Information Systems Backsourcing:

Correcting Problems and Responding to Opportunities

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Not unlike a wedding day, the day that an outsourcing agreement is inked is marked by a certain pride of accomplishment and a promise for an enduring relationship. Yet, this exuberance is tinged with uncertainty as to what the future may bring. Some relationships grow and flourish, with each side nurturing the other. Others don't last. The relationship continues as long as there is a mutually agreed-upon equilibrium. However, when this balance is disturbed—whether by not meeting each others' expectations, by one party deciding it no longer desires to remain in the contract, or by external factors that signal promising opportunities for one or both parties outside the relationship—equilibrium can be lost and the relationship may end.

In the summer of 2004, JP Morgan Chase learned that it can be painful to end an outsourcing relationship. It announced the termination of its information systems (IS) outsourcing contract with IBM and the subsequent backsourcing of all outsourced IS activities. It came only 21 months after JP Morgan Chase signed this $5 billion, 7-year megadeal amid huge fanfare as the largest outsourcing contract at the time. Interestingly enough, publicized reasons for backsourcing were almost identical to the initial outsourcing reasons: to accelerate innovation and become more efficient. Yet, backsourcing proved to be an expensive and difficult move. Chase had to reorganize twice, first for outsourcing and then for its reversal. Backsourcing called for reestablishment of IS systems, staff, and operating procedures that were jettisoned with outsourcing. The initial outsourcing impeded IS innovation and efficiency and left JP Morgan Chase with stagnated technology and backlogged IS projects. Consequently, backsourcing was a necessary move.[1]

Backsourcing

Information systems backsourcing is a business practice in which a company takes back in-house assets, activities, and skills that are part of its information systems operations and were previously outsourced to one or more outside IS providers.[2] A growing number of companies such as Continental Airlines, Farmers Group, Washington Mutual, and Xerox have brought their outsourced IS functions back in-house. Depending on the circumstances, companies may undergo partial or complete reversal of an outsourcing contract. Backsourcing, as the term implies, follows the initial outsourcing arrangement, and can be a result of an expired, renegotiated, or terminated outsourcing contract.

The global outsourcing market has been growing steadily from revenues of U.S. $9 billion in 1990[3] to U.S. $256 billion in 2008.[4] Companies of all sizes pursue outsourcing arrangements, and many multimillion deals have been widely publicized. However, a recent study by Deloitte Consulting reported that 70% of outsourcing clients had negative experiences with outsourcing and 25% of outsourcing clients brought originally outsourced services back in-house.[5] An even more recent Compass poll of 70 North American companies found that only 4% would not consider backsourcing when their current outsourcing contracts expired.[6] On the academic side, Dibbern et al. performed an extensive review of the outsourcing literature and suggested that backsourcing may become a key trend.[7] Given the size of the current outsourcing contracts and the likelihood that there will be new business opportunities or serious problems with the contract, client companies need to prepare for the possibility of backsourcing.

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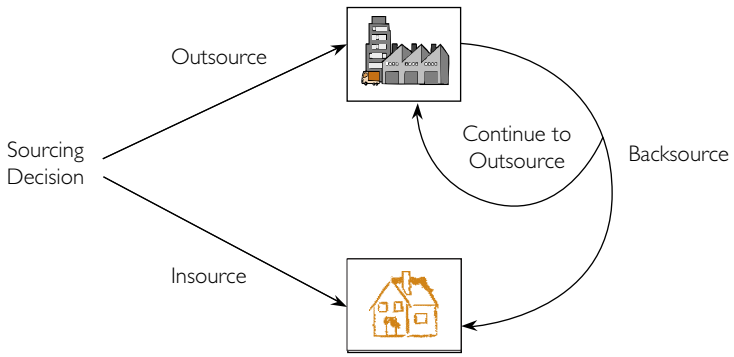
The term backsourcing was originally introduced in 1998,[8] and since then there have been only a few studies of backsourcing. This article is part of a larger study of the IS backsourcing phenomenon that the authors have been pursuing for the past 6 years, and it is based on original data as well as published testimonies of backsourcing in the academic and popular press. We focus on two major types of reasons for ending an outsourcing arrangement: problems that cannot be resolved and new opportunities. Our backsourcing research builds on extensive outsourcing literature and several studies of backsourcing. Our goal is sensitizing readers about different reasons for backsourcing and issues related to transitioning the IS products and services back in-house.

Reasons for Backsourcing

Backsourcing is part of the larger set of sourcing decisions illustrated in Figure 1. The first sourcing decision is the original make-or-buy decision. In

FIGURE 1. Sourcing Process



cases where the "buy" option was selected and the company outsourced, the client company periodically evaluates the outsourcing arrangement. When the client company reaches a re-evaluation point, it must select among a number of alternatives: to continue outsourcing with its current provider or with another provider, or to backsource.

The earliest academic literature on backsourcing suggests that it can be motivated by a change in circumstances, redefinition of the character of outsourced service, or discovery of flaws in the initial assessment that led to outsourcing.[9] It was theorized that similar to outsourcing, cost considerations are key in backsourcing decisions, and one empirical study showed the importance of cost in backsourcing.[10] Relationship considerations such as quality of the relationship and service and product quality are also considered to be critical. A survey of companies that backsourced, switched vendors, or continued outsourcing showed that those that backsource experience lower service and product quality than the ones that switch vendors or continue outsourcing.[11] A recent exploratory study proposed that backsourcing could result from problems in the contract or failure to achieve specific objectives, a desire to regain control when IT is perceived as strategic, and business environment, technology, or management changes.[12]

Thus, it seems that backsourcing results from problems with the outsourcing arrangement or from opportunities arising from changes in the business situation. The previous empirical studies of backsourcing focused mostly on problems with the existing outsourcing. Problems with outsourcing arrangements occur when the contract does not live up to the client's original expectations because the provider is unwilling or unable to perform as expected. Higher than expected costs, poor service quality, loss of control, or incompetent providers could cause dissatisfaction. However, companies also backsource when the outsourcing relationship is satisfactory. Internal or external business changes create opportunities where backsourcing becomes more attractive. Internal

TABLE 1. Summary of Reasons for Backsourcing

Problem: Contract Problems	Opportunity: Internal Organizational Changes	Opportunity: External Environmental Changes
Higher than Expected Costs	Changes in Executive Management	External Business Changes
Poor Service Quality	Recognition of a New Role for IS	Pressures from Outside
Loss of Control over Outsourced Services		
Know-How Mismatch		

organizational changes redefine corporate strategy and reposition the company to better address the needs of its customers. They include changes in executive management and recognition of a new role for IS. External environmental changes can result from external business changes or outside pressures.

The three major reasons for backsourcing are thus: outsourcing contract problems, opportunities arising from internal organizational changes, and opportunities arising from external environmental changes. Table 1 summarizes eight examples of these reasons which are then demonstrated in the reported backsourcing cases in Table 2 and our research findings. Our methodology for generating the data in Table 2 is described in the Appendix.

Contract Problems

Higher than Expected Costs

Economic considerations traditionally play an important role in make-or-buy decision making, including IS sourcing decisions.[13] Ten backsourcing cases that we analyzed (Table 2) reported excessive outsourcing costs as a reason for backsourcing. Outsourcing providers can achieve cost savings for their clients in several ways. By offering standardized services and products to multiple clients, outsourcing providers generate economies of scale. Because of economies of scale, outsourcing providers may be more effective at negotiating bulk purchases, leasing arrangements and software licenses. Providers can be more aggressive in their use of low-cost labor pools, more realistic and creative in the structuring of leases, and better at enforcing tighter overhead cost control than their clients. They also may be more capable of managing excess hardware capacity, since the capacity can be used across a number of clients.

However, outsourcing cost savings are often overestimated. When original expectations of economic efficiency do not materialize from the outsourcing contracts, the client companies turn to backsourcing for cost savings. For instance, Farmers Group terminated its 10-year U.S. $150 million contract

TABLE 2. Examples of Backsourcing

Outsourcing Client	Outsourcing Provider	Contract Dates	Contract Amount
ABB Power[a]	Sungard Recovery Services	1988-1991	$840,000 annually
Amtrak Express Parcels, UK[b]	Unknown	-2003	Unknown
Bank One[c]	IBM AT&T Solutions	1998-2002	$1.4 billion $420 million
Bedfordshire County Council, UK[d]	Hyder Business Services	2001-2005	£260 million
Cable & Wireless, U.K.[e]	IBM	1998-2003	£1.8 billion
Continental AirlinIles[f]	EDS	1991- 1995	$2.1 billion
Deloitte & Touche LLP[g]			£2.2 million annually
East Midlands Electricity[h]	Perot Systems	1992- 1999	$230 million
Eckerd[i]	IBM Global Services	1993-2000	$440 million
Farmers Group[j]	Integrated Systems Solutions	1992-2000	$150 million
Gateway[k]	Affiliated Computer Services	2003-2004	$400 million
Halifax Bank of Scotland[l]	IBM Xansa	2000-2002 1998-2002	$1 billion
J.P. Morgan[m]	IBM	2002 -2004	$5 billion
Kana[n]	IBM Global Service India	2003-2006	Unknown
Karolinska Hospital in Stockholm[o]	Multiple Providers	-2002	Unknown

a. Thomas Hoffman, "'In' Sourcing Saves Utility $600,000," *Computerworld*, May 17, 1993, pp. 65-66.

b. Andy McCue, "CIO Jury: In-Sourcing—The New Outsourcing?" *Silicon.com*, February 2, 2006, <www.silicon.com/ciojury/0,3800003161,39156138,00.htm>.

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d. Tom Rowland, "Cash-Saving Benefits of Outsourcing Take a Dent—Focus Report," *The Times* (London, England), February 21, 2006, p. 58.

e. Mark Samuels, "Could the End Be Nigh for Outsourcing?" *Computing*, November 10 2005, <www.vnunet.com/computing/comment/2145835/nigh-outsourcing>.

f. Peter Buxbaum, "Bringing IT Back Home," Computerworld (2002), p. 38; Neils Christensen and Keri Pearlson, "Continental Airlines: Outsourcing IT to Support Business Transformation," University of Texas at Austin, Graduate School of Business case, 1996.

g. "Bring it Back Again," SharedXpertiseForums, <www.sharedxpertise.com/file/2264/bring-it-back-again-less-outsourcing-more-in-house.html>, accessed January 30, 2008.

h. David F. Feeny and Leslie P. Willcocks, "Core IS Capabilities for Exploiting Information Technology," *Sloan Management Review*, 39/3 (Spring 1998): 9-21; Thomas Kern and Leslie P. Willcocks. *The Relationship Advantage: Information Technologies, Sourcing, and Management* (Oxford: Oxford University Press, 2001).

Reasons for Backsourcing						
Contract Problems				Opportunities from Internal Changes		Opportunities from External Changes
Excessive Costs	Poor Service	Loss of Control	Know-How Mismatch	New Executive	IS Role Change	Business Changes
X				X		
X		X		X		
X		X		X	X	
	X					
		X		X		
	X		X	X	X	
X						
				X	X	X
X				X	X	X
X			X	X		X
				X	X	X
					X	X
		X	X	X		X
	X	X		X		
		X				

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i. Edward Cone, "The Competitor Next Door," *Baseline*, June 1, 2003, <www.baselinemag.com/c/a/Projects-Supply-Chain/The-Competitor-Next-Door/>.

j. Stephanie Overby, "Walk Like an Outsourcer," *CIO*, March 1, 2003.

k. "ACS Awarded Multi-Services BPO Contract With Gateway," *ACS Investor Relations*, 2003, <http://phx.corporate-ir.net/phoenix.zhtml?c=99443&p=irol-newsArticle&ID=614875&highlight=>, accessed May 21, 2007; "Affiliated Computer Says Gateway Ends Contract," *USA Today* (New York), Money, May 17, 2004, <www.usatoday.com/money/industries/technology/2004-05-17-gateway-dumps-acs_x.htm?POE=MONISVA>.

l. Sue Bushell, "Inside Moves," *CIO*, April 11, 2003; John Lewell, "Bank of Scotland, IBM Sign $Billion IT Deal," *InternetNews.com*, June 29, 2000, <www.internetnews.com/bus-news/article.php/405141>; Antony Savvas, "HBOS Bucks Bank Outsourcing Trend by Bringing IT Back In-House," *ComputerWeekly*, June 24, 2002, <www.computerweekly.com/SiteMapArticle/Articles/2002/06/24/c1035090/187951/HBOSbucksbankoutsourcingtrendbybringingITbackin-house.htm>.

m. Johnson, op. cit.; Gretchen Morgenson, "I.B.M. Shrugs Off Loss of a Service Contract It Once Flaunted," *New York Times*, September 16, 2004; Stephanie Overby, "Backsourcing Pain," CIO, November 10, 2005.

n. Ephraim Schwartz, "Bringing Software Development Back In-House," *InfoWorld*, February 7, 2006.

o. "Bring it Back Again," op. cit.

TABLE 2. Examples of Backsourcing *(continued)*

Outsourcing Client	Outsourcing Provider	Contract Dates	Contract Amount
Lehman Brothers[p]	Wipro (India)	2002 -2003	$100 million
Littlewoods Bet Direct[q]	Vertex	1998 -2004	Unknown
LSI Logic Corp[r]	IBM Global Services	1995-1997	Unknown
MLC, Australia[s]	IBM Global Services (Australia)	1986-1990	Unknown
MONY[t]	CSC	1994-1997	$210 million
MPEA Chicago[u]	RedSky	1998-2001	Unknown
New York Presbyterian Hospital[v]	First Consulting Group	2000-2005	$228 million
Oxford Health Plans[w]	CSC	2000- 2002	$195 million
PacifiCare Health Systems[x]	Keane Inc.	2002-2006	$500 million
Prudential[y]	Capgemini	2001-2006	£55 million
Sainsbury, U.K.[z]	Accenture	2000-2005	£2.1 billion
Sears, U.K.[aa]	Andersen Consulting	1996-1997	£344 million
Sears Holding Corp.[bb]	CSC	2004-2005	$1.6 billion
Suncorp Group, Australia[cc]	CSC	2001-2002	Unknown
UBS[dd]	Perot Systems	1996-2006	$1.8 billion
UMass Memorial Health Care[ee]	First Consulting Group	2002-2005	$102 million
Washington Mutual[ff]	IBM Global Services	1996-2002	$533 million
Xerox[gg]	EDS	1994-1998	$3.2 billion

p. Samad Masood, "Unsure Offshore," *Computer Business Review*, March 1, 2004.

q. "All Bets on Call Centre," *Bristol Evening Post* (Bristol, England), December 9, 2004.

r. Bruce Caldwell and Marianne Kolbasuk McGee, "Outsourcing Backlash," *Information Week*, September 29, 1997; Mary C. Lacity and Leslie P. Willcocks, *Global Information Technology Outsourcing: In Search of Business Advantage* (Chichester, England: John Wiley & Sons, 2001).

s. Lacity and Willcocks (2001), op. cit.

t. Caldwell and McGee, op. cit.

u. Stephanie Overby, "The Vendor Strikes Back," *CIO*, March 1, 2003.

v. "Consultant, Big IDN Try a New Balancing Act—New York-Presbyterian Hospital, First Consulting Group Inc.—Industry Trend or Event," *Health Management Technology*, January 2000, <http://findarticles.com/p/articles/mi_m0DUD/is_1_21/ai_58724805>.

w. Bushell, op. cit.

x. "Keane, PacifiCare Cancel Outsourcing Contract," *Boston Business Journal, January 27, 2006, <www.bizjournals.com/boston/stories/2006/01/23/daily46.html>.*

y. *Mark Samuels, "Prudential Sets the Benchmark for Outsourcing Plans,"* Computing, March 31, 2005, <www.vnunet.com/2076043>; Andy McCue, "Prudential Targets £25m Per Year IT Savings," *Silicon.com*, October 27, 2005, <www.silicon.com/financialservices/0,3800010322,39153714,00.htm>.

Reasons for Backsourcing						
Contract Problems				Opportunities from Internal Changes		Opportunities from External Changes
Excessive Costs	Poor Service	Loss of Control	Know-How Mismatch	New Executive	IS Role Change	Business Changes
	X					
X	X					
X		X				
		X				
		X				
			X	X	X	
					X	
X		X				
						X
X					X	
		X			X	
					X	
	X		X	X	X	X
		X				X
					X	
					X	
	X			X	X	
	X					

z. "IT Outsourcing Fails to Stack up for Retailer," *Personnel Today*, November 8, 2005, p. 4, <www.personneltoday.com/Articles/2005/11/08/32455/IT+outsourcing+fails+to+stack+up+for+retailer.htm>.

aa. Lacity and Willcocks (2001), op. cit; Mary C. Lacity and Leslie P. Willcocks, "Relationships in IT Outsourcing: A Stakeholders Perspective," in Robert W. Zmud, ed., *Framing the Domains of IT Management: Projecting the Future...Through the Past* (Cincinnati, OH: Pinnaflex Education Resources, Inc., 2000).

bb. Paul McDougall, "The Importance of an Outsourcing Prenup," *InformationWeek*, May 23, 2005; Carol Sliwa, "Sears, CSC Fighting Over IT Contract Termination Fees," Computerworld, May 23, 2005, <computerworld.com/industrytopics/retail/story/0,10801,101910,00.html>.

cc. Bushell, op. cit.

dd. Michael Imeson, "Outsourcing Strategies—Anatomy of a Good Deal," *The Banker*, Special Supplement section, December 1, 2006.

ee. "Outsourcing Team Gets More Biz," *Health Data Management*, May 2002, <http://healthdatamanagement.com/HDMSearchResultsDetails.cfm?articleId=6980>; First Consulting Group SEC filing on October 3, 2005, <www.secinfo.com/d13ACs.z89h.d.htm>.

ff. Stephanie Overby, "When the Mission Changes, IT Does Too," *CIO*, March 1, 2003.

gg. Kern and Willcocks, op. cit.

with IBM eight years into the deal because the savings never materialized. Instead, costs continued to escalate throughout the contract.

Even if the expectations about economic efficiency are realized initially, they may be short-lived. A recent analysis of large contracts showed an average cost reduction of 15% in the first 18 months of the contract. However, as demand grows for additional outsourcing services, or as the "back-loaded" nature of many outsourcing contracts is realized, the costs skyrocket as high as 30% above the costs of comparable in-house processing.[14]

In addition to the direct financial expense of outsourcing, the client company also incurs costs when its employees spend time coordinating the provider's activities. A client company has to continuously monitor the provider to curb its potential opportunism. This increases the time and efforts that the client devotes to the contract. Not surprisingly, the overall cost of the contract increases. Through backsourcing, the client company can cut the costs of monitoring a poorly performing provider and coordinating customized activities. Thus, backsourcing may entice the client with substantial cost benefits.

Of course, client companies may be guilty of opportunism as well. Even though they may have contracted for commoditized services and products from their outsourcing provider at prices that reflect economies of scale derived from multiple customers, clients may want the provider to customize their services and products.[15] They want to receive strategic value at rock-bottom prices. However, these may be the very services and products that should allow the provider to command premium pricing. Once the contract has been signed, the client, at the threat of ending the relationship, may act opportunistically by forcing the provider to give these premium services and products at pricing levels that are very disadvantageous to the provider.

As in any make-or-buy decision, companies need to realistically assess the outsourcing arrangement by comparing estimated internal IS costs with the cost of the existing outsourcing arrangement (as negotiated) on an ongoing basis. Some companies internally implement the same, or even better, strategies as those introduced by the provider, especially after they have the advantage of learning from the provider. ABB Power, for example, reduced the costs associated with the outsourced functions threefold after it brought outsourced IS activities back in-house. To achieve these significant cost savings, ABB Power streamlined processes, standardized IS operations, reorganized its data processing, and, possibly, appropriated the provider's novel approaches.

Poor Service Quality

Clients evaluate the service quality of the outsourcing arrangement by benchmarking the received service level against the expected service level. The quality and promptness of the provided outsourcing services affect the client's business and outsourcing effectiveness. As service quality declines, one option for the client is to exit the relationship and backsource. In fact, a recent study reported that those companies that backsource experience lower service and

product quality than the ones that decide to switch providers or continue outsourcing.[16]

Eight reported backsourcing cases suffered from inadequate service quality. Poor responsiveness, lack of professionalism, and service delays on the part of the providers caused overall dissatisfaction with the relationships. For example, four years into a ten-year contract tension developed between Continental Airlines and EDS over expectations of what services should be provided. Likewise, because of the low level of service performance, Xerox decided to withdraw the services and support for laptops from EDS in 1998.

In contrast, Bank One terminated its outsourcing agreements with IBM and AT&T Solutions despite satisfactory performance by the providers. Discussing the backsourcing, Bank One's new CIO insisted that backsourcing was not a result of dissatisfaction with the provider. Rather, it followed from an opportunity created by internal changes in leadership. Even though, Bank One was happy with the level of service delivered by the provider, the contract was terminated and the client brought IS services back in-house. High service quality by itself was not enough to justify continuation of outsourcing relationship. While service quality is an important deliverable in the outsourcing contract, it can be superseded by other factors. It is easy to point to the problems with the service and blame the service quality for the outsourcing failure, yet there are usually other considerations. Arising opportunities may prove more important.

Loss of Control

Companies achieve competitive advantage by utilizing valuable resources at their disposal[17] and should focus on those organizational resources that offer significant contribution to the perceived customer benefits of the end product (i.e., core competencies) and outsource the rest (i.e., all non-core functions).[18] IS functions frequently are outsourced because they are perceived as non-core resources that support business operations. However, from the Resource-Based View, a resource is valuable if it enables conception and implementation of strategies that improve firm's effectiveness and efficiency.[19] Even though IS resources rarely directly lead to competitive advantage, they enable other key resources and form a complex chain of assets and capabilities that may lead to sustained competitive advantage.[20] A 2005 Global IT Outsourcing Study by Diamond Cluster found that 25% of its participants had mislabeled IT functions as non-strategic, and consequently had backsourced those areas.[21] The ability to control IS resources is crucial when they prove to be a critical component of client's operations.

To prevent significant loss of control, companies should not outsource critical success factors that are necessary, but not sufficient, for the success of the company.[22] If an outsourcing provider is in charge of core competencies or critical success factors, the client company may lose control over those activities. Leading outsourcing researchers even argue that once a contract is signed, client and provider incentives do not align and the power shifts to the provider.[23] Requests for modifications to software and hardware are at the mercy of the

outsourcing provider and may take time to implement, slowing the client's ability to respond to its business needs. Thus, when a company loses control over an outsourced activity, it reduces its ability to act when things are going poorly. Low service quality further exacerbates loss of control by emphasizing the company's inability to act upon derailing activities, or to work effectively with its customers.

The need to regain control over the outsourced IS activities was the second most popular reason for backsourcing in reviewed cases. In fact, in twelve cases the client company had no control over the provider's actions and the provider's slow response stagnated the client's change processes. Cable & Wireless found itself in a period of rapid change, yet was not able to adapt its systems that were outsourced to IBM. To better control the processes that supported its business, Cable & Wireless backsourced. Similarly, Oxford Health Plans backsourced to regain control over the entire IS function and to deploy technology solutions in a more flexible, timely, and cost-effective manner.

Core competencies represent critical synergies of resources and skills and empower companies to adapt quickly to changing opportunities.[24] When some such core resources are outsourced, the company is not able to capitalize on new opportunities. Because IS is frequently not perceived as a core competency and ends up outsourced, it is important to recognize the potential opportunities in business utilization of IS and its critical role in interaction with customers.

Know-How Mismatch

In some situations, the client may become dependent on the provider's capabilities when the need for innovation arises. In these situations, only providers that respond to changing client needs are able to create additional value for the client. Providers who do not have the competencies to respond to change and add value hinder the client's business success.[25] Consequently, the client terminates contracts with such providers and turns to backsourcing.

For example, MPEA of Chicago faced problems when its provider, RedSky, stopped investing in new technology and could not deliver up-to-date services to its client. MPEA had no choice but to implement all the technological innovations itself in order to satisfy its customers by providing private virtual LANs, firewalls, and high-speed connections. In another case, in 1996 Continental Airlines was four years into its outsourcing contract with EDS and was working on an improved reservations system that evaluated fleet capacity and ticket pricing. Continental was more familiar with the airline business than EDS and recognized the competitive advantage to be gained by innovating with ticketing and reservations. Customer satisfaction was critical to Continental's survival and backsourcing allowed it to improve customer satisfaction and attract new customers with its innovative online business.

Internally Generated Opportunities

Changes in Executive Management

New executives create internal changes in the management or organizational structure that can lead to shifts in corporate power. Power and politics affect decisions about sourcing arrangements. When new executives join the company, they arrive with their own ideas and experiences. They are three times more likely to trigger a radical change in their new organization.[26] These changes in management can lead to a redefinition of the role of IS or even affect specific decisions on backsourcing. Sometimes top managers, sensing the opportunity to make desirable changes, select new IS managers as a move in the desired direction.

In fourteen examined cases, a new executive joined the company shortly before backsourcing. CIOs of MPEA, Cable & Wireless, Washington Mutual, and Sears spearheaded the transition of IS in-house once they arrived in their new positions. A new set of eyes frequently views the existing IS situation differently. To justify their backsourcing decision, corporate executives are likely to rely on the traditional economic factors. Yet, the evaluation of the existing outsourcing and backsourcing options could be first and foremost driven by their personal opinions and experiences. This appeared to be the case when some new CIOs acted to reduce costs or gain better control over outsourced IS services. For example, Bank One brought in a new tech-savvy CEO and a CIO in 2001. The new executive team backsourced Bank One contracts with IBM and AT&T Solutions in 2002 and, as a result, the bank enjoyed cost savings and better control.

Sometimes, companies purposely bring in a CIO who believes in internal management of IS to help them through the backsourcing transition. For instance, when Farmers Group acquired Foremost Insurance, they hired a new CIO and IS backsourcing soon followed. The new CIO previously had poor experience with IS outsourcing and a successful track record of restructuring such an arrangement. In her prior position as a CIO at Anthem Blue Cross and Blue Shield, she had terminated a relationship with Unisys due to poor service quality and increasing costs. Because of her prior experience, the CIO was confident she could create the same successful IS operation in-house, especially since outsourcing savings never materialized at Farmers Group.

Recognition of a New Role for IS

A business strategy undergoes modifications as the environment changes, which can lead to the repositioning and restructuring of internal and external competencies. As part of the overall strategy redefinition, IS resources may be seen in a new light as critical in integrating, building, and reconfiguring other internal and external resources to match the changing requirements, thus taking on many attributes of dynamic capabilities, which foster new innovative forms of competitive advantage.[27] In the assessment of outsourcing, the client company may have to adjust and backsource IS activities to match the changing environment. UMass Memorial Health Care (UMMHC) ended its seven-year

$112 million contract with First Consulting Group after three and a half years in order to address the changing environment. The outsourcing contract was originally signed to help in UMMHC's turnaround plan and reduce IS costs. However, in its continuing drive to improve healthcare quality, UMMHC recognized the strategic role of IS and decided to backsource.

Redefinition of the role of IS happens at the executive level and is driven by the company's key decision makers. Changes in the company's management can motivate subsequent changes in the strategy and the role of IS. Not surprisingly, in half of the analyzed cases (i.e., eight out of fifteen) that explained backsourcing by the redefining the role of IS, there was also a new CIO or CEO present who drove those change processes. When a new CEO took over at East Midland Electricity he recruited an experienced CIO and charged him with recreating in-house IS capabilities. The new CEO believed that IS was a strategic component in business success and pursued termination of a twelve-year contract with Perot Systems.

Externally Generated Opportunities

External Business Changes

External business changes include mergers, divestitures, or acquisitions. Mergers and acquisitions increase the size of the company, creating an opportunity for the newly formed entity to operate more cost-effectively. Sometimes, such structural changes introduce a new line of business to the organization which necessitates internal IS support. In some cases, the newly acquired company has its own internal IS department that can be leveraged for the entire company. In these circumstances, the make-or-buy decision is salient again.

Nine companies reported structural changes immediately before backsourcing. Farmers Group backsourced a contract with Integrated Systems Solutions after it acquired Foremost Insurance. Similarly, when the Bank of Scotland merged with the Halifax Building Society to form Halifax Bank of Scotland, it backsourced IS contracts with IBM and Xansa. Once the new entity emerged, two-thirds of the companies (six out of nine that reported mergers) brought in new executives who reevaluated the existing outsourcing contract and pursued opportunities created by the merger.

In most cases, economic considerations or contract problems were reported as reasons for backsourcing, while clearly the structural change created a new corporate entity with new IS requirements and capabilities. For example, Sears terminated its 10-year CSC contract less than one year into the agreement "due to CSC's failure to perform certain of its obligations," according to Sears' Securities and Exchange Commission filing. However, CSC claimed that Sears' merger with retailer Kmart was really behind the decision.

Interrelated Reasons for Backsourcing

There is seldom just one reason that causes a divorce. Similarly, there are typically several reasons that motivate a backsourcing decision. In Table 2, of the

33 backsourcing cases that we reviewed, 63.6% (or 21) listed two or more reasons for turning to backsourcing. In backsourcing reports, it is not always easy to determine the exact ranking for backsourcing reasons. However, sometimes it is possible to surmise if one reason is more important than another. Consider, for example, the account of LSI Logic Corp's backsourcing decision:

> "Chip maker LSI Logic bailed on a five-year deal with IBM Global Services, lamenting that outsourcing leads to a 'dysfunctional' separation of technology and business processes. It terminated its outsourcing contract with IBM's Global Service division because it felt locked into a deal that wasn't keeping pace with the company's rapid growth and in the end, achieved a 33 percent cost savings on what LSI had been paying before."

In LSI's case, cost savings were mentioned. However, the 33 percent in cost savings was mentioned as a consequence, and not as the motivator, for the termination of the outsourcing arrangement. This is common to many of the backsourcing situations we studied. Rather, it was the fact that it was "locked into" a deal and did not have the flexibility it desired to keep pace with its rapid growth that appeared to serve as the prime motivator.

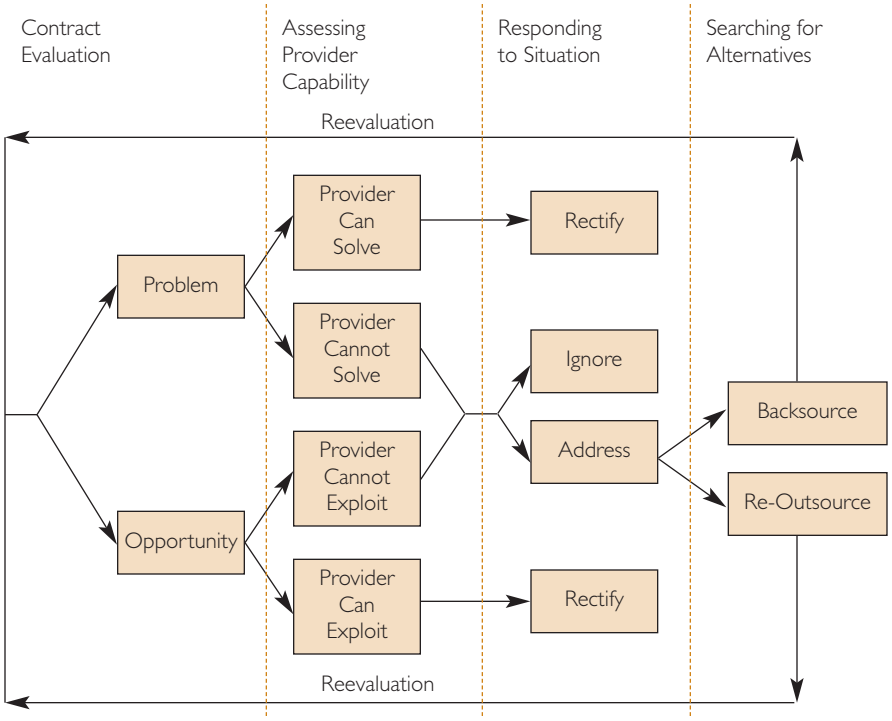
The determination of the prime motivator was not as straightforward in other accounts. Consider for example this description of Littlewoods Bet Direct backsourcing decision: "Bet Direct says the decision to end its outsourcing contract and bring operations inside the company will allow it to reduce costs and improve customer service." In this case, both excessive costs and poor service appear to have motivated the decision to backsource.

While it may be impossible to prioritize the reasons for backsourcing, we noticed cases where opportunities trumped contract relationship problems. Mergers and acquisitions were a type of strategic change that appeared to be the most important reason that East Midlands Electricity, Farmers Group, Gateway, Halifax Bank of Scotland, J.P. Morgan, PacifiCare Systems, Sears Holding Company, and Suncorp Group backsourced. A new IS executive repeatedly appears to start in motion the major change that ultimately leads to a backsourcing decision. For example:

> "One IT chief who has done insourcing is Phil Young, head of IT operations at Amtrak Express Parcels. He cited control of costs and schedule of work as the driver for bringing all development and support work back in-house when he joined the company three years ago. He said 'Yes, you can have service level agreements change control and contracts, but insourcing gives me the flexibility to change direction very quickly, without a consensus being reached in some cases, and at a known risk.'"

In another case, the new CEO at East Midland Electricity recruited an experienced CIO and tasked him with backsourcing. Hiring a pro-backsourcing CIO typically propels backsourcing. Because opportunities are focused on strategy, we suggest that they, rather than problems, serve as dominant reason for backsourcing.

FIGURE 2. Outsourcing Contract Re-Evaluation: Decision Tree



Of course, we recognize that the backsourcing decision is a complex one, often with multiple reasons that are related to one another. Because of the wide range of considerations, it is difficult to say that one reason will always serve as the most important one. Even among the twelve cases that cited one reason, there was a wide range of reasons including IS role change (4 cases), poor service (3 cases), loss of control (3 cases), costs (1 case), and external business changes (1 case). We consider it impossible to state unequivocally what the most important reason (or combination of reasons) is. Just as we cannot state the exact ranking of priorities, we cannot state the exact point when a reason added to the existing reasons breaks the equilibrium and compels a company to reevaluate its outsourcing contract. Nonetheless, recognizing the possible reasons can help forewarn companies in outsourcing arrangements to fully consider their options.

Arranged Marriages

Though not specifically mentioned in any cases in Table 2, client companies may be pressured to either outsource or backsource by forces external to their own organizations. These groups can include trade groups, the government, or parent organizations that wield influence over them. It is inevitable

that in relationships between companies, some entities have more power because of better resources, expertise, structural position, or opportunity. The dependent companies may have to alter their decision making and act in accordance with powerful others, much like the bride and groom in an arranged marriage.

Power of other entities was evident in backsourcing situations of several companies that the authors researched. An interesting situation occurred during backsourcing at PharmaCorp [the name has been changed to insure confidentiality]. This company originally outsourced to a sister subsidiary when "asked" to do so by its parent. The service agreement was weak and service delivery was set up as "best effort." The relationship between the client company and a sister IS unit quickly deteriorated due to problems with service. Yet the client company continued to purchase the IS services from its sister. Only when the sister company was sold off, was it able to backsource its IS functions.

Responding to Problems and Opportunities

As with any interorganizational relationship, an outsourcing arrangement should be continuously assessed in terms of efficiency and equity. At some point, a problem with the existing outsourcing contract or new opportunities may arise and the contract should be reevaluated. First of all, it is important to recognize whether it is a problem that needs to be addressed or an opportunity that needs to be exploited. Companies react to problems and opportunities differently. As discussed earlier, opportunities typically are more strategic and necessitate change, and thus they may be more difficult to address by tweaking the current arrangement. They may also require bringing the IS function back in-house, instead of finding another outsourcing provider. Changing providers, on the other hand, may solve the problems in some outsourcing arrangements.

The decision tree model (Figure 2) can be used by a client company to work its way through sourcing decisions. First, the client responds to the situation—either a problem or an opportunity—in light of the current outsourcing contract. Second, the client assesses the provider's capabilities in addressing the contract problem or acting on the opportunity. Third, the client either rectifies the problem or leverages the opportunity. This may mean using the same provider and its resources or notifying the provider of contract termination. Finally, after the client company decides to terminate the contract with the current provider, it finalizes the make-or-buy decision again, and either backsources part or all previously outsourced IS activities or re-outsources them to another provider that has the required capabilities. The re-evaluation feedback loop points to the continuous need for reassessment of the existing situation and response to new opportunities or problems.

Problems with the Existing Outsourcing Contract

Some problems with the outsourcing contract can be resolved by working them out with the current outsourcing provider. This is similar to "saving the

marriage" and entails getting to the root of the problem, perhaps by applying the Simon model: defining the problem, searching for alternatives, determining the basis to evaluate the alternatives, selecting an appropriate course of action, and finally developing an implementation plan.[28]

In defining the problem, metrics can be used to evaluate whether expectations are being met. For example, software licensing costs may be higher than budgeted, projected cost savings may not be realized, customer complaints may be increasing, and turnaround and response times may exceed those stated in the service level agreement. Once the problem has been recognized and defined, alternative solutions can be developed and evaluated, and the recommended solution can be implemented. The recommended solution may mend the relationship by bringing the provider's performance up to expectations or by renegotiating the contract to make it more equitable.

If expectations of both parties are out of equilibrium, rather than scraping the relationship, the parties should attempt to salvage the relationship by gaining a deeper understanding of the other side as soon as the problem surfaces. After all, many relationships fail simply because of misunderstandings or poor communication. The client could benefit from enhanced understanding of the issues from the provider's perspective, even if the decision is ultimately to end the relationship. For example, many contracts often reflect or mirror the way the client currently performs a particular function. Without thoroughly understanding the processes, the lawyers write "tight" contracts with penalties for failure to adhere to methods described in the contract. If the contract is "too tight," the provider cannot incorporate best practices without opening the contract for renegotiation. In fact, Deloitte Consulting reported that 83% of outsourcing clients renegotiated the arrangement due to changes in business, regulatory, and technology environments.[29] Clients should not constrain themselves by the metrics that might prohibit improvement or application of best demonstrated practices internally or even simply measure the wrong outcomes.

The contract may also need to be renegotiated to adjust for the "winner's curse," a situation when the provider has "won" a contract, yet can not make any money on it.[30] For example, in offshoring contracts pegged to the U.S. dollar, providers may not have taken into account the negative impact of the weakening dollar against their currencies.[31] Even more frequently, overly optimistic providers seriously underbid the real costs of the outsourced activities. It often happens when the provider's main aim is to win the bid, rather than to make money. Consequently, the client suffers when the provider stands to make a loss. Nearly twenty percent of 85 outsourcing arrangements analyzed between 1992 and 2000 experienced a "Winner's Curse," while the client had negative or mixed experiences in nearly 36 percent of the cases.[32] In this relatively common situation, it is no surprise that the relationship would sour. The client should reassess the nature of the relationship as soon as the possibility of the "Winner's Curse" is apparent, and, if necessary, renegotiate the contract so that it is favorable enough for the provider to survive.

It also is a good idea to apply a problem-solving model such as Simon's to analyze the original outsourcing decision. For example, managers should determine if the original decision to outsource was flawed. If it was not flawed, were subsequent problems a result of the signs that were described earlier, e.g., poor performance on the part of the provider, changes in the business or its management, or external business changes? Assessing the decision-making process for the original decision could help improve future sourcing decisions.

Internally Generated Opportunities

Of course, not all relationships end because of problems. As noted in the decision tree in Figure 2, client companies may choose the opportunity fork. That is, internal and external changes can create new opportunities that can best be exploited by backsourcing. The prevailing business wisdom for companies is to outsource all processes that are not core or critical success factors. Sometimes it is easy to recognize such processes—no one competes on the basis of the best payroll system in the industry. However, sometimes organizations fail to recognize core competencies or critical success factors. For example, in service industries, very often information is a significant part of customer service. Outsourcing an information "manufacturing unit" adds a degree of difficulty or unnecessary time when responding to new or changed customer needs.

As a transaction processing engine, IS is often treated as a commodity and a viable candidate for outsourcing. However, if information is used as part of customer service and the company differentiates itself based upon customer service, then IS should be considered a core competency. Recognizing the role of information in the customer service function, managers need to carefully examine the value of IS not as a commodity but as a core competency (including strategic differentiation) before outsourcing the information manufacturing plant. Loss of control over information generated by IS undermines the company's ability to run its operations efficiently and to respond to customer service requirements. Failure to use the information robs a company of the opportunity to gain strategic advantage. For example, a key motivator for backsourcing at Continental Airlines was the realization that information gathered by the online booking system can be used to improve customer service and customer satisfaction. Continental recognized that it could differentiate the service to its customers from that provided by other airlines.

Not unlike a personal relationship, the company might not appreciate how much it misses IS until it is gone. For example, AlphaBroadcast [the name has been changed to insure confidentiality], a nonprofit broadcasting company researched by the authors, not surprisingly perceived broadcasting to be its core competency. Only when the outsourcing provider failed to send out membership invoices did AlphaBroadcast realize the importance of information about its sponsors. In AlphaBroadcast's case, there was a new appreciation and recognition of the role of IS as a critical success factor. Such recognition was accompanied (as is often the case) by replacing the person who had championed outsourcing with an executive who better understood the redefined role of

IS in serving the customer and who ushered in backsourcing. The "champion" of outsourcing whose creditability was damaged by his failure to recognize the true role of IS was forced to separate from the company.

Externally Generated Opportunities

In order to take advantage of external changes, companies must stay attuned to their environment. Very often changes in the environment occur slowly and in a subtle manner. How do the savvy managers monitor these changes? Clearly managers cannot chain themselves to their desks. Rather, they must meet with clients and the customers of their clients to understand changes going on in the market that might affect their product or service. Additionally, attendance at industry councils, outside seminars, and even more traditional business organizations such as Rotary or Business Chambers provide insight into the changing environment.

Further, companies should realize that even when they have outsourced most of the IS function, they should still have mechanisms in place that allow them to monitor the environment for emerging technologies that can offer strategic advantage. This can be effected by formally modifying the organization structure to include a Chief Technology Officer or a group tasked with evaluating emerging technologies for their potential to the firm.

Once the change occurs, companies must respond appropriately. As a result of mergers and acquisitions, combined organizations often need to standardize business processes, reduce redundancy, and streamline workflow. This often involves examining all processes, whether previously outsourced or not. It is time to prepare for changes as soon as there are indicators that future growth by organic means is limited. Potential mergers and acquisitions are usually not far behind such discussions. However, because such negotiations must be performed by only a few, managers often do not know in time to affect the outcome.

Backsourcing Transition

Outsourcing arrangements may not last forever. Steps should be taken to prepare for the possibility before the outsourcing is implemented by building a termination clause into the outsourcing contract, and during the arrangement by keeping detailed documentation. When all steps to save the relationship have failed or when the client decides to move on, a detailed transition plan and an enlisting of the help of in-house personnel can smooth the way through a potentially rocky period as the IS function is backsourced or transferred to another provider.

Termination Clause

The best protection for both partners in the event of divorce is the outsourcing equivalent of a prenuptial agreement—the termination clause. Termination clauses detail steps for early termination or renegotiation of the

relationship, incurred penalties (if any), and transition procedures for both the client and the provider. It limits the possible client penalties for early withdrawal from the contract and identifies terms when such penalties are not applicable. It typically reflects the minimum time the provider needs to recoup its investment in client specific facilities and equipment.

Detailed Documentation during Outsourcing

The prenuptial agreement won't solve all outsourcing problems. When terminating an outsourcing arrangement, it helps to thoroughly document all issues encountered during the relationship and steps taken to resolve them. Early termination of the outsourcing arrangement, either to bring the services back in-house or to transfer them to another provider, is often accompanied by termination fees. These hefty fees can negate the cost benefit of backsourcing. Early termination may be motivated by various reasons such as economic efficiency, loss of control, redefinition of the role of IS, and low service quality. Some of these reasons, especially loss of control over IS, are likely to be a result of the provider's unsatisfactory performance. If properly documented, poor service quality can help the client avoid costly termination fees by bringing claims against the provider for failure to perform according to service level agreement. Documented inadequate performance can be used to justify early termination and help the client offset termination fees by requesting reimbursement for poor service or damage to the company. Documentation is also legally sound and can support the client's claims in court should the need arise.

Detailed Transition Plan

Backsourcing is not easy! Meticulous planning of transition activities and testing of equipment and services is important for successful backsourcing. Recovering skills and resources lost during outsourcing can be costly and time-consuming. It is critical for an outsourcing client to establish procedures for working with the provider and bringing the previously outsourced activities back in-house. The equipment and software involved in the transition should be adequately tested before actual deployment to ensure that all aspects of the system are working well together. Prior to transition, multiple tests with sample data should be run to prevent data conversion problems.

Any backsourcing requires significant expense and expertise on the client's part. Backsourcing an offshore contract can be even more costly and time consuming as it involves a transfer of equipment, software, and, possibly, personnel from a location overseas. The software licenses are typically country specific and may be impossible to transfer. Similarly, equipment may be difficult to disassemble and relocate or it may not be compatible with the local electronics. During the transition, the client company should be prepared for possible disruptions to its business.

Support of In-House IS Personnel

Corporate decisions to outsource and then to backsource are often resented by client employees who feel they are losing control over their jobs and their future. Outsourcing diminishes employee morale, productivity, and trust in the company. Yet, subsequent backsourcing does not necessarily improve their morale. When JP Morgan executives first outsourced and then (a short time later) backsourced, its employees were confused and bitter. According to the IS personnel, the flip-flop delayed projects and lowered employee's productivity and trust in the company.

Backsourcing heavily relies on human expertise to reestablish outsourced IS services. Employees who have been hired by the outsourcing provider should be treated with respect and appreciation. Unfortunately, in most cases companies lose IS personnel in outsourcing. The transfer of employees to the outsourcing provider makes retaining knowledgeable employees even more critical. It is they who manage the outsourcing relationship and ensure that the IS strategy is aligned with the organizational strategy. Those employees can learn from the provider and capture knowledge that can be used for future exploitation by the client. During the transition and subsequent in-house production, these employees play a pivotal role in backsourcing. Maintaining their loyalty is important during outsourcing, in case backsourcing becomes necessary.

Limitations and Future Research

As with any research, our study is not without limitations. Our method of data collection was only able to identify backsourcing that has made it into the public domain. However, this approach allowed us to study an issue that executives are often unwilling to discuss, because it could appear that a mistake was made by outsourcing in the first place. We were able to additionally examine several backsourced contracts through case studies to increase the validity of our results. However, the list of companies that backsourced is certainly not complete. Some companies may have selectively backsourced, but did not make it into the press. Additional surveys and case studies can help gain a better understanding of selective backsourcing, which arguably may be a more popular form of backsourcing.

In published reports the companies may be putting the best face forward and not all reasons for backsourcing may have surfaced. Yet, our theoretically derived backsourcing reasons were all represented in the sample. Even as we refined our categories and some new categories emerged, we were able to explain the backsourcing antecedents by existing economic, strategic, power or relationship theories.

Although the purpose of this article was to both explain and stimulate thought in this important area of IS backsourcing, it does highlight the need for further research in several areas. First, the research described in this article concerns the backsourcing of Information Systems. Can these conclusions be generalized to other areas of outsourcing such as benefit administration, receivable management, and sales, or does the unique customer service aspect of

information make IS different from other functional areas? Additionally, how does this unique customer service aspect of information (from a decision standpoint as well as customer segmentation and product perspectives) make IS more strategic? Finally, what impact does contract governance play in constraining provider's flexibility, thereby limiting the range of response to the client's ever-changing environment?

Conclusions

Executives are increasingly realizing that outsourcing arrangements can not endure. There are multiple factors that contribute to the decision to backsource. Many are internally driven, such as cost savings, organizational structural changes, dissatisfaction with outsourcing service, loss of control over outsourced services, or a redefinition of the role of IS. External pressures and industry changes may also play a role in the decision. While some factors are similar to outsourcing considerations, backsourcing decision making faces its own unique challenges.

An underlying consideration in backsourcing should be the impact of outsourcing arrangement on the client company's customer. When operational excellence and customer service became top priorities, Washington Mutual backsourced a ten-year contract with IBM Global Services. Washington Mutual's IS functions involved close interaction with customers, yet calls to the help desk were not answered in timely manner and IS service levels were low under IBM Global Services management. Backsourcing was done not for the costs reasons, but to improve service levels and offer additional value to the customers. An organization needs to be sure that any sourcing arrangement gives it the ability to service its customers satisfactorily, because perceived customer benefits of the end product are most critical for success. The role of IS in the bottom-line product or service should be given priority consideration, especially if it offers significant contribution to customer satisfaction. Reported instances of backsourcing clearly demonstrate that losing control over parts of business that have direct interaction with customers undermine outsourcing client's operations and profitability. Continuous assessment of an existing outsourcing arrangement is necessary to ensure its success or realize the need for backsourcing.

Of course, the divorce analogy can only go so far. It must be recognized that total backsourcing may not be a reality, either because of extreme switching costs and/or trauma to the client company. For example, a recent academic study found that although 21 of 85 outsourcing contracts were failing, only eight resulted in terminating the contract prematurely.[33] These findings suggest a hesitancy to turn to backsourcing as the only way of dealing with a problematic outsourcing arrangement.

When a clean break from the provider is impossible, selective backsourcing may be a viable strategy. The client may be able to repair, and subsequently maintain, a healthy relationship with the provider for certain outsourced activities or products, while bringing back in-house those that are newly defined as

core, or those that can be managed better in-house. Even though the backsourcing may not be complete (a true divorce), it serves as an example of an important and growing phenomenon. This study has provided insights into reasons for backsourcing, possible responses to problems and opportunities, and suggestions for a smooth transition in-house.

APPENDIX

Description of Methodology

This article is a part of a larger study of IS backsourcing phenomenon that the authors have been pursuing for the past 6 years. For this study, we used Qualitative Media Analysis,[34] which is designed for content analysis of published sources and news media. This approach was also used by Carmel and Abbott to explore nearshoring.[35] Other studies that have used published sources to explore sourcing decisions include Loh and Venkatraman[36] and Hu, Saunders, and Gebelt.[37]

In the first phase of our study, we reviewed existing academic and practitioner literature for reports of backsourcing activity to learn more about backsourcing and its underlying reasons. This review of academic literature on sourcing identified three major categories of potential reasons for backsourcing: economic, strategic, and relationship. *Economic* factors are based on Transaction Cost Economics, and Agency Theories; *strategic* factors derive from Resource-Based, Strategic Contingencies, and Dynamic Capabilities theories; and *relationship* factors stem from Social Exchange Theory. The theoretical development of these factors was published separately.[38]

We then searched the Lexis-Nexis Academic Universe database for terms "backsourcing," "insourcing," "outsourcing termination," and "outsourcing cancellation" to compile a list of companies that backsourced. If a report indicated that a company had undergone backsourcing, that company was further researched by visiting the corporate website and by pursuing other publicly available reports about the original outsourcing contract and any reports where both the client and outsourcing provider were mentioned together. We sought information about the outsourcing provider for each contract, the contract dates, amount, and agreement terms. We maintained a database of descriptive examples for each company.

We used all 33 companies identified through the search as backsourcers in our sample (See Table 2). For coding, we developed a protocol using categories derived from theory. We coded each document for reported reasons for backsourcing (see Table 3 for examples). About halfway through the coding, several categories converged into one based on underlying theory (e.g., initially identified transaction, production, and agency costs evolved into excessive costs). Also, new categories of new executives and external business changes emerged. Table 4 lists the final categories, their description, and their theoretical basis. Most backsourcing cases were reported in several sources, and all sources were documented and data were reconciled to ensure consistency of reports and

TABLE 3. Examples of Backsourcing Quotes and Coding

Company	Backsourcing Report	Categories Coded
Amtrak Express Parcels, UK	One IT chief who has done insourcing is Phil Young, head of IT operations at Amtrak Express Parcels. He cited control of costs and schedules of work as the driver for bringing all development and support work back in-house when he joined the company three years ago. He said: "Yes, you can have service level agreements, change control and contracts, but insourcing gives me the flexibility to change direction very quickly, without a consensus being reached in some cases, and at a known risk."	Excessive Costs Loss of Control New Executive
Bedfordshire County Council, UK	"We have terminated our contract with HBS not to save money, but to improve quality and performance and work towards our goal of excellence." The Council had been dissatisfied with the services provided by HBS and in July 2005 issued a notice of termination.	Poor Service
Eckerd	When chief information officer Ken Petersen arrived from Penney shortly after the department-store chain acquired Eckerd in 1997, he found a staff of six technology workers at headquarters. He gradually built his group up to about 100 people by the end of 2000, before the IBM contract was finally canceled. He had to launch a set of enterprise-wide information systems that would let Eckerd catch up to—and maybe pass—Walgreens, itself a moving target.	External Changes (Acquisition) New Executive IS Role Change
Karolinska Hospital in Stockholm	Karolinska Hospital in Stockholm recognized that too much of its IT infrastructure and hardware was in the hands of third parties—the result of a series of separate outsourcing deals negotiated over the years. However, the end result was fragmentation and diffusion of control.	Loss of Control
Littlewoods Bet Direct	Bet Direct says the decision to end its outsourcing contract and bring operations inside the company will allow it to reduce costs and improve customer service.	Excessive Costs Poor Service
LSI Logic Corp	Chipmaker LSI Logic bailed on a five-year deal with IBM Global Services, lamenting that outsourcing leads to a "dysfunctional" separation of technology and business processes. It terminated its outsourcing contract with IBM's Global Services division because it felt locked into a deal that wasn't keeping pace with the company's rapid growth. In the end, LSI achieved a 33-per-cent cost savings on what it had been paying before.	Loss of Control Excessive Costs
PacifiCare Health Systems	Keane Inc. and PacifiCare Health Systems terminated an outsourcing deal with $226 million left on it following UnitedHealth Group Inc.'s $8 billion acquisition of PacifiCare in December.	External Changes (Acquisition)
UBS	"Our company and technology strategy have changed since the outsourcing agreement with Perot Systems was forged in 1996," said Scott Abbey, chief technology officer at UBS, at the time of the announcement.	IS Role Change

TABLE 4. Examples of Backsourcing Quotes and Coding

Category	Description	Theoretical Basis
Excessive Costs	Any mention of costs in the reasoning for backsourcing, either high costs of outsourcing or cost savings upon backsourcing.	Transaction Cost Economics Agency Theory
Poor Service Quality	Any mention of problems with service, unsatisfactory performance.	Social Exchange Theory
Loss of Control	Mention of control, control over provider, control over product, inability to be in charge of business processes.	Strategic Contingencies Theory
Know-How Mismatch	Provider is not up to the task. Does not have the expertise or failed to maintain the expertise in the outsourced area.	Dynamic Capabilities
New Executive	Mention of a new person coming on board at executive level (i.e., decision-making level), such as CEO, CFO, and CIO.	Power and Politics Theories
IS Role Change	Change of IS role in the company.	Resource-Based View Dynamic Capabilities
External Business Changes	Mention of merger or acquisition or divestiture.	Institutional Theory

reliability of the collected material. As we performed the data analysis, we read the descriptive examples and referred to the articles repeatedly. We used a table to compare and contrast the companies that had backsourced and integrated our findings into the initial draft of the paper.

The second phase of our backsourcing inquiry involved several case studies of backsourcing. The data were collected using semi-structured interviews and archival documents. We coded the interview transcripts for theoretically derived categories using Miles and Huberman's textual coding technique.[39] The details of case studies are reported in another manuscript.

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