Many in the modern business community have embraced outsourcing as a way to focus on core competencies, increase flexibility, and improve return on assets (among other benefits). Yet many have also misunderstood or underestimated the dramatic change that occurs when internal functions are converted into services procured from independent firms.

We became more fully aware of potential problems in our survey of outsourcing practices at Fortune 500 firms (Amaral, Billington, and Tsay, 2006). Because outsourcing distributes decision-making authority across multiple companies whose relationships are shorter-term and more transactional, greater vigilance is required in structuring tasks, aligning incentives, and monitoring of actions.

The Outsourcing Game elicits tangible examples of potential hazards, in order to reinforce the lessons that are usually delivered through readings, lectures, and case discussions. It uses a realistic, but simplified outsourcing scenario that combines hidden information, misaligned incentives, and hidden actions with distributed power and weak governance (Amaral and Tsay 2008). Five teams—representing different supply chain roles from supplier to brand-owner—try to influence an outsourcing decision based on a series of bilateral and multilateral negotiations. The full game requires about 4 hours of class time.

Due to space constraints, we will not summarize the game here. A full description is given in Amaral and Tsay (2008). The rest of this article provides first-hand accounts from some professors who have used the Outsourcing Game in their courses.



Corey Billington, IMD

I’ve used the Outsourcing Game several times in the operations core. Participants are full time MBA students; 31 years old on average with 7 years of professional experience. The course is at the beginning of the program and I deliver the game as part of a 12 hour set of classes on collaboration. Our classes are 4 hours long, so one class has enough time for the game, a lecture, and discussion of learning points. Student feedback has been very good, because the game shows how hard it is to *really collaborate* versus simply talk about it. The learning point that sticks best with students is that collaboration delivers huge benefits, but is against

human nature in some basic way. Ultimately, it takes hard work and good processes to collaborate effectively. The game provides a basis for understanding the difference between talk and action.



John Gray, The Ohio State University

I used the Outsourcing Game in the ninth class of an MBA “Global Sourcing” elective. The course is strategic and case-based. Students had already studied make-buy theories (including the generic benefits and risks), and had read two book chapters on sourcing. To accommodate the necessary time, I extended a normal Thursday class by two hours and offered a second section on Friday morning. In addition, I invited industry practitioners from our Center for Operational Excellence to attend. Both sessions ended up having a relatively equal mix of students and practitioners.

Students rated the game very highly, and several commented that it “brought to life” lessons such as the loss of some decision control, the potential for misaligned incentives, the risk of opportunistic behavior, and the criticality of negotiation skills. Students found themselves behaving opportunistically and even deceitfully and were surprised by the role that their emotions and personal feelings played into their decision-making. Without a simulation, it would be very difficult to demonstrate this to students.

Among the practitioners, several noted that the game made them think about the different roles. One described her learnings as things “I can take back to my daily work.” And, of course, several observed that the game was “interesting and fun.”

A colleague of mine from Strategy also participated and found the simulation fascinating, stating he could take the class through four more hours of discussion about what happened, tying the behaviors observed in the game to the theories of firm boundaries.

While students certainly benefited from their interactions with the experienced practitioners, I may keep these groups separate in the future. The practitioners wanted more time (some a full day) to discuss what happened and use it as a foundation for learning new strategies and techniques. With the students, I used subsequent class sessions for this purpose. In summary, the Outsourcing Game is a very useful learning tool and I plan to use it again.



Geoffrey Parker, Tulane University

I’ve used the Outsourcing Game in a first-year MBA core Operations course with a large mathematical component, so the game provides a welcome experiential break from cases and model lectures. Students are 26 to 30 years old (with some outliers). We ran the game for about 100 people in Fall 2006 and 75 in Spring 2008.

Student comments suggest that they found great value in the course and said that more core courses should have experiential content like the Outsourcing Game. Formal feedback from both years was very positive. (Thanks in part to the game, I received the core course teaching award both years). Key learning points relate to the trust and reputation effects that can hurt or help outsourcing success. The students also learn the need to quickly process information in order to prepare for negotiations.

Each session of the 7-week course is about 2 hours long. Due to

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NEWS FROM POMS COLLEGES (CONTINUED)

College of Sustainable Operations



Congratulations to the new College Board members:

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The College extends its thanks Dan Guide (Penn State) and Luk van Wassenhove (INSEAD) for their previous service.

For more information, visit the College's web site:

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College of Service Operations

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College of Human Behavior in Operations Management

During the POMS conference in La Jolla the College of Human Behavior in Operations Management has been officially launched with full support of the POMS Officers and Board members. Everybody with an interest in this fascinating aspect of Operations Management is very welcome to join this college.

For more information, visit the College's web site:

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Note: the current board is appointed as a caretaker board until formal board elections are organized.

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this time constraint, I assigned teams and provided an introduction ahead of time, used the shortened version of the game, and completed the brief discussion during the next class session.



Glen Schmidt, University of Utah

Students found the game to be engaging and yet highly instructive. The game maintains a high energy level throughout a four-hour session. It is game that students will talk about after they leave class; one that releases their competitive juices, but teaches them that pushing their competitiveness too far results in

"the winners curse" (and provokes them to curse the winner). I use it in my evening MBA elective in supply chain management, attended by practicing managers and employees. It doesn't replace a set of readings, but it brings to life lessons about hidden information, hidden actions, and misaligned incentives. In discussing theory, we tell students to develop win-win negotiation strategies. This game gives students a chance to practice (and often fail) in devising such strategies. Students may yawn if you simply tell them that the total supply chain profit can increase when they collaborate, but the game gives them a chance to practice what we teach.



Andy Tsay, Santa Clara University

I've used the Outsourcing Game three times with my MBA elective "Supply Chain Outsourcing." This course typically draws ~25 students, a significant number of whom have concurrent or prior supply chain responsibilities in Silicon Valley's highly outsourced OEM firms (such as Cisco Systems, Hewlett-Packard, and Xilinx) or their service providers (such as Flextronics and Avnet).

Student feedback has been overwhelming positive. For example, in January 2008, 22 out of 23 students "strongly agreed" that: "The simulation is important and relevant to the course focus." Written comments backed this up. For example, one student wrote: "Excellent learning experience, provides understanding you may not otherwise achieve. Beautifully demonstrates misaligned incentives, difficulty negotiating with incomplete info, and the perils of human nature. This should definitely be a fixture of the course."

Most students take this elective fairly late in the program, and some will have studied negotiation by then. The course meets for 10 weekly sessions of 2.5 hours, and the game is played in the fifth session, with 30 minutes of the preceding session used for preparation. By this point, students have been exposed to the risks of outsourcing and the concept of moral hazard.

References

Amaral, Jason, Corey Billington, Andy Tsay, "Safeguarding the Promise of Production Outsourcing," *Interfaces*, 36, 3 (2006), 220-233.

Amaral, Jason and Andy A. Tsay, "The Outsourcing Game: A Teaching Simulation of Power Dynamics in Outsourced Supply Chains," *Operations Management Education Review*, 2, 1 (2008), 1-27.

For information on game availability, please contact Jason Amaral at jamaral@emeraldwise.com.