IS/IT Backsourcing – A Case of Outsourcing in Reverse?

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Abstract

IS/IT outsourcing has been a rich source for discussion since the much-vaunted agreement between Kodak and IBM in July 1989. With agreements signed for between 5 and 10 years in general, what happens at the end of an outsourcing agreement, or when the circumstances in an organisation change and the outsourcing agreement is reviewed? In 2005, a survey by Deloitte found that 1 in 4 major companies in the United States, brought outsourced operations back in-house. This option is commonly referred to as insourcing or backsourcing.

This article presents the results of a case study carried out within an organisation that had recently backsourced the whole of its IT department. Dividing the phases of the backsourcing process into ‘decision’, ‘transition’ and ‘operation’, each was examined using a qualitative approach that included semi-structured interviews with senior managers of the organisation.

1. Introduction

Much has been written about the sourcing of Information Systems/Information Technology (IS/IT) over the last 40 years or so, with the majority of the coverage over the last 15-20 years focusing on outsourcing since the much-vaunted agreement between Kodak and IBM in July 1989. Loh & Venkatraman [20] hailed this as a landmark agreement that had a profound effect on outsourcing being perceived by companies as a serious strategic choice.

The IS/IT Outsourcing market as a whole is big business. According to US-based sourcing advisory business Technology Partners International's figures for IT Outsourcing (for industry-wide total contract value over $25m), the IS/IT outsourcing market in 2008 was worth $69 billion globally [29]. It is no small wonder that there is so much interest in IS/IT outsourcing, from both an academic and commercial perspective.

The story, however, does not end with the outsourcing agreement being signed and the client resources being transitioned to the vendor. What happens when the outsourcing contract expires, or when the circumstances in an organisation change and an existing outsourcing agreement is reviewed? Deloitte [3], in a survey of 25 major companies in the United States, found that 1 in 4 companies brought outsourced operations back in-house. This paper proposes an IS/IT Sourcing cycle and looks at why an organisation would choose to bring back in-house their previously outsourced IS/IT. It also examines and suggests ways of understanding the consequences of the backsourcing process.

2. The IS/IT sourcing cycle

During a review of current literature on IS/IT outsourcing, it became clear that authors have varying perspectives, from looking at the outsourcing decision in terms of motives, risks, benefits and process [5][19], to looking at contract and relationship management [11][13]. What emerges from analyzing numerous articles on outsourcing is that they can be broadly divided into categories based on the timeline of the outsourcing process.

Lever [16] divided the outsourcing relationship into four specific phases; Discovery, Negotiation, Transition and Assessment. Others considered that Discovery and Negotiation were two parts of the same stage [21][24]. Dibbern et al [4], in a thorough analysis of outsourcing literature to date, divided the outsourcing process into two main areas; the decision process, covering the why, what and which questions and the implementation process, covering the how and outcome areas. This was also based on the decision model proposed by Simon [25].

Dibbern et al [4] appeared to cover the outsourcing decision process and the way the resultant agreement would be managed, but did not seem to consider the transition to the vendor.

So, are the stages of the outsourcing process as easy to define as Lever [16] and Dibbern et al [4] seemed to indicate? Gonzalez et al [8] carried out an analysis of outsourcing literature, identifying 131 papers for review (Kremic et al [14] carried out a similar review of over 200 articles but concentrated on the outsourcing decision only and was therefore discounted). Using the articles reviewed by Gonzalez et al [8] as a basis for further analysis,
each article was analysed to ascertain the general area of the outsourcing process it covered based on the areas under discussion. For example, articles discussing motives for outsourcing were considered as dealing with the decision phase. The general approach applied to categorise the articles was that used by Swanson & Ramiller [27]. The abstract, introduction, discussion section, and conclusion for each article was read and analysed to determine the research questions or objectives and the area of outsourcing under discussion or research. This stage did require a degree of interpretation, but it was found that most of the articles could be placed within categories without too much ambiguity. Of the original 131 articles analysed, 15 were discarded as either not looking at the outsourcing process or dealing generically with issues such as contract workers or general trends in outsourcing, leaving 116 articles for review.

It became clear that these articles could also be divided broadly into areas addressing different stages of the outsourcing lifecycle, along the lines proposed by Lever [16]. It was, however, very difficult to split the ‘Discovery’ and ‘Negotiation’ phases, as it appeared that they both dealt with what could be considered to be the outsourcing ‘decision’, and the ‘assessment’ phase could be better summarised as contract ‘operation’. The outsourcing model proposed in Figure 1 depicts what could be considered to be the different stages of IS/IT outsourcing process. However it goes further than just outsourcing – it could be seen as a cycle for all IS/IT sourcing decisions in general.

McLaughlin & Peppard [22], for example, assert that over 80% of IS outsourcing contracts are renegotiated during the lifetime of the agreement. It could be argued, though, that a major renegotiation process that could result in switching vendors or bringing the outsourced function back in house effectively ‘tips’ the cycle back into the Decision phase.

It is interesting to note that during the review of the articles used by Gonzalez et al [8], the decision stage seemed to dominate in terms of the focus of the article. Of the 116 articles reviewed, 2 covered all three stages & these represented the only mention of the transition stage. Of the rest, 12 dealt with decision and operation together, 59 for decision only and 43 for operation only. This shows that nearly 63% of all papers reviewed dealt with the decision phase to a greater or lesser extent and emphasises the importance of the decision phase during outsourcing.

3. The back sourcing cycle & the research questions

The backlash against IS/IT outsourcing appeared to start as early as 1997 [12]. Since 2005 a number of organisations have chosen to bring back in-house, known as back sourcing, some or all of their previously outsourced IS/IT [30]. But is back sourcing just ‘outsourcing in reverse’, a case of there being “‘nothing new under the sun’” [6]

In a previous section the prospect of an IS/IT sourcing cycle was proposed. It appears this cycle could apply to outsourcing, but could it apply to back sourcing? Furthermore, if the cycle does seem applicable, are there any of the stages that appear to be more important for either outsourcing or back sourcing? The rest of this paper looks at back sourcing through the application of the IS/IT Sourcing Cycle, using it as a framework for study of the back sourcing process.

3.1. The back sourcing decision

The decision to back source is often the result of an IS/IT sourcing review and, as such, is just one of the outcomes from such a review – contract renewal and switching to another vendor being other possible alternatives [31]. Given the time, effort and cost an organisation may have expended to outsource its IS/IT, why would it want to reverse the process? Overby [23] presented one of the first articles to discuss back sourcing, specifically at JP Morgan Chase after the merger with Bank One. The merged organisation ended the outsourcing...
agreement JP Morgan Chase previously had with IBM. Senior management appeared to give the same reasons for backsourcing IS/IT that were given for the original outsourcing agreement [23].

McLaughlin & Peppard [22] looked at backsourcing decisions through a collection of media releases, newspaper and journal reports and company accounts. Wong & Jaya [33] and Veltri et al [30] followed a similar approach. These studies concentrated on data available from secondary sources. Whitten & Leidner [31] provided one of the first insights, via empirical research, into the decision to either switch vendors or backsource previously outsourced IS/IT in the context of application development.

Dibbern et al [4] proposed a classification for the motives for outsourcing; strategic, social/organisational and economic. Kremic et al [14] divided the driving motives for outsourcing along very similar lines, stating strategy-driven, politically-driven and cost-driven. The categories used by Dibbern et al [4] appear more inclusive. Applying these categories to the motives given for the backsourcing decision [22][31][30][33] provides interesting results..

Table 1. Motives for backsourcing

<table>
<thead>
<tr>
<th>Classification</th>
<th>Motivation</th>
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<tbody>
<tr>
<td>Strategic</td>
<td>• IT seen as strategic rather than commodity</td>
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<tr>
<td></td>
<td>• Business changes (merger/acquisition)</td>
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<td></td>
<td>• External changes</td>
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<tr>
<td></td>
<td>• IT role change</td>
</tr>
<tr>
<td>Social/</td>
<td>• Poor relationship with vendor</td>
</tr>
<tr>
<td>Organisational</td>
<td>• Management change</td>
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<tr>
<td></td>
<td>• Desire to regain control</td>
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<tr>
<td></td>
<td>• Poor service quality</td>
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<tr>
<td></td>
<td>• IT resource accessibility</td>
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<tr>
<td></td>
<td>• Know-how mismatch</td>
</tr>
<tr>
<td>Economic</td>
<td>• Excessive cost</td>
</tr>
<tr>
<td></td>
<td>• Contract problems</td>
</tr>
<tr>
<td></td>
<td>• Vendor fails to achieve profit from agreement</td>
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</table>

The reasons for backsourcing found by Whitten & Leidner [31] seem to correspond closely with those found by others. It appears that a switch in the perception of IS/IT (from commodity to strategic), senior management changes within the client, cost, desire to regain control of IS/IT and a poor relationship with the vendor were all major contributors. Overby [23] suggested that the reasons for backsourcing were basically the same as those asserted for outsourcing in the first place. This would seem to be the case given that the motives identified for outsourcing by Kremic et al [14] are broadly the same as those in Table 1.

Veltri et al [30] noted that although the reasons for backsourcing can be identified, it was not possible to state what the most important reason was. They go on to state that the importance of each reason cannot be gauged, or which one of the reasons provided the tipping point for the re-evaluation of the outsourcing contract.

Finally, it has to be considered that the reasons for backsourcing in the public domain may not be the whole story. Veltri et al [30] concede that the reasons given publicly for backsourcing may be window dressing, with organisations not wishing to admit the real reasons.

Looking at the IS/IT Sourcing Cycle proposed earlier, it would seem that the decision factors for backsourcing are not so different from those for outsourcing, but is the decision phase for the two processes the same?

It is hypothesised that the decision stage for outsourcing is more important than it is for backsourcing. Selecting the wrong vendor, or agreeing a contract that subsequently breaks down is not a consideration in backsourcing. Thus,

Research Question 1: Is the decision stage more important for outsourcing than backsourcing?

3.2. Transition

When outsourcing IS/IT, the vendor (i.e. the ‘receiving’ organisation) is experienced in the transition process, as it would be something completed on a regular basis for numerous clients. For an organisation backsourcing IS/IT, this may be an activity the organisation had not completed before and would therefore require a huge learning curve. Veltri et al [30] state that backsourcing is not easy, and requires significant expense and expertise by the organisation bringing its IS/IT back in-house. Allen and Chandrashekar [1] reviewed the differences between outsourcing manufacturing and services and concluded that, for services, the transition was more visible and required more communication.

The transition for outsourcing or backsourcing both represent a risk to the function of the client organisation. While the transition process is in progress the client organisation is still functioning as normal, as it would through any major change process. As has been said about Business Process Reengineering, another major business change, it is a bit like changing the engines of a flying aeroplane [26].
Bringing outsourced IS/IT back in house could also be seen in the same light as a company merger or acquisition; the longer the outsourcing agreement the further apart, in terms of culture, the outsourcing organisation and the outsourced IS/IT personnel may become. Cartwright & Cooper [2] talk of the need for cultural compatibility between organisations that participate in mergers or acquisitions, citing that this incompatibility sometimes leads to failure. It was found that the ability to integrate the new company was seen as the most important factor for acquisition success [2]. This implies that the Transition phase is important for the overall success of the backsourcing process as this ‘sets the tone’ for the following Operation phase. Staff that are unhappy with the transition process and the perceived culture of the backsourcing organisation have the option to go elsewhere, making the backsourcing process more problematic.

Finally, for an outsourcer, the transition of IS/IT from the client is essentially part of normal business practice. For an organisation backsourcing IS/IT may be a ‘one off’ operation, an exercise they have not done before and may not do again. Thus,

**Research Question 2: Is the transition stage, in terms of ‘mechanics’, more problematic for backsourcing than outsourcing?**

In terms of knowledge management and retention of key personnel, a vendor will have access to a ‘pool’ of technical expertise that can be called upon if key personnel are lost – an organisation carrying out backsourcing would have to identify gaps and recruit accordingly. This could be a time consuming exercise during which the organisation could be exposed. Thus,

**Research Question 3: Is knowledge management and the retention of key personnel more important in the backsourcing transition process than in outsourcing?**

### 3.3. Operation

The Operation phase for backsourced IS/IT would be the same as any organisation with an in-house IS/IT provision, bringing with it the same risks, issues and management challenges. Post-transition in backsourcing, integrating the IS/IT department back into the business organisation with a new management structure would seem to be one of these challenges. Changing the management function from monitoring an outsourcing agreement to managing the IS/IT function requires a completely different skills set [7].

When dealing with ‘total’ outsourcing or backsourcing, where the change affects the whole of IS/IT, it is proposed that the Operation stage for outsourcing and backsourcing are different. For outsourcing, the IS/IT department is integrated within an existing IS/IT structure – essentially a ‘like for like’. With backsourcing, IS/IT is integrated back into the ‘business’ of the organisation, the latter having little sight of IS/IT as a day to day process during the outsourcing agreement. Thus,

**Research Question 4: Is the Operation stage for outsourcing and backsourcing different?**

### 4. Research study

The aim of the research study was to gain an insight into the backsourcing process, from the perspective of those that had been heavily involved, in an organisation that had backsourced its IS/IT. The parties, at an individual and organizational level, cannot be identified, pseudonyms will therefore be used. This is justified on commercial grounds, as any research results, be the outcome positive or negative, could affect the organisations concerned. The topic is therefore deemed controversial [34].

#### 4.1. Background and method

ClientCo is a large UK based organisation employing more than 150,000 people in UK wide locations. ClientCo, in the late 1990’s, perceived a problem with business performance and believed that IT services was acting as a drag on the rest of the business and had to be addressed for the organisation to move forward. An agreement was made with VendorCo to address this perceived weakness in what was later to be described as a Transformational Outsourcing agreement.

The IT services of ClientCo were outsourced to VendorCo in November 2000. The initial contract was for seven years, extended in August 2004 for a further three years, ten years in total. The whole IT function was handed over in what is considered a ‘total outsourcing’ contract i.e. greater than 80% of the total IT budget [15].

In October 2005, ClientCo announced that it was going to terminate the outsourcing contract with VendorCo, and would bring the IS/IT function back in-house.

This research was carried out as a single case study within the research domain described above and was completed around one year after IT had been transitioned back in-house. The research within the selected organisation consolidated primary and secondary data sources. The primary
source was a series of six semi-structured interviews with key personnel (within ClientCo) involved in the backsourcing process. A number of senior personnel within VendorCo were also approached, but declined to participate in the research.

The interviewees were three senior managers who had been part of ClientCo prior to the backsourcing process and also part of the backsourcing project steering group, and three senior managers who had been part of the original outsourcing process and had then transitioned from VendorCo to ClientCo. The semi structured interview questions were divided into four main sections using the IS/IT Sourcing cycle as a framework; three sections covering each of Decision, Transition and Operation, and a section designed to gauge the respondents views on the backsourcing process overall. The issue of knowledge management was addressed during the Transition section. The interviews were transcribed verbatim and were then the subject of Summative Content Analysis [10].

4.2. Case study – the results

The analysis of the results from the research was completed in light of the four research questions proposed earlier, looking at each of the research questions in turn.

Research Question 1: Is the decision stage more important for outsourcing than backsourcing?

Interviewees were asked what they thought were the ‘official’ reasons for backsourcing and then what they thought were the ‘real’ reasons.

Two common themes for the ‘official reasons’ became clear; cost and control. Cost was an issue on a number of levels, from an exclusivity clause in the agreement through to the ‘mark-up’ the vendor added to all IT contracts with third parties. Senior management within ClientCo were of the opinion that they were not receiving ‘value for money’ in terms of the delivery of IT, paying a premium for the skills and knowledge from VendorCo required to transform IT.

The lack of control manifested itself in all of the interviews and was articulated in different ways. A number believed that ClientCo saw IT as a ‘black box’, and that this impression was enforced by a reluctance to disclose information by VendorCo. As one interviewee stated,

It was the ability to see the picture, rather than someone else telling you what the picture looked like.

It was also clear that the restructuring taking place within ClientCo at the time led to the view that the lack of control over IT was inhibiting this process within the business. It was made clear by the interviewees that the view from senior management was that the changes in the business organisation could be more easily accommodated by an in-house IT department.

What were perceived as the ‘real’ reasons by the interviewees appeared to be more illuminating. When asked what was thought to be the reason behind the review in the first instance, there was a general consensus that the decision was mainly down to the new Chief Executive Officer. The view of the interviewees was that the CEO thought that the outsourcing arrangement was not in the best interests of ClientCo, a view that was confirmed by a report from an external consultancy engaged by ClientCo. Tadelis [28] highlighted a similar set of circumstances at Sears, Roebuck and Co, where an outsourced service was brought back in-house after a change in the management team.

In terms of alternatives to backsourcing, only re-negotiation with the incumbent was considered seriously. Given one of the main drivers for the review was to regain control, switching vendors would not have resolved this issue and was therefore only given a cursory consideration. Once negotiations broke down, backsourcing was the only recourse available.

One other important factor that contributed to the decision making process was the way the outsourcing agreement had been managed by VendorCo. An interviewee stated,

Our Operations were still running in our own data centre. VendorCo made no attempt to make any synergies by combining ClientCo operations with other VendorCo owned operations, it was like a cloned model. It was a self contained unit.

Another commented that as IT was a defined unit, the logical decision was to just to ‘take back control’.

On the evidence of the case study findings, it would seem that the first research statement was inconclusive. The decision stage for outsourcing and backsourcing seem equally important, as either can have a profound affect on the organisation, the implications of the decision in each case just appear to be different.

Research Question 2: Is the transition stage, in terms of ‘mechanics’, more problematic for backsourcing than outsourcing?

It is apparent from the research that the ‘mechanics’ of the backsourcing process were challenging for ClientCo.
The two areas identified as key to the transition process were ‘people and commercials’. Adjustments in personnel had to be made in order to change focus from monitoring an outsourcing agreement to managing an IT department. A consultancy also had to be engaged to guide ClientCo through the process of moving third party contracts from VendorCo to ClientCo. In both these cases, an outsourcing supplier would have their own resource to carry out this work.

A number of interviewees affirmed that a great deal of effort was put into the transition of staff from VendorCo and into the transition phase of the project as a whole. As one interviewee stated,

The project team were really really close, because we only really looked at each other for four months, and it was most important that everyone was working hard to deliver their part of the project.

The arbitrary ‘handover’ date added to the pressure. Despite requests from VendorCo to extend the transition period, ClientCo actually planned to ‘go early’ should the relationship break down completely during the transition. An interviewee said,

The other one that was an interesting one was that we had set the exit date, and our strategy was, not that if progress was not going to plan that we would push the date back, but that we should go early.

This illustrated the lack of trust between the two parties towards the end of the arrangement.

The case study seemed to indicate that the ‘mechanics’ of the transition process were more challenging for ClientCo. Adjustments in personnel had to be made in order to change focus from monitoring an outsourcing agreement to managing an IT department. Specialist staff had to be engaged, including a consultancy used to guide the client through the process.

**Research Question 3: Is knowledge management and the retention of key personnel more important in the backsourcing transition process than in outsourcing?**

From the perspective of ClientCo starting from a very low base of technical know-how, the number and calibre of staff transferred from VendorCo became vital to the success of the backsourcing transition process and their ability to maintain continuity of the IT service to the business. One of the biggest risks from the perspective of ClientCo, especially those employees that had been outsourced in the first instance. One interviewee commented,

There were a lot of colleagues who had worked for ClientCo previously, they could be cheesed off over being outsourced and then backsourced again and choose not to transfer back.

The following table summarizes the key risks and issues identified by the interviewees during transition, along with actions identified to mitigate them.

<table>
<thead>
<tr>
<th>Table 2. Transition risks and mitigation</th>
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<tr>
<td><strong>Risk/Issue</strong></td>
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<tr>
<td>Loss of IT technical knowledge</td>
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<tr>
<td>Lack of knowledge of backsourcing process</td>
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<td>Loss of key staff</td>
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<tr>
<td>VendorCo “cherry-picking” staff</td>
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<td>Loss of senior management</td>
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<tr>
<td>Lack of development capability</td>
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<tr>
<td>Deterioration of relationship with VendorCo</td>
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<tr>
<td>Risk/Issue</td>
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<tr>
<td>---------------------------------------------------------------------------</td>
</tr>
<tr>
<td>ClientCo management focused on monitoring an IT outsourcing agreement rather than managing an IT department</td>
</tr>
<tr>
<td>Third party contracts not transferred from VendorCo to ClientCo</td>
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</table>

The issue of VendorCo ‘cherry-picking’ staff was seen as a major irritation by a number of the interviewees. Comments included,

VendorCo reserved the right to poach whoever they wanted, and we nearly went to court over that one.

So even when they had agreed up front that people were in scope, they cherry-picked away from us and there was nothing in the end that we could do.

So they were cherry-picking but they were also leaving holes and not filling them because in essence it was a direct saving to them not having to pay any money.

How much of this activity carried out by VendorCo that could be contributed to the breakdown of the relationship or to ‘standard’ practice is difficult to assess, but the uncertainty it created during the transition process was very real for ClientCo.

On the basis of the research findings it would seem that knowledge management and the retention of key personnel is more important in the backsourcing process than in outsourcing.

**Research Question 4: Is the Operation stage for outsourcing and backsourcing different?**

It was acknowledged by all interviewees that there were resources issues after the transfer was completed, but it was not seen as a major problem by most as there was no impact on the service to the business. To improve the capability moving into the Operation stage, a recruitment campaign was conducted to provide cover for key skills.

The IT Governance framework set up by ClientCo was broadly comparable with that proposed by King and Malhotra [12] to create an internal market for IT resources from the rest of the business. One of the key issues in the face of demand from the business was the lack of a development capability, with the demand from the business far outstripping the budget and the ability of IT to fulfil the requirements. It was acknowledged by all of the interviewees that during the outsourcing agreement, VendorCo had the ability to bring resource in from other areas of their business to meet demand. All of the interviewees acknowledged that ClientCo could not sever the ties with VendorCo completely and entered into an agreement for development resources based on a three year fixed rate contract.

The IT department also reached an agreement with the rest of the business to suspend some of the new system development activities while the development capabilities were re-built, one interviewee stated,

The aim was that within the first year we would be back up to speed and we weren’t seen as a constraint on the business.

The change in the relationship dynamics between IT and the business was also acknowledged by all the interviewees. Under the outsourcing agreement, the business had a good day-to-day relationship with VendorCo. One interviewee commented,

The relationship between the business and VendorCo was pretty good, because they felt they were dealing with a lot of IT professionals and they had all this money put aside and they could basically have what they wanted.

However, once IT had moved into the Operation stage there appeared to be more of a challenge from IT when requirements came through from the business

It’s quite interesting in that you’ve got this sort of, I would call it, help intention that we are much more challenging now about whether or not we should or shouldn’t do that.

Additionally, the perception of IT as part of the business was that the integration was not yet complete. One comment from an interviewee was,

It’s important to see IT as part of the business and not separate from it. We are part of the business. The culture change for IT to be seen this way hasn’t quite happened yet.
This lack of integration with the rest of the business was very much seen as ‘work in progress’ one year after the transition had been completed.

On the basis of the research findings it is difficult to say that the Operation stage for backsourcing and outsourcing are different. The merger with the rest of the business has not been completed for ClientCo after a year, but it is possible that this could also be the case for a vendor organisation after completing a major outsourcing deal.

5. Discussion

Outsourcing has been seen by many organisations as the solution to real or perceived organisational issues with IS/IT. It would seem that a move from Operation to Decision in the IS/IT sourcing cycle can be summarised as a desire for change with the tipping point having a number of contributing trigger factors, any one of which may be ‘the straw that broke the camel’s back’. Changes to the overall organisation have often precipitated changes in IS/IT sourcing strategies. Mergers and acquisitions are bound to force the newly created organisation to review IS/IT, not least because there may be two IT departments that need to be merged. In the case of JP Morgan Chase, it was the merger with Bank One that precipitated such a situation [22]. However, it is when organisations are not driven by such events choose to change IS/IT sourcing that the interest lies, particularly in terms of a decision by an organisation to backsource.

This research has found that cost savings was given as one of the main official reasons for backsourcing. This seems to concur with one of the motives for backsourcing found by others [22][31][30][33] and one of the risks of outsourcing in the first place [14]. The question remains – was it a real reason or one that was used as a ‘justification’ for the decision? The ‘real’ reasons seemed to be that the perception of the CEO was that the deal wasn’t right for ClientCo given the restructuring in the organisation and, as one interviewee said,

It wasn’t his deal.

Whitten & Leidner [31] proposed that an organisation is less likely to switch vendors or backsource where the switching costs are perceived as high. In this case study, the issue of switching costs was only mentioned in the context of backsourcing. On an agreement with a number of years still to run, the cost of back sourcing was calculated as having a two year payback in terms of cost savings after back sourcing. Given the political drive to backsource, such a level for the switching costs was not deemed as prohibitive for ClientCo.

The nature and timing of the decision to backsource, part way through the contract, led to a number of unforeseen issues. The three interviewees that were part of the back sourcing project team all stated that the transition was made more difficult by the breakdown of the relationship between ClientCo and VendorCo – termed as an ‘acrimonious divorce’ by two of these interviewees. Seeing an outsourcing agreement as a marriage and back sourcing as a divorce is not uncommon [30]. The relationship breakdown led to the first two months of the transition being devoted to the negotiation of the exit plan. This process was exacerbated by the lack of an exit strategy in the original contract agreement.

The breakdown of the relationship also led to what the same two interviewees regarded as one of the greatest risks in the transition process; the fact that they were still reliant on VendorCo to deliver the IT operation until the transition was complete.

Although it would seem that the decision is no more important for outsourcing or back sourcing, it is the implications of the decision that are more significant when backsourcing, given the people and knowledge management issues identified within the case study.

For transition, there does appear to be a difference between outsourcing and backsourcing. For outsourcing, it is in the best interests of the outsourcing organisation to pass as many staff to the vendor as are required in order to maintain continuity of the service. However, the motivation for outsourcing in the first instance is often to take advantage of the suppliers superior technical knowledge, so the importance of staff being transferred to the vendor is diminished to an extent [9]. Within the case study, it was clear that VendorCo did not appear to have the same motivation to transfer key staff back to ClientCo. Whether this was because of a general desire to keep the best staff or was due to the relationship breakdown is not possible to say. Whitten & Wakefield [32] observed that one of the motives of an organisation to outsource was often to gain access to specialist skills and reduce their own level of IT staff.

Since many organizations that outsource systematically reduce the human resources needed to carry out those IT activities, hiring and retraining may represent large financial outlays. Companies that backsource cannot escape these potentially high economic expenses. [32: p 230]

When back sourcing, ClientCo had to go through a recruitment exercise to maintain the level of key skills. It was this issue that seemed to
illustrate that knowledge management and the retention of key personnel was more important in the backsourcing process that it would be for outsourcing.

The switch from monitoring IT performance to managing IT also triggered a recruitment process for ClientCo. This requirement to change management focus is not uncommon and has been highlighted in literature [7].

For the operation phase, it would appear that outsourcing and backsourcing are not dissimilar on first inspection. For both backsourcing and outsourcing it would appear that the first priority post-transition is to maintain the stability of the IT service and then progress within the framework of the organisation. For outsourcing, the requirements of the agreement are laid out within the contract agreement. For backsourcing, the objectives moving forward were not so clear.

As discussed earlier, one of the reasons given for backsourcing was that greater control of IT was required for the business recovery programme initiated by ClientCo. Looking at responses from the interviewees, the perception was that the newly integrated IT department was still seen as separate by the rest of the business. As stated by one interviewee, the business saw IT as a ‘black box’ post-transition, the same could be said for the IT view of the business. All interviewees expressed concern on the lack of integration back into the ‘business’, even after a year had elapsed.

From the interview responses it was clear that there were three main critical success factors; maximise the number of staff that transferred back, ensure that the IT service to the business was not impacted and meet the transfer date. All of these were achieved to a greater extent – the date was met and the service to the business was not impacted because the majority of the staff, around 95%, transferred back to ClientCo when a loss of around 20% of staff had been expected. As a result, the backsourcing decision and transition was seen as a success and that they did succeed in ‘changing the engine on a flying aeroplane’.

6. Conclusions

The purpose of the study was to explore the stages of a backsourcing process through the application of the IS/IT sourcing cycle, and compare and contrast these stages with the outsourcing process. Whitten & Leidner [31] carried out research on backsourcing but only for application development and stated, as part of their conclusion, that

...little empirical research exists that helps elucidate and understand the backsourcing decision. (p617)

Although Whitten & Leidner [31] used empirical research to look at the backsourcing decision, this research study looked at an organisation that had carried out backsourcing for the whole of IS/IT. As such, this case study provided an insight into the whole of the backsourcing process that had been lacking to date. The limitations of this case study precludes the possibility to create a framework of the backsourcing process for wider testing and application, as it appears that the circumstances in this case study were specific to the organisation; ClientCo were going through substantial business change that required a fresh approach to its IT sourcing requirements. More significantly, the CEO reached the conclusion that the outsourcing agreement did not meet the current and future needs of the organisation. This proved to be the main driver for the outsourcing review.

Once the decision to review had been taken, only renegotiation with the existing vendor or backsourcing were considered as options. Given the self contained nature of the IT unit, the backsourcing process was greatly simplified. But what if this had not been the case? Vendors often relocate IT hardware and staff to achieve economies of scale [17] and such a break-up would complicate any attempt to backsource.

From the analysis of this case study, it appears that further research is required specifically within other organisations that have chosen the backsourcing route, where the reasons for backsourcing were not so clear cut or where the IT department wasn’t such an autonomous unit within the vendor.

Veltri et al [30] and others acknowledged that their research only covered those backsourcing processes that were known to the media. One thing to note here is that all of the outsourcing agreements that were terminated and subject to backsourcing were all between 5 and 10 year agreements worth over $200 million [22]. This alone would make them ‘media-worthy’, but what about the smaller agreements and those that were not announced to a wider audience? Further research is therefore indicated into the extent of backsourcing within organisations.

Although backsourcing does not appear to be a simple case of ‘outsourcing in reverse’, this paper does highlight the apparent consistency between outsourcing and backsourcing as a process when applying the IS/IT Sourcing cycle.
7. References


[23] Overby, S. Backsourcing Pain. CIO Magazine, 1 September 2005


