IT Backsourcing:
Insights and Implications From a Global Survey With IT Practitioners

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ABSTRACT

With the growing importance of IT as competitive advantage, companies aim to increase their digital transformation activities. Consequently, companies are also revisiting their existing IT sourcing arrangements. In the article at hand, the authors explore the concept of IT backsourcing by presenting the results from a quantitative online survey with global IT practitioners. The authors confirm that backsourcing is frequently applied in practice, with key reasons being dissatisfaction with service or relationship quality and higher than expected costs. Further, the authors identify IT services with an increased likelihood of being backsourced, e.g., application development or data center, and discuss the effect of a CIO change on the backsourcing decision. In addition, the authors show that there are differences in the perceptions on the antecedents and the results of backsourcing decisions between management and operational level. The authors conclude with practical implications for IT managers based on their findings.

INTRODUCTION

Across different industries, companies are intensifying their digital transformation activities to increase their readiness for future, often technology-driven trends (Columbus, 2018). For example, the large conglomerate General Electric (GE) which struggled with legacy information technology (IT) systems, reliance on manual IT processes, and a largely outsourced IT support decided to transform the organization by employing state-of-the art technology to improve employee experience, create costs efficiencies and increase automation (Florentine, 2019). As part of their initiative, GE also increased internal IT resources and decreased the dependence from external IT vendors (Florentine,

2019). For a long period of time, companies mostly followed an outsourcing approach to satisfy their need for IT services at the lowest possible costs (Han & Mithas, 2013). However, results from a recent survey with nearly 4,000 IT leaders by the consulting companies HarveyNash and KPMG (2018) show that the intention behind IT outsourcing has shifted lately from saving costs to providing access to skills which are not available in house. Moreover, companies are more and more considering to not further increase outsourcing spend and rather retain or bring back technology in-house (HarveyNash & KPMG, 2018). These recent examples demonstrate that the IT sourcing market is changing fundamentally compared to previous periods in which companies largely focused on the cost aspect when deciding for IT outsourcing (Han & Mithas, 2013). Or, as Claudine Ogilvie, CIO of the Australian-based Jetstar Airways states: "Multi-year IT projects that also take years to deliver any value are dead" (HarveyNash & KPMG, 2018).

Consequently, companies which are aiming to digitally transform their organization are also adjusting their IT sourcing strategies, for example by adopting a multi-sourcing approach with a larger number of smaller but highly specialized vendors (Könning, Westner, & Strahringer, 2018), by increasing the application of cloud-based solutions (Hentschel, Leyh, & Baumhauer, 2019) and also by terminating or not renewing existing IT outsourcing contracts with the intention to perform the services in scope internally (Thakur-Wernz, 2019). The latter option is called backsourcing and describes either a situation where previously outsourced services are completely performed internally, or as an intermediate step towards readjusting the IT sourcing strategy of a company (Bary & Westner, 2018). For example, after the termination of a contract, all affected services could be brought back. Then, some services could be re-outsourced afterwards, e.g., based on their strategic importance or general guidelines defined in an overarching digital transformation initiative at the company. A backsourcing decision can be caused, for example, by unsatisfactory service quality, higher than expected costs or a bad relationship with the vendor (Bary & Westner, 2018). An additional reason for a change in the sourcing strategy and a potential backsourcing decision could be a change at the CIO position, for example due to the new CIO's previous experiences and thus his or her preferences (Barney, Moe, Low, & Aurum, 2009; McLaughlin & Peppard, 2006). A participant of a recent survey conducted by the authors states the motivation for backsourcing as follows:

Increasingly, a key reason for backsourcing is the realization that technology is core to business success. Backsourcing allows for greater responsiveness to the market and tighter collaboration with business departments than what is possible with contract-based outsourcing.

Within the academic literature on IT sourcing, the topic of backsourcing can still be considered as an emerging research area (Bary & Westner, 2018), and has gained far less attention compared to IT outsourcing (Könning, Westner, & Strahringer, 2019; Liang, Wang, Xue, & Cui, 2016). This motivated the authors to pose the following research questions (RQs):

RQ1: What are the reasons that lead to an IT backsourcing decision?
RQ2: Which IT services are most likely to be backsourced in practice?
RQ3: Which effect does a change at the CIO position have on the decision to backsource?
RQ4: Are there differences between the perceptions of respondents on the management vs. the operational level?

The authors employed a descriptive quantitative research approach to address those questions. As part of their research, the authors collected primary data using an online survey with IT practitioners. By answering the introduced RQs, the authors aimed to revisit findings from previous researchers generated mostly in case study research by applying a quantitative research design. Further, the authors hoped to add further insights to extend the body of IT backsourcing literature.

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