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Chapter VII

Insourcing Knowledge

Introduction

The term outsourcing can be studied further by using the opposite term of insourcing. Hirschheim and Lacity (2000) define insourcing as the practice of evaluating the outsourcing option, but confirming the continued use of internal IT resources to achieve the same objectives of outsourcing. They studied six decision factors: scope, sponsor, evaluation process, year of decision, size of the organization and outcome. Lacity et al. (1996) define total insourcing as the management and provision of at least 80 percent of the IT budget internally after evaluating the IT services market. The common element of the two definitions seems to be that customers evaluate the external IT services market before a sourcing decision takes place.

Four Sourcing Categories

A survey of IT outsourcing experiences in US and UK organizations revealed a wide spectrum of sourcing decisions, ranging from exclusive use of internal IT functions to large-scale IT outsourcing (Lacity & Willcocks, 2000). This wide spectrum can be classified into the following four sourcing categories (Lacity et al., 1996):

Figure 7.1. Insourcing definition compared to other relevant terms

Key term	**Definition**
Insourcing	The practice of evaluating the outsourcing option, but confirming the continued use of internal IT resources to achieve the same objectives of outsourcing.
Offshoring	The practice of migrating business processes overseas to lower costs without significantly sacrificing quality. This practice is also called global outsourcing.
Outsourcing	A process whereby an organization decides to contract-out, or sell, the firm's IT assets, people and/or activities to a third party supplier, who in exchange provides and manages these assets and services for an agreed fee over an agreed time period.
Selective sourcing	Selected IT functions are located with external providers while still providing between 20 and 80 percent of IT budget.
Source firm	The firm that has the technology. The source firm is sometimes called a vendor, supplier or outsourcer.
Sourcing firm	The firm that desires the technology. The sourcing firm is sometimes called a client, customer or outsourcee.
Transformational outsourcing	Partnering with another company to achieve a rapid, substantial and sustainable improvement in enterprise-level performance.

1. **Total outsourcing:** the decision to transfer IT assets, leases, staff and management responsibility for delivery of IT services from an internal IT function to an external IT provider that represents more than 80 percent of the IT budget.
2. **Total insourcing:** the decision to retain the management and provision of more than 80 percent of the IT budget internally after evaluating the IT services market. Included in the definition of insourcing is the buying-in of vendor resources to meet a temporary need, such as programmers in the latter stages of a new development project or management consultants to facilitate a strategic planning process. In these cases, the customer retains responsibility for the delivery of IT services; vendor resources are brought in to supplement internally managed teams.
3. **Selective outsourcing:** the decision to source selected IT functions from external provider(s) while still providing between 20 and 80 percent of the IT budget internally. This strategy may include single or multiple suppliers. The vendor becomes responsible for delivering the result of the selectively outsourced IT activities, while the customer remains responsible for delivering the result of the insourced activities.
4. **De facto insourcing:** a de facto decision to use internal IT departments to provide products and services that arise from historical precedent, rather than from a reasoned evaluation of the IT services market.