July 2008

Understanding IT Backsourcing Decision

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Abstract

Even though outsourcing is a popular means of meeting internal IT needs, press reports and statistics suggest that the decision to backsource is becoming increasingly common. Some organizations backsource upon expiration of contracts; others terminate existing contracts to implement backsourcing. In both cases, organizations incur high rebuilding fees and expensive contract termination fees. Still, many choose to incur these expenses and undergo the trouble of internalizing the once-outsourced functions. This makes backsourcing decision an interesting strategic turnaround. A review of existing literature shows that backsourcing decision has received little attention. This paper examines factors that motivate the decision to backsource. Based on four case studies, contributing factors to backsourcing decision are compared and contrasted. The findings suggest that organizations backsource to correct existing problems and to harvest new business opportunities. Specifically, when outsourcing contracts fail to meet expectations, organizations backsource to rebuild internal IT capabilities. Organizations also backsource when changes occur to their strategic goals, organizational structure, and IT role. Changes from external business environment such as mergers and alliance formation also contribute to backsourcing decision.

Keywords: IT Backsourcing Decision, Expectation Gap, Harnessing Opportunities, Correcting Problems.

1 INTRODUCTION

Information Technology (IT) backsourcing is the strategy of bringing the once outsourced IT functions back into the organizations with the goal of rebuilding internal IT capabilities (Hirschheim & Lacity, 1998; Lacity & Willcocks, 2000; Whitten & Leidner, 2006; Wong, 2006). This strategy can be implemented following an expired or terminated contract. In both circumstances, organizations incur high expenses to reabsorb the outsourced functions back into the internal organizations. In the case of contract termination, organizations also have to incur costly termination fees. Farmers Group, for example, paid $4 million in cancellation fees and early termination penalties to extricate itself from its contract with Integrated Systems Solutions (Overby, 2003a). Similarly, Chase Manhattan Bank paid Fiserv $15 million to terminate its outsourcing contract (Lacity & Willcocks, 2001). These backsourcing expenses, as estimated by Gartner Group, range between 2% and 15% of the annual cost of a contract (Whitten & Leidner, 2006). IT backsourcing, therefore, is an expensive strategic turnaround.

Despite heavy penalties and potentially large reabsorbing and rebuilding fees, many organizations still choose to incur the expenses and undergo the trouble of internalizing the once-outsourced IT functions (Buxbaum, 2002). Among high profile backsourcing cases include Bank One that terminated its outsourcing agreements with IBM and AT&T and chose to hire more than 600 IT employees in an effort to shift away from outsourcing and rebuild internal IT capabilities (Mearian, 2001), Oxford Health that cancelled a five-year, $270-$330 million outsourcing deal with CSC less than two years into the arrangement (Rosencrance, 2002), and JP Morgan Chase that ended its seven year, $5 billion relationship with IBM only after 21 months (Thibodeau, 2006). Other reported cases of backsourcing include Prudential (Samuels, 2005b), Nissan North America Inc. (Thibodeau, 2006), McDermott International Inc. (Rosencrance, 2001), Ford Motor Co. (Eisenstein, 2003), Sears, Roebuck and Co. (Thibodeau, 2006), Washington Mutual (Overby, 2003a), Cable & Wireless (Samuels, 2005a), Metropolitan Pier and Exposition Authority (Overby, 2003a), Farmers Group (Overby, 2003a), Allstate Insurance (Melymuka, 2003), Allied Office Products (Overby, 2003b), and ABB Power (Hoffman, 1993).

The reported cases above indicates that a rather large number of organizations choose to backsource their IT functions. According to Deloitte Consulting, nearly two-thirds of organizations have already brought some forms of outsourced service back in-house (Samuels, 2005a). Gartner Group reported that 56% of small-sized business, and 42% of mid-sized business contracts are backsourced following contract discontinuance (Brown, 2004). Fitzgerald and Willcocks (1994) found that 22% of organizations that prematurely cancelled their contracts chose backsourcing while Lacity and Willcocks (2000) reported a higher backsourcing rate of 34%. According to a Compass poll of 70 outsourced US companies, only 4% would not consider taking some or all of their IT functions back in-house when their current outsourcing contracts expire (Fowler & Fox, 2006). All these reports and statistics reflect that backsourcing may become a key trend (Dibbern, Goles, Hirschheim, & Jayatilaka, 2004; Hirschheim & Lacity, 1998; Hirschheim & Lacity, 2000). Such possibility is echoed by a Meta Group report that predicts backsourcing to reach a total of 10% of the outsourcing market annually by 2007/2008 (Davison, Pattacini, Strichman, & Willis, 2003).

The backsourcing trend worries both parties of an outsourcing relationship – the organizations buying outsourcing services and the vendors selling outsourcing services. Organizations considering outsourcing may question the viability of the strategy. They want to understand why those that have experienced outsourcing choose to abandon the strategy and return back to the original internal IT sourcing strategy that they have previously forsaken. If the reasons that swing the outsourcing pendulum back towards internal provisioning of IT services are applicable to them, these organizations would want to reconsider their enthusiasm for outsourcing. For organizations that have already outsourced, understanding backsourcing decisions helps them to make better and more informed decision when reviewing outsourcing contracts. It also helps them to better respond to changes in

internal and external environments. As for vendors, the trend touches even closer to their heart as it impacts their livelihood. Vendors want to understand the reasons behind backsourcing so they can better formulate their future marketing and service strategies in an effort to attract new clients as well as retain existing clients. Therefore, an immediate and interesting question to address here would be "why organizations choose to backsource".

A review of the literature shows that even though outsourcing decision has been an important focus in information systems research and practice, the decision to backsource, however, has received little attention (Whitten & Leidner, 2006). Therefore, the goal of this paper is to examine the factors that motivate backsourcing decision, in part to answer calls for the investigation of the backsourcing phenomena (Dibbern et al., 2004; Lacity & Willcocks, 2000). The reminder of the paper is structured as follows. The next section concentrates on existing literature and press reports on backsourcing decision. The third section introduces the research approach, data collection, and analysis techniques. The fourth section is the main findings. The last section presents the implications of the findings as well as future research directions.

2   IT BACKSOURCING DECISION

IT backsourcing is the reversal of existing outsourcing strategy to return to the previously abandoned strategy of internal IT service provision. This turnaround in IT sourcing strategy is a decision organizations neither wish to make nor publish as it may reflect negatively on their previous judgment. Despite this fact, the number of organizations that choose backsourcing seems to be on the rise. Many reasons may lead organizations to bring the outsourced IT functions back in-house. Whitten and Leidner (2006) found that product quality, service quality, relationship quality, and switching costs are related to the decision to backsource application outsourcing. Falaleeva (2003) reported that costs, goal conflict, and opportunism influence backsourcing decision. According to McLaughlin and Peppard (2006), problems in outsourcing contract, perception of IT as a strategic tool, and changes in business environment including technology change and management change drive backsourcing decision. Table 1 summarizes some backsourcing cases reported in the press along with their cited reasons for backsourcing.

Just as outsourcing, backsourcing may differ in scale and complexity. It can range from bringing a single IT function such as helpdesk back into the organizations to a total backsourcing where organizations rebuild the entire IT department. The latter is much larger in scale and complex in nature.

3   RESEARCH APPROACH

The research approach adopted was an in-depth exploratory case study (Yin, 1994). This approach is suitable given the lack of research examining backsourcing practice in general and factors leading to backsourcing decision in particular. It is also an appropriate research strategy to define the early stages of understanding a topic area as well as theory development (Lee, 1989; Yin, 1994). Despite the lack of literature, the research was not approached without any prior understanding of IT sourcing decision. Rather, existing literature on outsourcing decision was studied to provide a basis for understanding backsourcing decision. In addition, press releases of backsourcing cases were examined to extract potential reasons that motivate IT backsourcing (see Table 1). These understandings guided the data collection and data analysis process.

3.1   Site/Participant Selection

The notion of 'theoretical sampling' was employed to identify potential participating organizations (Applegate, 1994; Glaser & Strauss, 1967). Since the research objective is to understand the factors that contribute to backsourcing decision, all four participating organizations (1) had experienced IT outsourcing, and (2) have internalized (or are in the process of internalizing) the outsourced IT

functions. Also, as IT sourcing strategy is a high level decision made at top management level, only decision-makers responsible for establishing strategic IT directions and hence IT sourcing strategy participated in the interviews. Table 2 shows the profiles of the participating organizations.

| Organization | Vendor | Contract | | | Cited Reasons for Backsourcing |
		Value	Length	Backsourced after (years)	
AA	IBM	£55 m	7	3	Cost issue
Bank One	IBM and AT&T	$1.4 b	6	<3	New management; Change in IT role; Cost issue; Loss of control
Farmers Group	IBM	$150 m	10	8	New management; Acquisition; Cost issue; Know-how mismatch
JP Morgan Chase	IBM	$5 b	7	2	New management; Merger; Loss of Control; Know-how mismatch
McDermott	AT&T	$600 m	10	2	New management; Service quality issue
Lehman Brothers	Wipro	$100 m	Multi-year	1	Service quality issue
MONY	CSC	$210 m	7	3	Dispute after CSC's acquisition of another company; Loss of control
MPEA	Redsky Technologies	Unknown	3	3	New management; Change in IT role; Service quality issue; Know-how mismatch
Oxford Health	CSC	$270 m-$330 m	5	$1\frac{1}{2}$	Change in strategic direction; Change in IT role; Cost issue; Loss of control
PacifiCare Health Systems	Keane	$500 m	10	4	Acquisition
Prudential	Capgemini	£55 m	5	5	Change in IT role; Cost issue
UMass Memorial Health Care	First Consulting Group	$102 m	7	3	Change in IT role
Washington Mutual	IBM	$553 m	10	5	New management; Change in IT role; Service quality issue

Table 1.   Examples of Backsourcing Cases

Company	Sector	Revenue*	Number of Employees*	Participants
Alpha	Service	~ 2.29B	> 20,000	• Managing director of IT • Director of IT operations • 2 Senior IT managers
Beta	Higher Education (private)	~ £100 million	700	• Dean of Technology • CIO
Gamma	Government	~ $300 million	650	• CIO • Director of IT – Infrastructure
Kappa	Consumer Goods	172.46B	26,000	• Senior Director of IT Management • Senior IT manager

* Figure as of 2007.

Table 2.   Profiles of the Participating Companies.

3.2 Data Collection and Analysis

The data collection took place between 2004 and 2005. A total of 16 interviews were conducted with ten senior IT managers. The interviews, in the format of both unstructured and semi-structured, had an average duration of 90 minutes. The main questions of the interviews were oriented around previous outsourcing decision, current backsourcing decision, and the factors that lead to backsourcing decision. All interviews were tape-recorded and transcribed.

The analysis of data was conducted in three steps. The first step consisted of organizing and classifying interview transcripts using Atlas.ti[1]. The goal was to have an initial overall impression of the data. These transcripts were classified according to participating organizations.

The second step consisted of coding the transcripts. The initial guiding set of codes originated from literature review and press releases on factors motivating backsourcing decision. Table 3 shows the coding category and its descriptions. The coding process began with the researchers reading through the transcripts and deciding to which of the motivating factor code the text was to be coded. In cases where the text could not be matched with any of the existing code, a new factor code was added. This iterative process of going back and forth from the motivating factor codes to the data continued until all transcripts have been coded. The iterative process ensured that the interpretations reached corresponded to the initial descriptions shown in Table 3 (Eisenhardt, 1989). Once coding of all the transcripts was finished, a table for each of the motivating factors and its associated quotes from each organization was produced.

Coding Category		Descriptions
Outsourcing expectation gaps	Cost	Any mention of costs (e.g., cost escalation, non-competitive cost structure, etc)
	Service quality	Any mention of service quality issues (e.g., inefficiency, slow services, unsatisfactory performance, etc).
	Loss of control	Any mention of control loss (e.g., inability to control vendors, loss control of IT processes, loss of flexibility, etc)
	Knowledge mismatch	Any mention of vendor's failure to maintain expertise in the outsourced area or incompetency in providing the services
	No access to state-of-the-art latest technology	Any mention of the stage of the technology provided by vendor, the architecture, the infrastructure, etc
Internal organizational changes	New management	Any mention of new people joining the top management group for strategic decision making (e.g., new CIO, directors of IT, CFO, CEO, etc)
	Changes in strategic directions	Any mention of the changes in organizational strategic directions (e.g., focus on growth, focus on expansion, downsizing, etc)
	Changes in IT role	Any mention of the changes in IT role (e.g., IT as a cost center, IT as a strategic tool, etc)
External environmental changes	Changes in the external environment	Any mention of the changes in the industrial structure (e.g., increasing competition, acquisition, merger, alliance, new governmental policies, etc)

Table 3.   Coding Categories.

The third step consisted of interpreting the data. Again, an iterative process was used to examine (1) the relationships between each factor and backsourcing decision, and (2) the relationships among the factors. To validate the interpretation reached and to ensure that all factors motivating backsourcing decision in each participating organization was captured, a narrative of the case as well as the corresponding interpretation was shown to each participant organization for feedbacks. Then, all

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[1] Atlas.ti is a specialized software package for the analysis of qualitative data.

interpretations were collate together to form syntheses of the interpretations. Reflections resulting from this process are reported in the last section of this paper.

4 FINDINGS

This section presents the results of the interpretation of the cases. Table 4 shows the evolution of IT sourcing strategy in each organization and the factors that lead to backsourcing decision. These factors corresponded to the coding categories identified in Table 3. The following discusses how each group contributes to backsourcing decision.

| Company | Evolution of IT Sourcing Strategy | Factors Motivating Backsourcing Decision | | |
		Outsourcing expectation gaps	Internal organizational changes	External environmental changes
Alpha	Total outsourcing → total backsourcing with a planned offshore outsourcing	Cost; Service quality; Loss of flexibility; No access to state-of-the-art technology	Changes in strategic directions; New management	
Beta	Total outsourcing → selective outsourcing → backsourcing	Loss of flexibility	Changes in strategic directions; Changes in IT role	Formed an alliance with another organization
Gamma	Selective outsourcing → backsourcing	Know-how mismatch; No access to state-of-the-art technology	New management; Changes in IT role	
Kappa	Selective outsourcing → selective backsourcing → total backsourcing		New management	

Table 4.   IT Backsourcing Drivers.

4.1   Outsourcing Expectation Gaps

Outsourcing expectation is organizations' beliefs about what vendors will and should provide them should they engaged in an outsourcing relationship (Lacity, Hirschheim, & Willcocks, 1994). Generally, these expectations are formed as a result of press publications that continuously advocate the benefits of IT outsourcing. In many organizations, outsourcing is even considered the 'silver bullet' that solve all problems (Hirschheim & Lacity, 2000; Lacity & Hirschheim, 1993). Consequently, many organizations leap into outsourcing expecting to save cost, have better service quality, and have access to latest technology and highly skilled personnel (Chapman & Andrade, 1998; Hirschheim & Lacity, 2000). The account from Alpha shows the level of expectations management had towards outsourcing vendors,

> "The attitude of the management back in then was 'we are tired of messing with these IT stuffs. Lets just give it to someone who knows what they are doing. We would just give it to VENDOR and they would take care of us because they are very respectable organization', and they just handed it to VENDOR…[So the idea of outsourcing was to] get rid of the problem."

As organizations venture into their outsourcing relationships, they realize that their outsourcing expectation is more of a myth than a reality (Hirschheim & Lacity, 1998; Lacity & Hirschheim, 1993). Their experience failed to measure up to their expectations (Hirschheim & Lacity, 1998; Hirschheim & Lacity, 2000). This creates an expectation gap that leads organizations to rethink their outsourcing strategy and in many cases to bring the outsourced functions back in-house. Beta explains,

"It was difficult, partially because the expectation was initially really high. Keep in mind, the initial expectation was here's VENDOR, a big global American company, they will come, solve all our problems for us. When that did not happen, people started getting dissolutions, so there was the problem of high expectations."

Table 5 presents quotes from the participating organizations reflecting their initial outsourcing expectations and actual outsourcing experiences. In Alpha and Beta, it was the expectation gap that led to backsourcing decision.

4.2 Internal Organizational Changes

4.2.1 New Management

Top management plays important roles in initiating, formulating and implementing strategic change within organizations (Bigley & Wiersema, 2002; Child, 1997). They bring with them different characteristics such as experiences, educational backgrounds, philosophies, beliefs, values, and knowledge that will impact their decision making (Armstrong & Sambamurthy, 1999; Bigley & Wiersema, 2002; Geletkanycz & Hambrick, 1997). Such impact is often reflected in strategic change within organizations (Boeker, 1997; Westphal & Fredrickson, 2001).

When new IT executives join the organizations, they evaluate the existing IT environment and strategy. If the existing IT sourcing strategy does not conform to their philosophy, there is high likelihood that they will initiate changes. This is the case in Gamma. The new CIO's prior experience informed her that 'commodity IT functions should be outsourced' while "strategic IT functions should remain in-house". When she realized that Gamma outsourced IT function that was strategic to the organization, she initiated the effort of bringing the function back into the control of the internal IT department.

"Previously, before I came here and became the CIO, I was deputy CIO of [a city], and I ran computer operations – the desktop and the mainframes. While I was there, we outsourced both projects. So, I was very familiar with sourcing, and sourcing strategies. When you run a particular operation or process, if it isn't part of your long term strategy or strategic importance, and you don't have the necessary resources to do a fine job of it, then it becomes a perfect opportunity for outsourcing. In this case here, as I came onboard as CIO, I look at the outsourced project and saw that it's different from what I had seen in the [city] and this was a perfect opportunity to take back the project that will bring us strategic value and can be part of our long-term business plan. So the sourcing arrangement here went the opposite way of our consideration for sourcing at the [city]." (Gamma)

Similarly, in Alpha, the new Managing Director of IT did not believe in "pure outsourcing model". To him, a well-managed internal IT department will always function better than any external vendor. He also believed that internal IT employees will have different psychologies and attitudes towards their jobs. They will be more loyal, have the organization interest in mind, and have more ownership pride towards the end products. Thus, they will work harder and are more focused on their jobs. With all these in mind, he and the IT team initiated the backsourcing process. The Managing Director of IT comments,

"I think I would have done it (i.e., backsourcing) anyway. But cost was the excuse we use…Outsourcing was a wrong solution to where we were headed…So the word outsourcing to me and I think the word in the industry that is wrong is that outsourcing means you go find the vendor that can take care of all your problems. I don't know that, really. I do not believe in pure outsourcing model. In my view, I am yet to see an outsourcing situation that I thought was done better than a well managed IT shop could do for itself. I have seen several attempts with that being the reason, but I have never seen it occurred yet. It may be out there some place, but all that say

to me is if you did that, your IT staff is not competent. That is my personal view. I always feel like if you have a good, dedicated internal team, they will do the job better than any guy you hired to come in." (Alpha)

	Initial Outsourcing Expectations	**Actual Outsourcing Experiences**
Cost	"…the perception was they [VENDOR] would be cheaper." (Alpha)	"Their rate structures were higher than the markets. We had an arcade system by the latter part of 90s… VENDOR was charging us $5m to run an AS400 system. We bought it, and they charged us $5m to run it. It is an exuberant price… We didn't think it is worth $5m dollars" (Alpha)
Service quality	"…'we are tired of messing with these IT stuffs, lets just give it to someone who knows what they are doing…we won't want these mainframes, we don't want these IT guys, we would just give it to [vendor] and they would take care of us because they are very respectable organization'…" (Alpha)	"[unexpected service outages or break down] happened more often than they should have in our environment. We had an AS400 operation that was under VENDOR in [a US city]. Once a quarter, we would have an unexpected outrage…There are a lot of complaints about their services. In a couple of areas, VENDOR was felling very miserably in…[So,] People here were discontent with the service and wanted better service and VENDOR was unable to provide that better service without increasing costs." (Alpha)
Loss of control - flexibility		"The contract that we had within them was structured in such a way that did not give us the flexibility that we wanted…" (Alpha) "…with VENDOR, it's very rigid. We haven't actually foreseeing all the projects, and it created problems…We have a lot of new projects and we didn't have the flexibility to be able to adjust the contract flexibly." (Beta)
Knowledge mismatch		"When a convention comes in to the show floor, we would need to help them to strategize where equipments need to be put to be able to connect to the Internet, which specific area on the show floor or specific meeting room to put the equipment…In the past they used to build network and tear them down at the end of the show and then build them again for new shows because they have new requirements. Then take it down again and continually engineer a network based on the requirements of the incoming show, and based on the specific equipments that they had." (Gamma)
Access to state-of-art technology		"The whole architecture was arcade…A lot of stovepipes…The outsourcers didn't try to bring the company forward, they didn't view that is their job." (Alpha) "The equipment [VENDOR used] was relatively outdated, older. A lot of the systems were truly dispersed systems. They were silos, they were almost stand alones, with little capability of acting and interacting with other processes." (Gamma)

Table 5.   Outsourcing Expectation Gaps.

In Kappa, the decision to change from an outsourcing model to an internal service provision model was also made when the new CIO joined the organization.

> "As [the new CIO] joined [Kappa], he quickly realized that we needed to improve our technical depth in-house, and so he shifted the model from more of an external focused [i.e., outsourcing] to more of an internal focused [i.e., in-house services]. And that's the area that we are truly working on now [which is] improving our deep technical knowledge throughout the IT discipline." (Kappa)

Backsourcing decision may also be indirectly initiated by executives other than IT. For example, organizations may purposely bring in a CIO who believes in internal provisioning of IT to help kick-start the backsourcing process. In fact, the new CFO of Alpha hired its Managing Director of IT with that in mind and allowed the Managing Director of IT to bring with him the entire IT management team that believed in having internal IT capabilities.

4.2.2 Changes in Strategic Directions

Changes in strategic business direction (i.e., business strategy) have impacts on IT sourcing strategy (Hirschheim & Sabherwal, 2001). This link between business strategy and IT sourcing strategy is established in the outsourcing literature where organizations outsource their IT to 'return to core competencies' (Lacity & Willcocks, 2001; McFarlan & Nolan, 1995). Similarly, new business strategies such as market expansion or downsizing may trigger the decision to backsource IT functions. Prior to backsourcing, Beta was in the process of pursuing an expansion/growth strategy and was moving rigorously to setup up campuses in different parts of the world and formed alliances with different universities. It also expanded its services. It setup an online learning system to deliver education over the Internet and launched new programs targeting varieties of communities. Soon, Beta found itself in need of reliable and competent IT services to support the expansion strategy. Its existing outsourcing contract could no longer accommodate its needs in a cost effective and efficient manner.

> "…We are opening a new campus in [an Asian country]. We formed a new alliance with [a university] in US…Technology was very heavily involved in opening up the campus, in setting up new infrastructure, in connecting all campuses…There are a lot of small or big projects coming up that we are unplanned for before…So even though the relationship with VENDOR was actually quite good and it helped us a lot, at some stage, for real flexibility and to be able to support future expansion, we decide to re-insource back IT." (Beta)

While Beta was expanding its business, Alpha was trying to consolidate its business. Facing financial trouble, Alpha switched from the previous "expansion through acquisition" strategy to "consolidation" strategy. This new strategy focused on cutting operating cost and improving efficiency within the organization. Since the costs of IT had sky-rocketed and the efficiency level of IT had dropped significantly under the management of its vendor, Alpha chose backsourcing to restructure the entire IT department.

4.2.3 Changes in IT Role

Changes in the role of IT from a "commodity" to a "strategic tool" may motivate organizations to bring IT functions back in-house. This change put IT in a new light. With the management carrying the perception of "outsource commodities and insource strategic component" (Dibbern et al., 2004), it is not surprising to see organizations adjust their sourcing strategy once they recognize the importance of IT. This was exactly what happened in Beta. When Beta moved to its expansion strategy, it realized the importance of IT to its success. The appointment of the first Dean of Technology was an indication that IT was starting to be accepted as a strategic tool.

"…Suddenly technology started being taken more seriously, so I was appointed as Dean of Technology. That was quite unusual, there was no faculty oversight of the technology function before, so for the first time, there was faculty oversight of the technology function, the faculty became part of the executive committee covering the school, had a formal deanship in the school, and so officially the school started focusing the technology as a strategic tool…" (Beta)

5 IMPLICATIONS

This paper examined the factors that motivate backsourcing decision. The research findings suggest that organizations backsource not only to correct existing problems but also to harvest emerging business opportunities. Specifically, when outsourcing contracts fail to meet expectations, it is natural that organizations response by changing their existing contracts. It is interesting, however, to see they choose the backsourcing option to return to the initial IT sourcing arrangement they have previously abandoned. The failure of vendors in meeting outsourcing expectations shows that this strategy may not the "silver bullet" as hoped by senior management. Changes to the internal organizational structure such as new management joining the organizations or recognition of the strategic role of IT may also lead organizations to bring IT functions back in-house. Furthermore, when opportunities arise, organizations again choose backsourcing to have internal IT capabilities supporting necessary changes. Even though the effect of external environmental changes on backsourcing decision is not evident from the case studies presented here, these changes should not be neglected. In fact, press reports of backsourcing organizations show that external environment change is an important factor that triggers backsourcing decision in some organizations (see Table 1). Examples of these changes include mergers, acquisitions, increased competition, new customer demands, etc.

There is seldom just one factor that motivates organizations to bring the outsourced IT functions back in-house. Rather, several factors usually come together to contribute to backsourcing decision. That was the case in three of the participating organizations. Nonetheless, there may be one primary factor that is more important than another, and that creates a chain reaction linking the rest of the factors. Alpha is a good example of this. In Alpha, changes in the industrial composition significantly increased the cost of its "expansion through acquisition" strategy. To bail itself out of financial trouble, Alpha switched to a consolidation mode which focused on reducing cost and improving efficiency. Since the cost of the outsourcing contract was escalating, it was the first on the chopping board. As there was no internal IT team, the CFO hired a new Managing Director of IT who believed in internal provisioning of IT services. It was the Managing Director of IT and his team who implemented backsourcing. Meanwhile, in Beta, the primary factor is the change in strategic business direction.

Backsourcing may give the general impression that previous outsourcing strategy must have failed. This may not be the case in all organizations. Some organizations do face problems of vendors failing to meet expectations or requirements in Service Level Agreements (SLAs). Such was the case especially in Alpha, where backsourcing was implemented to correct problems with outsourcing. In other organizations such as Beta, it was changes in internal and external environment that triggered backsourcing decision. When Beta saw opportunities to expand its presence to Asia and formed a new alliance with another organization, it backsourced as it realized that it would need support of strong internal IT capabilities.

Whether backsourcing decision is made to correct problems with existing outsourcing contracts or to harness emerging business opportunities, organizations could minimize its impact by having comprehensive contracts and SLAs when forming outsourcing relationships. These agreements should include information such as performance requirements, working and reporting procedures, and non-performance penalties. The agreements should also include termination clauses that detail issues related to the cancelling of outsourcing relationships. Alpha was a good example of this. Its original contract did not allow any room to maneuver until after the termination date. This factor along with

the need to ensure service continuity led Alpha to extend the original contract for an additional year. In this contract extension, Alpha built-in clauses that allowed it to reabsorb each IT function at its convenience without affecting the entire contract. Building in flexibility into the extending contract was one factor that contributed to successful backsourcing implementation in Alpha. Having comprehensive contracts and SLAs will protect both vendors and clients should dispute arise.

The research findings in this study are of value to both organizations and vendors. To organizations considering outsourcing, understanding of the factors that contribute to backsourcing decision help them to examine even more carefully the suitability of an outsourcing arrangement to their organizations. It also reminds them to build clearer clauses into SLAs should they choose to continue with outsourcing. For vendors, understanding of the factors that lead to backsourcing decision can help them to better formulate their future marketing and service strategies in an effort to attract new clients as well as retain existing clients.

What we learned here represents the first step towards understanding the phenomena of backsourcing. Since the number of organizations that backsource is on the rise, it is important to know the types of strategy organizations could employ to ensure successful implementation of backsourcing. The implementation plan should include both the process of transitioning from vendors to internal IT departments and the capability of internal IT departments to function optimally after the transitioning period. Furthermore, future research could examine how organizations should structure their contracts and SLAs to minimize the impacts of backsourcing. It would also be interesting to know how would knowledge of factors leading to backsourcing decision influence organizations' intention to outsource.

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