Backsourcing - a case study of a middle size manufacturing company taking an outsourced function back in-house

Authors:        Angelika Hartner
                Tinh Hoang

Supervisor:     Zsusanna Vincze
Abstract

For a long time, companies have been using outsourcing as main strategy to overcome obstacles and gain competitive advantage. The reasons for doing so are many, including the possibility of cutting cost, sharing risk and focusing on the core competences. However, current research shows that outsourcing has reached its limits and companies start considering alternative solutions and revising their sourcing strategy. Therefore, an upcoming trend is to backsource. This describes the process of taking previously outsourced functions back in-house. As outsourcing brings a loss of knowledge, the matter of backsourcing is not always an easy one and therefore, bringing various challenges, which need to be overcome.

The decision for backsourcing is taken when the outsourcing strategy no longer provides the best solution for the company to gain competitive advantage. On the one hand, the outsourcing partner might not be able to deliver the desired quality of the products or services anymore; on the other hand, the company itself might discover new opportunities, which provide more profit. Important motivations for backsourcing include regaining control of the core business activities, dissatisfaction with the outsourcing company, merger and acquisition etc.

There are many risks and challenges managers have to consider when deciding to backsource an activity. The challenges derive from both internal and external issues and may vary based on the characteristics of each company and the business environment. Moreover, being aware of critical success factors can enable a company to fasten the backsourcing project and bring it to an end more successfully.

This thesis aims at increasing the understanding of motives, challenges and critical success factors for manufacturing companies when conducting a backsourcing project. Therefore, a middle-sized manufacturing company’s backsourcing project has been investigated. From this case study, we were able to derive essential factors by interviewing managers in the under-explored field of manufacturing companies’ backsourcing projects.

The result of this study shows that the matter of backsourcing plays a major role in every company’s strategy. Motivations for backsourcing could be connected either to dissatisfaction, the opportunity to gain market share or the opportunity of acquiring a competitor. Being clear about these motives and evaluating them carefully is the first step of the process. By having a strong project team, the challenges can be handled and overcome. Moreover, identifying and knowing the critical success factors enables the company to allocate its resources and in this sense to bring the project successfully to an end.

Key words: outsourcing, backsourcing, sourcing strategy;
Acknowledgements

Writing this thesis would not have been possible without the support we got over the duration of this research. Therefore, we would like to thank our supervisor, Zsuzsanna Vincze, who supported our idea from the first minute and guided us with her knowledge and honest feedback.

Moreover, we would like to express our gratitude to our interview partners, who provided very deep and thoughtful insights into the backsourcing process, which enabled us to make this thesis to what it is now. Without their contribution, we would not be able to conduct this study.

Finally yet importantly, we would like to thank our family and all our friends for their endless support and pushing us forward.

Thank you!

Umeå, 26 May 2014

Angelika Hartner  
Tinh Hoang
# Table of Contents

1  Introduction .......................................................................................... 1  
   1.1 Background and problem definition ...................................................... 1  
   1.2 Purpose ............................................................................................. 2  
   1.3 Delimitations .................................................................................... 3  
   1.4 Definitions ........................................................................................ 4  

2  Literature Framework ............................................................................ 6  
   2.1 Outsourcing ....................................................................................... 6  
      2.1.1 Types of outsourcing .................................................................. 6  
      2.1.2 Risks ....................................................................................... 7  
      2.1.3 Risks ....................................................................................... 9  
      2.1.4 Deciding to outsource - the process .......................................... 10  
   2.2 Backsourcing .................................................................................... 11  
      2.2.1 Motives for backsource .............................................................. 11  
      2.2.2 Stages for backsource ............................................................... 14  
      2.2.3 Risks and challenges with backsource ...................................... 15  
      2.2.4 Backsourcing critical success factors ....................................... 16  
   2.3 Conceptual framework ...................................................................... 17  

3  Research Methodology ........................................................................... 21  
   3.1 Preconceptions .................................................................................. 21  
      3.1.1 Choice of subject ...................................................................... 21  
   3.2 Research philosophy ........................................................................ 22  
      3.2.1 Ontology .................................................................................. 22  
      3.2.2 Epistemology .......................................................................... 22  
   3.3 Research strategy .............................................................................. 23  
      3.3.1 Case study ............................................................................... 24  
   3.4 Research approach ........................................................................... 25  
   3.5 Research method .............................................................................. 26  
   3.6 Choice of respondents ....................................................................... 27  
   3.7 Data collection method ..................................................................... 27  
      3.7.1 Semi-structured interview .......................................................... 27  
      3.7.2 Development of the interview guide ......................................... 28  
      3.7.3 Conducting the interviews ......................................................... 29  
      3.7.4 Observation ............................................................................. 30  
   3.8 Data processing ................................................................................ 31  
   3.9 Choice of literature and source criticism ......................................... 32  
   3.10 Ethical considerations ...................................................................... 33  
   3.11 Quality criteria ............................................................................... 34  

4  Empirical results .................................................................................... 37  
   4.1 Company background ...................................................................... 37  
   4.2 Presentation of the case .................................................................... 37  
   4.3 The interviews - summary and results ............................................. 38  
      4.3.1 General information about the company and its outsourcing strategy .................................................. 38  
      4.3.2 Reasons for backsource .............................................................. 39  
      4.3.3 Backsourcing process ............................................................... 40  
      4.3.4 Experienced challenges ............................................................ 41  
      4.3.5 Critical success factors ............................................................. 43  
   4.4 Summary of the empirical results ...................................................... 44  

5  Analysis ..................................................................................................... 45
5.1 General sourcing strategy ......................................................................................... 45
5.2 Motives for backsourcing decision ........................................................................ 47
5.3 Process of backsourcing ......................................................................................... 48
5.4 Risks and challenges .............................................................................................. 49
5.5 Critical success factors .......................................................................................... 50
5.6 Comparison between theory and results ............................................................... 51
6 Discussion and Conclusion ....................................................................................... 52
6.1 Discussion ................................................................................................................ 52
6.2 Theoretical, practical and societal contributions .................................................. 54
6.3 Further research ....................................................................................................... 55
6.4 Limitations .............................................................................................................. 55
References .................................................................................................................... VIII

List of Figures

Figure 1: Overview ............................................................................................................ 3
Figure 2: Sourcing decision ............................................................................................. 5
Figure 3: Summary of the theoretical framework ......................................................... 20
Figure 4: Backsourcing process in theory and practice .................................................. 51

List of Tables

Table 1: Data Collection .................................................................................................. Fehler! Textmarke nicht definiert.
1 Introduction

In this chapter, the reader will be introduced to the main topic of investigation, in which they clarify the background and why the subject is relevant. In addition, we will identify the research gaps and thereafter develop the research purpose and questions for the study. Also delimitations will be pointed out.

1.1 Background and problem definition

Over the last years, outsourcing has become a well-known and common practice for many companies and has experienced enormous growth. (Fan, 2000, p. 213) For many companies it has become a strategic practice (Chou & Chou, 2011, p. 350). Fill & Visser (2000, p. 43) even call it a trend which has developed over the last years. However, outsourcing is not a new phenomenon. Initially, it started in the mid 60’s with facility management. Over time and with technical progress, the issue of data centers and IT services became more relevant. Bigger companies did not use all their capacity of data centers and smaller companies found it too expensive to maintain their own data center. (Chapman & Andrade, 1998, p. 5) The companies’ aim thereby is to concentrate on their core business and increase efficiency (Hendry, 1995, p. 193).

According to Gay & Essinger (2000, p. 4), the fastest growing areas in outsourcing are HR, media management, IT, customer service and marketing. Motives are clearly based on cost cutting, improvement of company focus, gaining access to excellent capabilities, resources management, shared risks and dealing with a function that is difficult to manage. (Gay & Essinger, 2000, p. 10) Companies need to find out what provides them with competitive advantage, focus on it, but at the same time find the balance to the outsourced services. (Kippenberger, 1997, p. 22) Kippenberger (1997, p. 23) argues that companies have to find the balance between:

- efficiency for short term success and organizational learning in the long term
- focus on core activities and awareness of resources and their allocation
- control that tasks get done and motivation that all activities done are beneficial
- autonomy of each department and coordination that the response is congruent with the overall aim of the company

These factors are important when it comes to the outsourcing decision. Franceschini et al. (2003, p. 247) describe a trend from traditional to strategic outsourcing decisions. Traditional outsourcing comprises processes that are not seen as critical for the organization (e.g. canteen, cleaning), whereas strategic outsourcing concerns everything besides activities that could enable a company to achieve a unique competitive edge. (Franceschini et al., 2003, p. 247)

However, not all outsourcing decisions bring the results that the companies were expecting (Fan, 2000, p. 213). In fact, many of the outsourcing arrangements do not last. A study of Lacity & Willcocks (2001, in Whitten & Leidner, 2006, p. 606) shows that one third of companies studied had cancelled the outsourcing contract, in which 34% of them were backsourced. Some of the reasons for canceling contracts or not renewing them are for example: poor relationship between the vendor and the outsourcers (Dibbern et al., 2004), or poor service and price (Chalos & Sung, 1998). In addition, when the assets are considered to be core assets, companies usually choose to manage them closely in house. One of the biggest
outsourcing failures was the case of One JP Morgan Chase & Co in which a seven-year contract worth $ 5 billion with IBM was broken after two years and all IT functions were brought back in house (Cowley, 2004).

Outsourcing, especially global outsourcing (or offshore outsourcing) has been criticized by scholars for being unfettered, irresponsible corporate profit maximization (Babin, 2011, p. 5). The critics are mainly targeting the way of outsourcing in which the main reason is to reduce cost and gain competitive advantage by exploiting cheap labor in other countries.

While outsourcing has gained a lot of attention in scholarly literature, the phenomenon of taking the previously outsourced function back in house - backsourcing, seems to be under-explored even though it becomes a more important issue for companies in all sizes (Whitten & Leidner, 2006, p. 606). Recent research about outsourcing has shown that companies have started to renegotiate or terminate contracts with outsourcing partners and chose to backsource or switch vendors instead (Whitten, Chakrabarty & Wakefield, 2010, p. 167). Some scholars have also suggested that backsourcing might become a key area in the outsourcing area in the coming years (Dibbern et al., 2004, p. 7). In fact, the technology research and consulting firm Gartner (Brown, 2004 cited in Whitten & Leidner, 2006, p. 606) reports that in the case of contracts being discontinued, 56 % of small business- and 42 % of mid-size business contracts are being backsourced. 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. (Deloitte Consulting) This evidence shows how important backsourcing is in relation to outsourcing and it calls for more research examining the importance of this issue.

As the IT services have been the main starting point for outsourcing, a bigger part of existing literature about backsourcing also focuses on the IT services (Whitten & Leidner, 2006; Benaroch et al., 2010; Veltri et al., 2008). Whitten & Leidner (2006, p. 606) explain that a major reason for bringing IT back in house is that top executives in highly competitive IT-intensive industries are discovering that IT infrastructure is in fact a competitive asset. This reason is however, narrow and characteristic for IT services solely and may not be able to explain the decision of backsourcing in other industries and in other circumstances.

Therefore, this study aims to uncover these gaps in the previous literature about backsourcing by investigating the backsourcing process in a medium-sized business context other than the IT services. Through our findings, we will contribute to backsourcing and its related issues for research and practice.

1.2 Purpose

As already mentioned, there is hardly any research available about backsourcing activities. Moreover, Veltri et al. (2008, p. 65) point out that backsourcing needs to be well prepared already during the outsourcing of the process/service. Bellâaj et al. (2011, p. 58) mention the problem of knowledge loss during outsourcing. Consequently, backsourcing can become very time consuming and costly because of recovering skills and resources, which have been lost in the previous outsourcing process. (Veltri et al., 2008, p. 65) Thus, we could hardly find any recommendations for companies when backsourcing activities. For this reason, further research should investigate strategies that organizations could employ to ensure a successful implementation of backsourcing. (Wong, 2008, p. 107)
Therefore, the purpose of this study is to investigate the upcoming problems when backsourcing services/processes and to increase the understanding of critical success factors for backsourcing projects in manufacturing companies.

In order to fulfill this purpose, we have developed three research questions:

1. What are the motivations for a company to backsource?
2. Which challenges can a company identify when implementing the backsourcing process and how do they cope with the challenges?
3. What are the critical success factors of the backsourcing process?

**Figure 1: Overview**

The provided figure, should give the reader an overview about the structure of this thesis. In this way, it should make visible how backsourcing relates to outsourcing and at which point of the process of backsourcing the research questions fit.

**1.3 Delimitations**

Firstly, the authors consider backsourcing as a strategic decision taken by the management, hence, they do not take broader literature concerning strategic management into consideration, as this would go beyond the scope of this thesis.

Secondly, the investigated company is not an independent company, it is a middle-sized manufacturing subsidiary, which belongs to a larger international corporation. This means that the authors are excluding smaller companies, as size and the hierarchy of a company influences its decision making process.
Thirdly, the authors are not investigating a company as a whole, as described later on in the methodology, the authors are investigating a backsourcing project, which is conducted within a company.

1.4 Definitions

Outsourcing

Outsourcing is a common approach used by companies in different fields with different purposes. However, the definition of outsourcing in many cases is not clear and often being confused when it is used in replacement of some other more specific terms such as subcontracting, contracting out, employee leasing, professional services, consulting etc. (Chapman & Andrade, 1998). All of these terms bear similarities to outsourcing but their characteristics have some differences that might lead to confusion in what is meant by the term “outsourcing”.

The definitions of outsourcing may slightly differ from each other but they all share the same underlying concept: the involvement of a third party and the outsourced services or processes is part of the company’s operation. Perry (1997, p. 521), who applied outsourcing within human resources, explains outsourcing a contractual agreement where a supplier provides services or processes to other companies. Quelin & Duhamel (2003, p. 648) defines outsourcing as the process in which a corporation or another business entity subcontracts the performance of certain services or the operation of certain equipment required for its internal operations to a third party. These are the main characteristics of the concept of outsourcing that distinguishes it from regular purchasing agreements in which companies sell off part of their business. When talking about outsourcing, it could either be the manufacturing of a product or the performance of a service. (Varadarajan, 2008, p. 1165)

Insourcing and backsourcing

The term of insourcing is used by Chorafas (2005) to describe the sourcing decision of a third party. Thus, insourcing is defined as the practice of subcontracting work to an internal department or another company that is under the same general ownership (Chorafas 2005, p. 5). Insourcing also refers to the process of bringing a third party outsourcer to work inside the company’s facilities. In addition, a company can choose between contracting the entire team of workers from an outsourcing provider and hiring outside experts as consultants to make recommendations that the internal staff can implement. (Plunkett Research, 2014)

Insourcing has also been defined as outsourced activities brought back in-house (Chapman & Andrade, 1998; Van Weele, 2002). This definition is often referred to as backsourcing. Although both insourcing and backsourcing processes involve internal performing of activities, they differ from each other in the way that the activities in backsourcing have previously been outsourced, then brought back in house and performed by the company’s own workforce. Activities in in-sourcing on the other hand are assigned in the first place to the company’s internal departments, or contracted out to a third party and performed by the third party inside the company.

In this thesis, we put the focus on examining the process of backsourcing and its related issues. However, as the initial step of backsourcing is outsourcing, we decided that the concept of outsourcing as well needs to be understood. Therefore, outsourcing will be treated
in this thesis as an important part so that we can have a deeper understanding on the concept of backsourcing.

Figure 2: Sourcing decision
2 Literature Framework

The literature framework is supposed to provide the reader with an understanding for the investigated area. In order to understand the concept of backsourcing and its implications, we decided to start by explaining the concept of outsourcing, its motives and functions. As a second step, the terminology of backsourcing and reasons for it will be explained more detailed. The chapter will end in showing the conceptual framework that we built up on the found literature.

2.1 Outsourcing

Outsourcing took its beginning in the 1960’s in facilities management, continued with the service bureau stage and ended up where it is nowadays. Large companies in the field of computer operations had free capacities and offered those to smaller sized companies, which could not afford internal computer systems and server capacities. Consequently, those providers had the power with supply and demand. (Chapman & Andrade, 1998, p. 5) Often, outsourcing is described as a contractual agreement from a supplier, who actually provides a service or processes to another company. However, outsourcing is in most cases not simply a make or buy decision, if the quality of the provided goods/services is the same. (Perry, 1997, p. 523) and has not always been necessary, now it has become a matter of strategic management. (Gay & Essinger, 2002, p. 5) Fan (2000, p. 213) highlights that the fundamental difference between outsourcing and other purchasing agreements is the fact that the customer contracts out a part of its existing internal activities. This means that the supplier is replacing the outsourced service or process and it is not selling off a part of business. Varadarajan (2008, p. 1166) describes outsourcing as a transitional phase from in-house production to external performance. After this transitional phase, it comes to the steady state, namely sourcing from an external entity. (Varadarajan, 2008, p. 1166)

2.1.1 Types of outsourcing

In any case, outsourcing can take place within the same country or abroad. In this context, it feels sensible to introduce the term offshoring. Offshoring is thereby defined as the outsourcing of a service or process to a foreign country and taking advantage of cheap, but skilled labor. However, it has also been described as a “multitude of different control situations, ranging from international sourcing and purchasing to the operation of wholly owned, offshore re-export platforms”. (Mudambi & Venzin, 2010, p. 1510) Moreover, there are two contrary opinions about the primary objective why companies actually do offshoring. Firstly, it can be a cost minimization through the relocation of business processes to low-wage locations. Secondly, it can be a more general location strategy incorporates cost minimization and knowledge seeking. (Mudambi & Venzin, 2010, p. 1510) The countermovement to offshoring is called onshoring, which is the act of bringing home offshored companies, which will be called backsourcing throughout this paper. Rasmussen (2011, p. 6) identified several benefits of doing this: being closer to the market, communication is facilitated as there are no language or time differences and it is easier to control property.
Moreover, Chapman and Andrade (1998, p. 6-8) describe several types of outsourcing, which will now be described briefly:

- **Contracting out the activities**: This type is usually used in the short term for low-level ancillary services, such as cleaning or managing washroom hygiene. The outsourced activities are not strategically relevant, thus it is important to find a solution for an occurring topic.

- **Outsourcing the service**: certain services are selected and forwarded to special service providers, this enables a company to focus again on the core competences and source the service from a provider, who has expertise in this field. This type, if managed properly, will allow an organization to focus on its core business and thereby the organization will profit from the provider’s contribution at a strategic level.

- **Benefit-based relationships**: in this case, both organizations have to do an up-front investment in the relationship and they are sharing the benefits as they agreed on beforehand. However, if the benefits of the relationship do not materialize, the supplier is not guaranteed to receive any compensation for its effort.

- **Insourcing**: this is an alternative approach on the outsourcing decision. Insourcing does not free up management time, thus it is a way of retaining skills and exploit assets, which will result in low unit costs. Thereby, work from other businesses can be undertaken when improving the operation of an area. This strategy might be chosen, when it is too difficult to outsource for any reason.

- **Co-sourcing**: Furthermore, Chapman and Andrade (1998, p. 6-8) describe this type as the most intimate interaction between supplier and host organization. In this case, the host organization supplies staff or managers because of their specialist knowledge, which they cannot afford to lose permanently. Both organizations have the responsibility for the supply of the resources in order to meet the objectives; this often implies the risk that there is no redress if objectives or targets are not met. (Chapman & Andrade, 1998, p. 6-8)

### 2.1.2 Motives for outsourcing

There are various motives for outsourcing, according to Franceschini et al. (2003, p. 246) the two most important motives are efficiency and production reorganization. Fan (2000, p. 213) points out five main reasons: reduce cost, improve quality, service and delivery, improve organizational focus, increase flexibility and facilitate change. Fill and Visser (2000, p. 43-44) mainly differentiate between capacity and non-capacity outsourcing. Capacity outsourcing refers to tasks and processes which are also executed by the outsourcing company. Capacity outsourcing is usually the case, when there are for example peaks in the production and the own resources are not sufficient. In contrast, non-capacity outsourcing refers to tasks, which are not pursued by the organization itself. (Fill & Visser, 2000, p. 43-44) Harland et al. (2005, p. 834) discuss among other issues, the matter of outsourcing and flexibility. They mention that outsourcing increases flexibility, which enables a company to react faster on changing business situations, the peaks in production, but also to the intermediate need of certain technology or services. This implies having smaller and more flexible workforces. (Harland et al., 2005, p. 834) However, it is also mentioned that not every outcome is that obvious.
Hence, it is pointed out that there is little research on the performance measurement of outsourcing. (Harland et al., 2005, p. 834)

Freytag et al. (2012, p. 101) identify three different perspectives on outsourcing, moreover, they argue that all of these three strategies should be considered when deciding on a firm’s sourcing strategy: the cost-based view, the competence-based view and the relationship-based view. The cost based view aims at minimizing the production and transaction costs. This means that if a company is not able to compete in terms of cost with others, it should outsource the service/process. (Freytag et al., 2012, p. 101) The competence based view focuses on the retaining of core competencies and neglecting activities, which are not involved in the core competences. Therefore, the major focus is on protecting and developing competences to maintain competitive advantage. However, competences cannot only come from the own company, it could also imply managing resources developed and coming from external sources. (Dyer & Singh, 1998, p. 660) This might be supported by the view of Fill & Visser (2000, p. 44), who state that companies may profit from outsourcing. It facilitates to cope with the competitive pressure that squeezes profit margins and it eliminates investments in fixed infrastructure. (Fill & Visser, 2000, p. 44) Hence, the relationship-based view argues that a company is not a sole entity, but it is understood by the network it is embedded in. It is stated that being embedded in this certain network would provide the possibility to improve the productivity and innovation of a firm. Further, integration is seen as a necessary condition for achieving competitive advantage in order to be able to link and handle resources. (Freytag et al., 2012, p. 102) Consequently, Freytag et al. (2012, p. 102) conclude that there is a bond created between the involved firms in outsourcing relationships, which would lead to a higher productivity.

There is clear evidence which process type is outsourced. In the private sector, often support services such as catering, cleaning or maintenance are outsourced. There is a trend to name those arrangements “facilities management”. Among large multi-nationals, it is common to use third party logistic providers. (Harland et al., 2005, p. 834) Car manufacturers are known for having outsourced component manufacturing, which was previously done in-house. Moreover, it is mentioned by Harland et al. (2005, p. 834) that outsourcing is not just used for support services, but also for activities, which are closer to the core.

Until now, we were majorly reflecting strategies and theories about outsourcing, which concluded that companies just source out what is not their core competence. However, the example of Fiat in 1997 disproved the so far read theories. Fiat identified its competences in styling and engines, but both were conducted partly by subcontractors. A similar example was reviewed from the British health care system, which sourced out the provision of sterile supplies and patent appliances. Harland et al. (2005, p. 834) conclude that the motivation for outsourcing services is not depending on whether they are seen as core or non-core. (Harland et al., 2005, p. 834)

Belcourt (2006, p. 270) discusses the matter of outsourcing in human resources management. She brings up the example of IBM, which has outsourced its entire HR department. The functions outsourced most frequently are temporary staffing, payroll, training, and recruiting and benefits administration. Moreover, she argues that the pressure on HR departments has increased towards productivity. Hence, another advantage seems to be that “service providers with international expertise also allow HR departments to harmonize employee packages for a global workforce, while complying with local laws.” (Belcourt, 2006, p. 270)
2.1.3 Risks

Whenever it comes to decision making, costs and risks need to be evaluated. However, to do so, it is necessary to identify the scope of the project’s interdependencies and the specificities of the project. This means, the less defined the scope of a project is, the less sense it makes to shift the total responsibility to an external provider. Moreover, Ripin & Sayles (1999, p. 43-44) add the fact that the more formerly independent and autonomous functions are involved, the more difficult and risky it will become to outsource. This means that the higher the amount of interdependence among included function is and the lower the clarity of the project definition, the higher is the risk. Whereas, when the project definition is very clear (high) and the interdependencies among included functions low, there is a low risk in outsourcing. (Ripin & Sayles, 1999, p. 43-44)

Fill and Visser (2000, p. 45) cluster risks into three major categories:

- Contextual factors: Contextual factors are an approach of examining contextual drivers, whereas it is distinguished between quantifiable ones and non-quantifiable. Quantifiable drivers can be fixed costs, investments and revenues. In contrast to this, non-quantifiable criteria are strategic interest, confidentiality, linkages with operations, stability of employment, manageability and dependence on suppliers.

- Strategy and structure: In this category the Fill & Visser refer to the work of Ewaldz (1991, cited in Fill and Visser, 2000, p. 46). Ewaldz (1991, p. 53) is proposing nine so called guidelines, which are actually questions, which should lead the decision maker in structural decisions in order to see how integrated the organization should be. The first guideline concerns the uniqueness of the production process. Then the company should analyze the market cycle and the amount of capital it requires for internal production. Then there is the question if customers expect the company to manufacture by itself and source in the closer surroundings. Moreover, it is important to be aware of the time frame, how long the production is actually viable and if there is any company able to provide the product in the expected quality and quantity. Moreover, the company should analyze, if there are any peculiarities of the product that require an external sourcing. Last but not least, the corporate culture has to be taken into consideration, if it can be changed or not. (Ewaldz, 1991, p. 53-55)

- Costs: Two different types of cost should be considered in this context: production cost and transaction/coordination cost. Production costs, in the case of standardized products, should be lower to the outsourcer because of economies of scale. Thus, when a high degree of customization is necessary, the in-house production cost might be advantageous. Further, it is highlighted that high coordination cost could occur, because it is necessary to monitor the supplier. (Fill & Visser, 2000, p. 46)

Weidenbaum (2005, p. 313) also discusses pros and cons of outsourcing. In the context of cons, he mentions that companies are often surprised by the unexpected cost and complications. Newcomers in the business may face unreliable suppliers, which prefer to work for customers that are more valuable. Further, he mentions unexpected transportation costs for employees or electricity problems in the oversea plant. (Weidenbaum, 2005, p. 313)
2.1.4 Deciding to outsource - the process

As outsourcing is majorly a make-or-buy decision within strategic management, there are several questions that arise in the decision making process. Authors broadly discuss these form different angles, e.g. Handley and Benton (2009) identify three critical elements in the outsourcing process:

- **Strategic evaluation:** Within the strategic evaluation, it is reflected to which extent the outsourcing has been undergone a comprehensive evaluation. Thereby, the decision makers have to consider the perspective of capability and risks. Whereas, capability deals with the matter of resources, risk assessment is connected to the transaction costs. (Handley & Benton, 2009, p. 347)

- **Contractual completeness:** it is explained that a complete contract serves two fundamental functions, namely coordination and control. The coordination aspect should deal with the matter how each party will manage intercompany related resources management. The control aspect should define and to some extent govern which party will do what. (Handley & Benton, 2009, p. 347)

- **Relationship management:** relates to the factor in which way the relationship to the vendor/supplier is managed. There are different viewpoints in literature. Handley & Benton divide it into cooperation and relationship commitment. They mention that it is necessary to make a strong commitment to your partner, in order to develop a successful partnership. On the other hand, it requires a high degree of cooperation, as there is often an exchange of critical information e.g. long term forecasts. (Handley & Benton, 2009, p. 347)

Hätönen (2008, p. 56) has developed his own model of the outsourcing process, which is influenced by various authors. Therefore, we will follow this model, as it seems to be the most complete one, which fits the best to our study. He built up a complete model, which shows outsourcing comprehensively, so that it helped us to understand the major issues. Hätönen assumes that it is an ongoing process that can be stopped at any point and its sequences may vary from case to case. The first phase that he describes is the matter of internal assessment, meaning the question of “What?” and “Whether?” which is congruent with the strategic evaluation of Handley and Benton (2009) as described above. Further, Hätönen explains that in phase two, the company/department decides on the nature of outsourcing, why it should be outsourced, where and how it will be handled. Within the third phase it is essential to answer mainly the question of implications within outsourcing. In the fourth and last phase, the performance implications are managed. (Hätönen, 2008, p. 56) This is again congruent with Handley & Benton (2009), who discuss this as contractual completeness and in terms of relationship management.
2.2 Backsourcing

The term backsourcing was originally introduced in 1998, and since then there have been only a few studies on backsourcing (Veltri et al., 2008, p. 52). Backsourcing is part of the sourcing process, beginning with the original make-or-buy decision. If the decision is a make-decision, the company chooses then to source in-house. If the decision is a buy-decision, it will have to outsource to a third party providing the products and services that are required. At some point, the company will re-evaluate the outsourcing contract and select among a number of alternatives: to continue outsourcing with the current provider or with another provider, or to backsource.

The decision for backsourcing is often done when outsourcing arrangements do not work as anticipated. This occurs usually because of one of the two main reasons: the outsourcing decision was a mistake in the first place and it makes no sense to continue the relationship and waste more money; or the outsourcing decision makes sense in the first place but as the business environment changes, the reasons for outsourcing are no longer present. (Tadelis, 2007, p. 265)

It is important to recognize that backsourcing is an option, and companies have to evaluate the business sourcing practices regularly and compare them to the alternatives. The alternatives could be opportunities for renegotiation and reorganization of outsourcing contracts and relationships. (Tadelis, 2007, p. 265) The decision to backsource, just as the decision to outsource, involves a change in the structure of the company. This means that a trade-off analysis will have to be conducted in order to evaluate the benefits and costs for the changes. The costs may include a penalty for unwinding an outsourcing agreement, appeasing dissatisfied customers and reproducing the infrastructure to support the function back in-house etc. The benefits, on the other hand, are quality improvement of the products/services which is crucial for the survival of the company in the long term.

Veltri et al. (2008, p. 51) argue that given the size of the current outsourcing contracts and the likelihood that there will be new opportunities or problems with the contracts, companies should prepare for opportunities for backsourcing.

2.2.1 Motives for backsourcing

Just like outsourcing, companies decide to backsource because of various reasons. The earliest academic literature on backsourcing suggests that backsourcing is motivated by a change in circumstances, redefinition of the character of outsourced service, or discovery of flaws in the decision to outsource (Veltri et al., 2008, p. 52). Such motives are for example change in the law that creates barriers for continuing a current outsourcing arrangement by making it more costly, immoral and even illegal. Moreover, it could be that the company needs to redefine its products or services because it has gone through a re-organization process or entered a new market. Poor result from outsourcing performance is also the reason for many companies taking the outsourced function back in house (Veltri et al., 2008; Whitten & Leidner, 2006).

The reasons for backsourcing are exposed differently among the scholars. As the authors of this thesis, we have identified two mainstreams of the literature that try to explain the reasons why companies make the decision to backsource. The first mainstream can be referred to the
work of Wong (2008) who suggests nine factors that drive backsourcing decisions. He further grouped them into four categories:

1. Strategic: including changes in “strategic direction”, “business role” and “organizational structure”. Wong (2008, p. 104) argued that with strategic changes, organizations may find that previously signed outsourcing contracts could no longer accommodate the expansion needs in a cost effective and efficient way. This will motivate an organization to backsource. Additionally, because outsourcing contracts often tie organizations down to certain terms, organizations may lose their flexibility. Thus, when circumstances change, organizations may begin to feel the need for gaining more flexibility to fulfill their needs of for example expanding or downsizing (Wong, 2008, p. 104). The natural decision is then to backsource in order to gain full control of the process and to eliminate obstacles that hinder organizations from achieving their goals.

2. Power and politics: “power” and “politics” at top-level management can have an impact on the organizational strategy including the sourcing strategy (Wong, 2008, p. 104-105). Top management often plays a crucial role in initiating, formulating and implementing strategic changes, while being influenced by their beliefs, knowledge, experiences, value etc. (Bigley & Wiersema, 2002; Child, 1997). Changes in executive management within the outsourcing company are usually in combination with shifts in the power distribution. Hence, when companies introduce new executives, these new members are more likely to provoke changes (Veltri et al., 2008, p. 61). Moreover, there is a shift in the top management; sourcing decision may change from outsourcing to insourcing because the new executives believe more in the internal provisioning of the services.

3. Expectation gap: This category includes the factors: “cost”, “service quality”, “loss of control and resources accessibility” (e.g human capital, knowledge capital etc). Expectation is the belief about what vendor will and should provide them (Lacity, Hirschheim, & Willcocks, 1994, p. 14). When organizations realize that their outsourcing expectation is more of a myth than a reality, they may start to rethink about their outsourcing strategy. Bringing the outsourced function back in house is often the decision that helps organizations to eliminate this gap in their expectations. (Wong, 2008, p. 106)

4. Changes in vendor organization/ strategy: Even though reasons for taking the decisions to backsource often originate from the client’s side, “changes in organizational structure or strategy” of the vendor may also trigger backsourcing. The decisions of vendors to merger, acquisition or change in focus may influence how they approach existing outsourcing contracts. This may cause dissatisfaction on the client’ side leading them to shift away from outsourcing and move toward backsourcing. (Wong, 2008, p. 106-107)

The second mainstream that we have identified also concerns the nine factors that are identified by Wong (2008). However, the nine factors are categorized differently into three categories: contract problems, internal generated opportunities and external opportunities (Veltri et al., 2008) To understand the differences between the two mainstreams, we will examine the second mainstream below.

1. The first category is concerning contractual problems. Motivation for backsourcing occurs when the provider does not meet the expectation of the client company because the provider is unwilling or unable to perform as expected. The client company chooses not to continue the contract as it is not satisfied with the costs which are higher than expected and the poor
service quality that the incompetent supplier may provide (Veltri et al., 2008, p. 53). The cost involved in outsourcing is often significant higher than planned because hidden costs are hard to identify and estimate, as they grow over time (Raiborn et al., 2009). Furthermore, cost savings are often overestimated by the client company (Veltri et al., 2008). Poor service quality levels are typically perceived as incompetent, unprofessional and irresponsible vendors that provide low quality services and delay on delivery (Veltri et al., 2008).

In addition, the client firm may feel a sense of losing control of certain functions that were crucial in creating strategic value. This often involves functions that were outsourced and later identified as a key factor for gaining or maintaining a sustainable competitive advantage. (Veltri et al., 2008)

2. The second and the third category on the other hand deal with a satisfactory outsourcing relationship, but business changes create new opportunities that make backsourcing more attractive. The business changes could be internally, for example a change in executive management that can lead to shifts in corporate power. With new ideas and experiences in the management, changes in corporate strategy are likely to be triggered. This involves recognition of new roles for core business, in which companies may reposition and restructure its internal and external competences. (Veltri et al., 2008)

3. The business changes could also be externally e.g. involvement of other companies, derived from for example pressure from outside or changes in the market such as mergers, divestitures or acquisitions. This structure changes often increase the size of the company and therefore create opportunities for it to operate more cost-effectively by backsourcing. In addition, when market conditions change, companies may feel a need to assess the threat followed by the rapid changes and safeguard its competitiveness by securing access and ownership of critical resources. Repatriation of outsourced functions seems to be the natural solution for many companies. (Veltri et al., 2008)

Beyond two mainstreams that were initially developed by Wong (2008) and Veltri et al. (2008) to provide a complete explanation for the reasons why company decides to backsourse, there are several scholars who have proven the influence of some of the factors in their field of study in their research. They do not provide a complete list of reasons as Wong (2008) and Veltri et al. (2008) did, but they contribute to the literature on backsourcing by showing that the importance of each of the factors varies depending on the situation and the characteristics of each business. For example, McLaughlin and Peppard (2006) differentiate the reasons for companies to backsource between problems in the contract or failure in achieving objectives, a desire of the client company to regain control, and a change of business environment, technology, or management of the client company as well as of the vendor company. In addition, a study of Lacity and Willcocks (2000) found cost considerations to be critical in backsourcing decisions. They also found that the quality of the products and services, as well as the quality of the relationship between the client company and the vendor, are fundamental.

Even though different authors explain the reasons for backsourcing differently and they are categorized in various ways, we can see that they share the same underlying concepts concerning the nine factors. These factors will be the basic knowledge for us to build a preconception of how a company chooses to backsourse. This preconception is very important because it will help to formulate the interview questions and facilitate the analysis of the empirical findings.
2.2.2 Stages for backsourcing

Bhagwatwar et al. (2011) have developed a nine stages framework for the backsourcing process in their research on Information System knowledge transfer and reintegration. Their framework is very similar to the framework developed by Overby (2005, p. 68). The steps describe the process after having made the backsourcing decision, with the main focus on reintegration issues in identifying strategic options for successful backsourcing decision. We are well aware that the steps are applicable for a business environment focusing on services, in this case, IT services. However, there is still lack of research about the manufacturing side, and as manufacturing companies backsource not only products but also services, we believe this framework may provide a good insight for their study. The framework will be described in details below.

9. Informing the backsourcing decision to the outsourcing vendor
This step is important in the cases where a backsourcing clause is part of the outsourcing agreement. Because the process of backsourcing may involve knowledge transfer, good communication with the vendor will help to smoothen the process as well as keeping up with the cooperative environment. This is also important for the vendor in determining and negotiating the early contract termination charges with the client.

2. Financial viability analysis through audits
If the client company has ensured all the components of the knowledge transfer and integration are well documented, it should be convenient for the company to determine the exact kind of activities involved in the backsourcing process. The documents include details of activities during critical stages or checkpoints, status of the outsourced business process and so on. By determining the activities and resources required for each activity, the company needs to determine how economically viable and time consuming the backsourcing project is going to be.

9. Backsourcing project team and plan
The team may consists of both, staff from the client side as well as from the vendor side, with the main task of analyzing and identifying key steps and responsibilities during the knowledge transfer process. The backsourcing plan has to be developed carefully considering all the risks involved and the impact on the ongoing operations of the company. Co-operating with the vendor is critical when forming teams and making plans because the vendor was involved in the outsourcing process and has complete knowledge of the various steps that were followed when the outsourcing took place. The involvement of the vendor may as also speed up the backsourcing process.

9. Workforce requirements and responsibilities during backsourcing
The backsourcing company has to ensure that the vendor returns all the property of the company and needs to support the company staff in the backsourcing process. It is also essential to ensure that the employees being transferred back are feeling comfortable with the process because they are critical for the knowledge transfer process. In addition, a pre-estimation of roles and responsibilities should be defined for the employees so they know what they are expected to be during and after the backsourcing process.

9. Employee re-hiring or new employee hiring strategy
A backsourcing decision may involve both re-hiring previous employees and hiring new employees with expertise. Thus, the process in both cases will cause cost. Establishing an
early plan regarding employee management may be important to consider in analyzing backsourcing related costs.

6. Security policy
Because the process of backsourcing involves a third party, and for example employee layoffs, it is necessary to implement information security procedures to safeguard sensitive data of the company.

7. Continuity of business operation
The backsourcing process might take a long time, often months, and it may affect not only the financial sheets in the short term but also a company’s efficient operation for a short time period. Hence, it is important that the backsourcing process is managed carefully so it does not have negative impacts on the day-to-day performance drastically.

8. Stakeholder management
It is critical to understand the impact of backsourcing on a company’s stakeholders. The stakeholders will be affected differently by the decision, and can have various influence on the decision. As a consequence, the company should maintain good communication with the stakeholders to ensure that the backsourcing process can be implemented with least disruption possible and the stakeholders do not feel overwhelmed by the sudden change of strategy.

9. Knowledge management
Capturing knowledge and experience about the outsourcing process might be important for the process of backsourcing. Knowledge includes developing lesson learned, building communication mechanism and ensuring that intellectual property is secured etc. Knowledge and experiences gained from outsourcing processes might be applicable for the backsourcing process and therefore help the process to develop in a convenient way.

This framework describes a complete list of stages that a company should go through when deciding to backsource. However, in reality companies may choose to implement only some of the stages and implement stages in different order depending on their resources and business circumstances. The influencing factors include for example if the company has previous experience about the production of products or services they want to backsource; if they need knowledge transfer from the vendor; or if the backsourced products or services are the core competences of the company. This gap between literature and reality is what the are interested to investigate. This will provide evidence in which meaningful conclusions are made contributing to the understanding of the backsourcing process.

2.2.3 Risks and challenges with backsourcing
The decision to backsource is often taken when there is enough evidence that outsourcing is no longer the best solution. By taking the functions back in house, companies avoid different risks associated with outsourcing as we have mentioned earlier. However, the process of backsourcing is not risk-free either. Just like in outsourcing, a company may face many challenges; especially short-term challenges when things are still messy in the beginning of the process as backsourcing often involves restructuring a part of or even an entire department. (Chapman & Andrade, 1998, p. 57)

The first factor concerning risk is the cost, including money, time and efforts that a company has to put into the backsourcing process. As previously mentioned, one of the reasons for outsourcing is lack of resources such as equipment, skills or competences to produce the
service in-house. Therefore, when the company decides to backsource, it has to deal with these cost issues that it had tried to avoid in the first place. The backsourcing process is a very costly project that not all companies can afford. The costs are often significantly higher than expected and it may take years to complete. (Chapman & Andrade, 1998, p. 57) In addition, the backsourcing process will affect every employee, manager, and department in the company.

Knowledge transfer is another concern that a company has to take into consideration. Even when the process is often costly and time consuming, there is no guarantee that the result will be better than when the company chose to outsource. Knowledge is linked to the employees performing the tasks. These competent employees are either transferred from the vendor or new ones are hired who have certain experience in the field (Bhagwatwar et al., 2011, p. 168). However, there is always a risk that the transferred employees do not feel comfortable in the new work environment, or the new employees do not have enough skills and experience to contribute to the same performance as the old ones. In both cases, companies may risk losing valuable knowledge in terms of human resources that may slow down the overall performance of the company. (Veltri et al., 2008, p. 58; Whitten et al., 2010, p. 169) Hence, it is very important that the company focuses on human resource management in the early stage of the backsourcing process so that potential risks can be identified and eliminated.

In addition to cost and knowledge a company might lose during the backsourcing process, technical procurement is a concern that cannot be ignored. If the old equipment was sold to the outsourcer during the outsourcing process, the company needs to buy new equipment or updating the current one. Even when this is most likely to be a one-time investment, it will be very costly and result in short-term negative impacts on the balance sheet of the company. (Whitten et al., 2010, p. 168) Thus, when deciding to backsource and making plans for the implementation, costs have to be considered as one of the key factors anticipating the success or potential downturns of the process.

Besides the internal risks, threats to the backsourcing process may also come from the external environment. Customers as well as partners can have issues with the changes that follow as a consequence of the backsourcing process. Change in partnership deriving from dissatisfaction of the partner is an important concern that companies need to take into consideration. (Chapman & Andrade, 1998, p. 89) Relationships with customers and partners are hard to build but easy to lose, therefore the company needs to manage this risk carefully to avoid such drawback which can have negative impacts on the reputation as well as on the financial performance of the company.

2.2.4 Backsourcing critical success factors

Backsourcing may differ in scale and complexity. It can range from bringing a single function back in-house to a total backsource in which companies choose to rebuild an entire department. When considering the decision to backsource, a number of aspects need to be evaluated concerning the company and the related activities. On the one hand, the company needs to compare and evaluate the choice of backsourcing to other options such as extending, renewing, or renegotiating the existing contract, or re-tendering to test the market and potentially find a new outsourcing vendor (McLaughlin & Peppard, 2006, p. 10). On the other hand, the characteristics of outsourced activities in relation to the ability of the company also need to be examined. The most significant concerns are suggested by Chorafas (2003), including: The outsourced function’s relatedness to the company’s own core competence; the
solidity of the technology exploited and the life cycle of the product or service; the ability to find reliable partners and suppliers to meet requirements concerning performance and quality; the possibility of achieving economies of scale and scope.

Each of the motivations for backsourcing requires different criteria for success from the client company. When a company faces contract problems, e.g. problems with cost saving, poor service quality and the desire to regain control, the success criteria for backsourcing depends on the company’s ability to resolve conflicts with the vendor in order to ensure an effective reverse knowledge transfer from the vendor to the client company. In addition, the company’s capacity of absorbing back the knowledge and practices and re-integrate them is also crucial for ensuring the backsourced function will work as good or better than the vendor’s. (Bhagwatwar, Hackney & Desouza, 2011, p. 168-169; Whitten & Leidner, 2006, p. 615)

When the key drivers for backsourcing are internally generated opportunities, meaning that there is a change in executive management, the success criterion for backsourcing is now related to how successful the management is. This is because all the decisions come from the managers, and managers are the link that integrates all the individual parts in the company. The study of Geoghegan & Dulewicz (2008, p. 65) confirms that management dimensions such as empowerment and development of employees by the managers, contribute most to successful projects. Thamhain (2011, p. 34) on the other hand emphasizes team structure, communication and adaptation of technique, tools and leadership as some of the critical factors for effective team management. Thus, the critical success factor of backsourcing depends on whether the new executive management can align its sourcing vision with the breadth and depth of the sourcing internal capabilities.

2.3 Conceptual framework

Before starting to sum up the theoretical framework, we would like to clarify the concepts of mergers and acquisitions, as well as project management in which backsourcing is embedded in. This will actually show where the authors see that the concepts of outsourcing and backsourcing are embedded in and thereby develop a conceptual framework. When reviewing the literature to the topic of outsourcing and backsourcing, we discovered that these concepts could be relevant for this research in a broader context. However, it would go beyond the scope of this thesis if these concepts would be discussed more deeply. Therefore, we will shortly introduce those topics, in case that the empirical results will show matches with these concepts.

Mergers & acquisitions are a common tool to extend the own organization in terms of products, markets and geographical reach. Mainly, a company has to consider two major criteria when deciding whether to merge or not: strategic fit and organization fit. The strategic fit should answer the question to which extent the target company strengthens or complements the current strategy. The organizational fit in contrast, describes the matter of match between the management practices, cultural practices and the staff characteristics between the target and the acquiring firm. (Johnson et al., 2011, p. 330-332) In general, it is necessary to consider several issues during an acquisition process being strategic, structural, personnel, cultural, and stakeholders. (Ruess & Voelpel, 2012, p. 78)

As the authors of this thesis, we argue that the post-acquisition phase can be compared to the backsourcing process, as there are various similarities: an acquisition refers to transferring the
ownership of a company to another (Johnson et al., 2011, p. 535), as it is done in backsourcing with single processes/services.

This is supported by the definition of Haspeslagh & Jemison (1991 cited in Öberg & Tarba, 2013, p. 470) library “Post-merger integration (PMI) refers to the process where the acquiring and acquired party are unified, and decisions are made in terms of degree of unification, its direction, content and areas (company functions) of integration.” When taking over a company, the company then needs to be integrated in existing structures and developed according to the company’s strategy; this also needs to be done in backsourcing projects, even though the extent is much smaller. Therefore, the challenges and critical success factors in the post-acquisition can give useful advice for backsourcing projects.

The second concept that gained our attention was the importance of project management, as the aim of this thesis is to investigate a company’s backsourcing decision and the process. It is assumed that this was done project-based, also Kotlarsky & Bogner (2012, p. 82) talk about projects in relation to backsourcing. There are various definitions for project management, however, when looking at them the most important patterns are: the uniqueness that every project has, a temporary aspect - having a clear beginning and ending and a clear focus to deliver a certain product service or result. (Maylor, 2010, p. 5) Patah & de Carvalho (2007, p. 2038) describes project management as an important tool in leadership and management. Moreover, they state that project management should go hand in hand with the corporate strategy. (Patah & de Carvalho, 2007, p. 2038)

Outsourcing and backsourcing may be opposed to each other, but they are interrelated. Outsourcing is part of the backsourcing process that differentiates backsourcing from regular insourcing decisions. The decision to outsource seems to be very similar to the decision to backsourse, in which managers as the initial step have to consider the motivations why it should be outsourced or backsourced. Moreover, there is a need to develop a strategy for the sourcing process, considering capability of the company when implementing changes as well as relationship management with the vendors. Last but not least, managers need to assess risks, meaning that they need to evaluate problems and challenges arising when making the structural changes that the company will have to overcome in order for the sourcing project to succeed.

By examining the outsourcing process, more knowledge will be gained, which increases the understanding for the backsourcing process. When making the decision to backsorce, managers need to consider similar influencing factors that they previously had made to take the decision to outsource, but this time under a different circumstance. These factors are for example cost consideration meaning that the total cost for sourcing projects usually exceeds the costs a company has estimated; if the company has enough flexibility to adapt to the changes; or how to build a strong relationship with vendors to ensure knowledge transfer and maintain good co-operation.

However, there are differences between these two concepts that we had identified. In outsourcing, the motivations derive mostly from a company’s incapability of producing products or services in the most efficient way. The incapabilities are including insufficiency of resources such as too high costs or lack of knowledge or technical equipment. Hence, it is more beneficial for a company to let other companies do the job, while still being part of the production chain. Motivations for backsourcing on the other hand can derive from both, the
company’s capability of doing things, as well as from the vendor’s failure to meet certain expectations of the company.

After considering the motivations for the sourcing decision, the company needs to evaluate the risks associated with each decision. In outsourcing, the risks are divided into three categories: *contextual factors*, including quantifiable and non-quantifiable contextual drivers; *Strategy and structure*, including factors such as uniqueness of the process, market cycle, culture etc.; and *cost*, including product costs and transaction/coordination costs. The risks for backsourcing on the other hand are divided into internal and external factors. The internal factors are concerning cost, knowledge transfer and technical procurement. These internal factors are short-term risks that a company faces during and directly after implementing the backsourcing process. The external factors are derived from the perception of customers and partners on the changes that follow the backsourcing process.

In order for the backsourcing process to succeed, some considerations have to be taken into account by the managers. Before making the decision to backsource, managers need to compare the decision to backsource to other alternative sourcing decisions such as extending, renewing or finding a new supplier for the existing contract. There is also a need for evaluating the capabilities of the company and the characteristics of the backsourced products or services to determine if the backsourcing decision actually is a good decision. In addition, the previous literature emphasizes the importance of managers in resolving the conflicts with vendors to ensure effective reverse knowledge transfer, as well as their ability in aligning the sourcing vision with the breadth and depth of the sourcing internal capabilities. These are critical factors that have a crucial role in determining if the backsourcing project has been successfully implemented and the company’s overall performance has improved.
Figure 3: Conceptual framework

The model is a summary of our theoretical framework. It describes the structure for understanding both, the process of outsourcing and the process of backsourcing, in which the motivations are first to be understood, followed by the actual process of how outsourcing and backsourcing should be implemented. In addition, risks and challenges were analyzed and consequently, critical success factors could be identified based on the previous steps. This structure will serve us as guideline to form the empirical part of data collection as well as the analysis of the data collected.

Moreover, we have added the issue of project management and mergers and acquisition, which were identified to be related to the investigated phenomenon.
3 Research Methodology

In this part, we are going to explain the theoretical methodology of this research. Firstly, we will present our preconceptions and choice of the subject. Thereafter, our philosophical assumptions and our research strategy and approach are discussed, followed by a section clarifying the main structural framework. Furthermore, we will explain how we collect the empirical data and how this data will be processed. Finally, we discuss our choice of literature, as well as the quality criteria and ethical considerations.

3.1 Preconceptions

We are both studying business administration in the final year and have studied the management major at Umeå University. Within this major, there is a strong focus on strategic management, strategic decision-making and change management. Another focus within our studies was on project management. This educational background permitted to have an interest in this topic and a critical viewpoint at the same time on strategic decisions. We have learned an extensive amount concerning make-or-buy decisions; however, barely any lecture covered the topic of risks in outsourcing and the matter of backsourcing. Literature provides a number of guidelines and approaches how to deal with outsourcing, which is the basis for this thesis as well. Then, we started researching about the topic of backsourcing. They assumed that there would be research on this topic. Surprisingly, there was hardly any literature about it, which shows how under-explored the topic of backsourcing is. However, the matter of mergers and acquisitions has been covered in our lectures as well, which permitted them one possible viewpoint on the topic of backsourcing.

When doing an internship, Angelika was firstly confronted with the matter of backsourcing, which clearly raised her interest on investigating this closer. However, since the interning company was logistically too far away for conducting the research after the internship, we decided to use Tinh’s network of companies where he has worked, as this permitted to be geographically closer to Umeå. Moreover, we both believe that the matter of backsourcing is a major in a company’s strategy and the risks it might bring are often underestimated.

As stated by Saunders et al. (2003, p. 15) a good research topic can also be influenced by future career goals. As one of us has already worked in this field and is interested to deepen her knowledge in this field, the investigation of backsourcing is considered to be a good opportunity to do so.

3.1.1 Choice of subject

The subject seemed to be relevant for several reasons. The strive for continuous improvement forces companies on the one hand to rethink our strategies and on the other hand prove if existing business-relationships provide what was promised and expected. Moreover, outsourcing was often used as a solution in high-peak economy situations. The end of an outsourcing-contract does not necessarily mean that the relationship was bad, but within a company, the focus might change and new actions are taken. (Kaplan, 2005) However, usually, the outsourcee is seen as a specialist in its field, which implies that there is a lot of knowledge, which needs to be transferred back when deciding to backsource, as it was done as well when outsourcing. In addition, backsourcing is a growing trend that will likely be in
focus in the near future as argued. It becomes therefore a very important issue to study within the context of business management. Having a background in this specific area, the decision to investigate further on backsourcing therefore was a natural choice.

3.2 Research philosophy

3.2.1 Ontology

Ontology deals with the matter of the nature of social entities, its purpose is to identify “whether social entities can and should be considered objective entities that have a reality external to social actors, or whether they can and should be considered social constructions built up from the perceptions and actions of social actors” (Bryman & Bell, 2011, p. 20). We think that social entities, such as organizations, are connected to social actors. In the case of companies, the social actors are supposed to be the employees working, being assigned and rewarded for tasks within the company. This shows that there is a clear connection between them. Constructionism assumes that reality is a social construct, which is not static and in a constant state of revision. (Bryman & Bell, 2011, p. 22) Decisions in a company are taken by individuals day by day, which influence the daily work, processes and routines, this shows the constructed nature of companies. Therefore, we see backsourcing decisions and projects as social constructs. More specifically, they are investigating the risks that a backsourcing process can bring to a company and the influencing factors. Taking this philosophical stance, in the context of this thesis means that the answers of the interviewees will be interpreted in order to increase the understanding of those projects. This implies that the researchers aim at getting the holistic picture from the participants’ view of the investigated phenomenon. Taking a constructionist viewpoint, the researchers intend to construct the meaning of a situation by asking more broad and open ended questions, which force the researchers to listen carefully, but enable them to understand the social world of the interviewees. The researchers’ motivation is clearly to make sense of the statements and opinion others have about the investigated phenomenon. (Creswell, 2003, p. 8-9)

3.2.2 Epistemology

Epistemology is a philosophy stream that basically has the same meaning as the phrase “theory of knowledge”. This means that epistemology is theory about what knowledge really is, and concerns the question of what is accepted and what is not accepted as knowledge. (Bryman & Bell, 2005, p. 588)

Epistemology is concerned with the way researchers think about the development of knowledge. There are three views dominating the literature about the way knowledge is developed and judged as being accepted: positivism, interpretivism and realism. (Saunders et al., 2009, p. 83) Positivism's starting point is to be scientifically based, so that you use different kinds of scientific practices in examinations. The scientific requirements demand the objectivity of the research to be emphasized, without being influenced by the researchers own view. In addition, only knowledge that can be proven by one or more of the human senses is assessed to be true knowledge. Interpretivism on the other hand is derived from understanding and interpreting the human behavior based on the individual’s perspective. One should empathetically attempt to understand people's behavior and actions, rather than that of positivism, to find an explanation of what it is that affects these behavior and actions. (Bryman & Bell, 2005, p. 27-29, 443, 589) Finally yet importantly, realism is based on the belief that a reality exists that is independent of human thoughts and beliefs. This means that
social objects or phenomena that are external to, or independent of, individuals will therefore affect the way in which these people perceive their world, whether they are aware of these forces or not. Realism shares the same characteristics as positivism when it comes to external, objective nature of some macro aspects of society, but it also recognize the importance of understanding people’s socially constructed interpretations and meanings as the interpretivist principle does. (Saunders et al., 2009, p. 84-85)

In this research, we would like to put the focus on understanding how managers see backsourcing processes and its related issues. The study emphasizes on individual perceptions on the subject rather than relying on facts and statistics to make the conclusion. In addition, our pre-conceptions play an important role in influencing the analysis and recommendation of the results. For these reasons, the interpretivist approach seems to be more suitable for this study than the positivist or realist one. The managers who are interviewed are assumed to be social actors and they are expected to give an individual meaning to different problems and situations. Saunders et al. (2012, p. 137) argue that by following the interpretivism, the researchers need to study the intentions, actions and motivations that social actors have and interpret them in a meaningful way. In this research, the motivations of backsourcing and the actions as well as reflection of managers on backsourcing processes are studied. The data acquired will be interpreted in a way that results in providing enough support for making meaningful conclusions.

As the interpretivist approach emphasizes on the understanding and interpreting of social behavior, it fits well to the constructionism ontological position.

3.3 Research strategy

As we are looking for bringing some new insight on a phenomenon and study it from a new angle, this thesis has an exploratory approach (Saunders et al., 2009, p. 139-134). The underlying reason is that while backsourcing in an IT-service context has been well-investigated, there is still lack of research on the manufacturing side. By taking a closely look into how manufacturing companies manage their backsourcing projects, we examine the backsourcing processes under a perspective that has not been considered by previous scholars. Hence, we will be able to reveal new knowledge and therefore contribute more understanding about backsourcing to the existing literature. By taking an exploratory approach, Marshall & Rossman (1995, p. 41) mention that the researchers are able to discover important variables and it will enable them to generate a hypothesis for further research. Morse (1994, p. 26-27) explains that it is important in an exploratory research to gather and read as much literature as possible. Further, he argues that qualitative research requires a constant questioning, continuously looking for answers, observing constantly and recalling if necessary. Moreover, Morse (1994, p. 25-26) describes that within qualitative data analysis four essential qualitative processes appear: comprehending, synthesizing, theorizing and recontextualizing. “... at a broader level it is the qualitative methods chosen that provide the epistemological basis for the method.” (Morse, 1994, p. 25-26) As a researcher, reaching a certain level of understanding for the topic is inevitable before being able to synthesize the gathered information. It takes some time until the researchers have gathered and filled gaps in comprehension. However, it is possible to work on several problems at the same time. (Morse, 1994, p. 26) In the case of this thesis, it means that we are trying to investigate the research topic from a new angle in order to bring some new insights to the field of backsourcing, by investigating a manufacturing and not a service company. With the theoretical framework, we have not only built the background of this thesis, but also increased
our understanding for the topic. This belongs to the comprehending process, which was described by Morse (1994, p. 26). When conducting the interviews, we have to understand the company’s current situation and steps they took during the backsourcing. At the same time, we were already thinking about possible outcomes of the thesis, as the time frame for a 15 ECTS thesis is rather limited.

3.3.1 Case study

Bryman & Bell (2011, p. 60) argue that a case focuses on a bounded situation or system being an entity with a purpose and functioning parts. However, it implies that a case study can be used in many settings and for various research purposes, therefore, it can also be applied in organizational and management studies. (Yin, 1984, p. 13) Saunders et al. (2003, p. 93) explain that a well-constructed case can enhance researchers to challenge existing theories, but also be the source of new hypothesis. As we are conducting an inductive research with deductive elements, this research strategy seems to be appropriate. Yin (1984, p. 13) clarifies that a case study is usually chosen to answer “how” and “why” questions or when the investigator has little control over the events themselves as for example in real-life case studies. It is also preferred when contemporary events shall be investigated and the relevant behaviors cannot be manipulated. As a preparation for a case study, it is necessary to review literature on the investigated topic. This should help to develop sharper and more precise questions within the investigated field. (Yin, 1984, p. 19-20) Therefore, we reviewed various literature and built up the interview questions on the theoretical framework. Yin (1984, p. 19) states that a case study usually refers to the same technique as a history, however there are two main sources added to a history, namely the matter of direct observation and systematic interviewing. In fact, these make the case study unique: the full variance of evidence coming from interviews, documents and observations. (Yin, 1984, p. 20)

By investigating a single company, more specifically a backsourcing project within the chosen company, we follow a single-case design. According to Yin (1984, p. 42), a single-case study is analogous to a single experiment, therefore, the same arguments could be used, which is actually the strongest argument for a single-case study. For this study, it means that a conducted project is taken as a single case, being investigated. Moreover, as outsourcing is seen as the context backsourcing is embedded in, therefore, the starting point of investigating case of backsourcing is the outsourcing strategy of the company. This context permits to provide us a better understanding of the investigated case.

In this research, we have decided to conduct a case study of a backsourcing project for a medium sized manufacturing company. There are several factors that we have considered when making the choice of the case. The most important one was whether the backsourcing project was conducted in a manufacturing company. In fact, the chosen company had just previously backsourced one production line. This line is an important factor that contributes a lot to the overall performance of the company. As a result, it had been a lot of money spent on this project. Hence, we believe this particular project can provide important aspects on backsourcing issues based on its experiences.

Another important factor that needs to be considered is having access to the higher managers who have been involved in the backsourcing process. The availability of the participants is crucial because we are aiming to conduct a qualitative research with semi-structured interviews as a data collection method. When conducting the interviews, it was important for us not only to get the raw information but also to understand the feelings and expression that
the participants have on the issue. On this aspect, we believe the interview should be conducted face-to-face instead of making a distance interview by phone or by Skype in which the ability to observe expressions is limited. This is the reason why this medium sized manufacturing company was preferred over an alternative larger manufacturing company that we also have access to. The larger manufacturing company is located in another country, while the medium sized manufacturing company is located nearby that we have the possibility to come over and conduct the interview face-to-face.

When considering the target company for our study, we have made a convenience sampling in which the potential companies are the companies that we have worked for. However, we do not see this as a potential problem because the companies still have to match criteria for the study. We believe having contact with people in the companies is rather an advantage because there is a higher chance that we can find appropriate respondents for our study.

As our goal is not to capture all the variables and generalize the result, but rather to develop theory and concept that are connected to our case study, we have used the theoretical sampling technique developed by Glaser & Strauss (1967). The theoretical sampling has been defined as: “the process of data collection for generating theory whereby the analyst jointly collects, codes and analyses his data and decides what data to collect next and where to find them, in order to develop his theory as it emerges” (Glaser & Strauss, 1967, p. 45). As result, the participants in our study are the plant manager, who is the highest manager of the company, and two middle managers directly below the plant managers who also have been involved in the backsourcing process. Thus, the participants are the most appropriate respondents we can find and match perfectly to the criteria of our study.

3.4 Research approach

The theoretical framework in the previous chapter of our paper provides important understanding about outsourcing and backsourcing. This theoretical framework aims to serve as a guideline for our research, and we do not have the intention to develop any hypothesis or test any of the theories that we have examined. In this study, we rather want to make conclusions based on data analysis of the research, to gain a deeper understanding of the research problems and if possible, to suggest modifications of theory and develop new theories that have not been considered by other researchers based on the case.

Hence, the research approach that we will use in this study is the inductive approach. Saunders et al. (2009, p. 85) define the inductive research approach as the approach in which “you would collect data and develop theory as a result of your data analysis”. (Saunders et al., 2009, p. 85) They further state that the purpose of inductive approach is to get a feeling of what is going on and understand the nature of the problems. The task of researchers is then to analyze and make sense of the collected data, and formulate theory based on the results of this data analysis. (Saunders et al., 2009, p. 87) Also, Creswell (2003, p. 9) points out that qualitative research is often inductive, as the researcher is generating a meaning out of the collected data. This is the case of our study, since relevant theories are presented in the theoretical framework to formulate the research questions as well as developing the interview questions. The theoretical framework helps us not only with collecting the relevant information, but also with making propositions about the problems with backsourcing and critical success factors for the backsourcing process. This preconception will in turn support us in interpreting the result of the study.
What we are interested to find out in this study is how managers see, think and act when involved in the backsourcing process. From this perspective, we hope to reveal more information about for example reasons and problems for backsourcing that they have experienced, how they cope with these problems and what the lesson learned from the process is. If new information is revealed and evident enough, we will have empirical ground to propose a new theoretical framework that may have good contribution to the literature about backsourcing and its relevant issues.

3.5 Research method

In line with the exploratory purpose and the inductive approach of our study, we have chosen in this research to use the qualitative research design. Qualitative research is defined as “research used in exploratory designs to gain preliminary insights into decision problems and opportunities” (Shiu et al., 2009, p. 172) As our purpose is to understand specific problems, e.g. problems with backsourcing and critical success of backsourcing within a specific business context rather than gaining conclusive insights or generalizing the results, a qualitative research study seems to be more appropriate than quantitative research methods for our study.

One of the main factors why we chose to conduct a qualitative study is the richness of the data, which we can get through a qualitative study. As Shiu et al. (2009, p. 174) state in-depth data is valuable in gaining a preliminary understanding of behaviors. The unstructured nature of a qualitative technique allows us to collect in-depth data about the perceptions, attitudes, emotions and beliefs of the managers behind the decision to backsource and in different stages of the backsourcing process. Because the knowledge about backsourcing from previous literature is still limited, the in-depth data gained from the respondents may reveal new information that we otherwise will not be able to discover.

Another important factor that plays a crucial role in defining research method is flexibility. Bryman & Bell (2005, p. 317) argue that if a structured method is to be applied, researchers have to decide about what can be expected and which social reality they are going to see. This expectation may limit the ability of researchers when trying to capture the overall picture of the subject studied. As a consequence, researchers may choose a research method that allows them to have some extent of flexibility to not restrict our research by asking specific instead of broader research questions. (Bryman & Bell, 2005, p. 317) Qualitative research is preferred over quantitative research in this aspect of flexibility and it is easier for researchers to change focus and direction in a qualitative study. For our study, we believe that flexibility is an important aspect to consider, as we do not want to restrict our research to the limited existing theoretical understanding that we have examined. For this reason, a qualitative research seems to be a better choice compared to a quantitative one.

An additional advantage of qualitative study is that it can be conducted with relatively low cost within a short time period compared to most quantitative methods (Shiu et al., p. 174). This is because the sample in a qualitative study is much smaller than the sample in a quantitative study. However, this small sample is also the limitation of the study when it comes to generalizability and representativeness that qualitative research usually lacks (Bryman & Bell, 2005, p. 320). As this research does not aim to generalize the results, we believe that this limitation will not be a problem for our study.
3.6 Choice of respondents

There are some important factors that we have to consider when choosing an appropriate company for our study. Because this study focuses mainly on back sourcing and related issues to the back sourcing process, the target company has to be a company that is in the process of back sourcing or has previously been back sourcing part of its functions. These companies with knowledge and experiences in back sourcing processes can provide important information regarding their back sourcing cases that can help us answering our research questions.

The respondents from the target company should be managers such as plant managers and middle managers who have been involved in the back sourcing process. It is critical for us to have access to these persons in charge because the decisions they make and the actions they take during the back sourcing process are based on their knowledge and beliefs about back sourcing and not because someone else told them to do so. As they have full responsibility for the success of the back sourcing process, they may see problems and opportunities with a different perspective than of the people who are not in charge.

3.7 Data collection method

When collecting data, we have to think about how to get adequate information, without exceeding financial resources and by considering feasibility in terms of available resources for the study. (Marshall & Rossman, 1995, p. 99) For this study, we have chosen to use primary data. Primary data is raw data that researchers according to their purpose collect by themselves and it does not contain any meaningful interpretation by others. An advantage of using primary data is that the data is “fresh” and has not been altered or processed by other researchers, which will increase the validity and reliability of the result in comparison to the use of secondary data. (Shiu et al., 2009, p. 63)

3.7.1 Semi-structured interview

One problem that we face when conducting interviews with the respondents is the time limit. The respondents are top managers in a company meaning that they are relatively busy, so the interviews are expected to last one hour. To deal with this limitation in time, we have created an interview-guide containing a list of questions divided into five themes that are based on the theoretical framework. This seemed to be suitable, as interviews are considered as a data collection method, which permits to get large amounts of data within a short time frame, which accommodates both, the researchers and the interviewees. (Marshall & Rossman, 1995, p. 80) Hence, we have used the “semi-structured interview” approach. Bryman & Bell (2005, p. 363) state that in semi-structured interviews, the researchers have a list of specific terms that they want to focus on, but the interviewed persons have a lot of freedom to form the answer on their own. There are several advantages associated with semi-structured interviews compared to unstructured interviews, which make them more suitable for our study. Firstly, the interview can be focused which provides us with the exact kind of information regarding the limitation in time. In addition, the term “back sourcing” is relatively new and it may not be recognized by the respondents, the questions in the interview guide are served as hints for them to understand the addressed issues. Furthermore, the advantage of having a list of questions is that it will compensate for the interviewing skills that we may lack. Semi-structured interviews do not require as much skills in communication and observation compared to what unstructured interviews may require.
3.7.2 Development of the interview guide

At the beginning of the interview guide, we explain the purpose of this study so that the respondents have an idea about what we would like to achieve and what we expect them to contribute. A definition about backsourcing is also included in this very first part to ensure that the respondents understand the issue so they can prepare the necessary knowledge for the upcoming interview.

The interview guide for the plant manager consists of 23 questions, which are divided into four sections following the structure of our theoretical framework. The first section is concerned with the general information about the company and the respondent. This section will give us a quick overview of the company’s situation, including the company’s core competences and some information about outsourcing, which is the initial step in the backsourcing process. In the second section, we aim at understanding why the company chose to backsource e.g., what are the motivations for the backsourcing decisions to take place. There are several reasons for backsourcing suggested by the previous literature that we have clarified in the theoretical framework. However, differences in characteristics of the company and circumstances may result in other reasons that have not been considered before. After understanding why certain decisions were made, the next section aims at investigating the challenges with the implementation of the backsourcing process that the company had experienced. The challenges include the impact of the backsourcing process on the overall performance of the company. This section is followed by a section focusing on how a company overcomes the challenges and what the critical success factors that the company has identified are. The last section is focusing on the managers own reflection on the backsourcing process. It will help us to understand the view of the manager on the backsourcing process after it had been implemented, to see if the backsourcing process had been a successful project according to the manager’s expectations.

In order to simplify to the interviewee when asking about the motivations for backsourcing, we have created a list of six factors based on the literature that the interviewee will range from most to less important. This list is aimed to be as a follow up question after asking the interviewee about possible motivations that he could identify from his case. This ensures that we will get necessary information for the analysis.

We are convinced that the structure of the interview guide and the questions are formulated clearly for the respondent to understand, as they do not contain any difficult definitions or words that require academic knowledge to understand. Since the questions are developed based on the knowledge derived from theoretical framework, answers for these questions will provide us with enough information necessary for making meaningful conclusions.

Additionally, we have modified and simplified the interview guide for the interviews of the middle managers. Firstly, questions about the general outsourcing strategy have been omitted. Nevertheless, questions about the outsourcing within the own department were added. Outsourcing, being the starting point of this research, was just briefly covered in this interview guide. The questions about the backsourcing project then became more specific as their experiences and viewpoints were asked. This means that the questions were much more specific. Moreover, the middle managers were only available for 30min, which required making a prioritization in questions being asked.
3.7.3 Conducting the interviews

The company had been contacted personally in order to know if it would be possible to do a research on its project. For the actual interviews, we got an appointment with the plant manager. One week after the first interview, we were able to interview the two middle managers.

As the investigated project was led by the upper management and just delegated down, not all of the involved persons were available for us, since they are working in other subsidiaries of the corporation. However, they got the possibility to interrogate two middle managers from this plant, who were involved in the project. We were invited to the second interview right after a meeting the managers had, so they could interview them at the same time and they were complimenting each other’s perspective on the project. Especially, in the beginning this was rather useful, as the production manager had difficulties with the terminology of “backsourcing” and reasoning why his perspective is crucial as well for this paper. Therefore, the presence of the technical manager was helping. The middle managers did not want to record the interviews; therefore, we had to note carefully what they said. This, however, means that there are no direct quotes possible in the empirical chapter, which would have strengthened our viewpoint.

After conducting the interviews and thereby having acquired the empirical material, it is necessary to process this further in order to be able to answer the research questions. By recording the interview, we were able to create a transcript. As the middle managers did not want to be recorded, the notes were written down immediately after the interview. In Table 1 more detailed information about the respondents is available. The record enabled us to listen several times to the interview and as well to make direct quotes from the interview by transcribing it right after the interview. As one of us is not speaking Swedish, the interviews were held in in English. This, on the one hand challenged the interviewees, as they cannot talk in their mother language, however, on the other hand, the interviewers were thereby able to understand both the answers and the transcription needed no translations, so there was no translation bias. Additionally, it must be mentioned that one of the middle managers is native British, so for him, it was even easier to do it this way. In order to avoid any misunderstanding and to follow our quality criteria, the transcriptions were sent to the plant manager to confirm his approval. After this, the table has been generated, which will provide an overview about the interviewees.

<table>
<thead>
<tr>
<th>Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Who was interviewed?</strong></td>
</tr>
<tr>
<td>plant manager</td>
</tr>
<tr>
<td>middle manager</td>
</tr>
<tr>
<td>middle manager</td>
</tr>
<tr>
<td>Observation</td>
</tr>
<tr>
<td>-------------</td>
</tr>
<tr>
<td>Which kind of observation?</td>
</tr>
<tr>
<td>company visit</td>
</tr>
</tbody>
</table>

Table 1: Data Collection

3.7.4 Observation

As we were interested in the company, we were guided through the manufacturing hall. This permitted us also to get an impression of the working places, company culture and atmosphere. Even when the company visit is relative short, we could see the result of the backsourcing project, that it is now complete and functioning well. In addition, as one of the authors is completely new to this kind of manufacturing company, the visit helps her getting a deeper understanding on the subject. This is crucial for us because by having good knowledge about the company, we can, in a better way, transfer our knowledge further on to the readers of this study.

Moreover, it increased the understanding of the issues raised during the interview. From a methodological viewpoint, this is called complete observer. The observer does not explain for which purpose the data has been collected and the observer has no active role. (Saunders, 2003, p. 225) Moreover, Marshall & Rossman (1995, p. 79) clarify that researchers in their early stage of qualitative research use observations without any checklists or predetermined checklists. This brings the researcher to see patterns of behavior and relationship in the natural setting. Furthermore, the observation of the body language “and affect in addition to the person’s words”. (Marshall & Rossman, 1995, p. 80) This is seen as rather complex and challenges the researcher in many terms as for example discomfort or ethical dilemmas. Thus, we are convinced that the face-to-face interviews, which enabled them to observe the body language of the interviewees, permitted them to get a bigger picture of the observed phenomenon. Moreover, the body language helped them to understand the spoken words, but also to clarify certain questions, if it seemed that the interviewee did not understand it. By being guided through the company by the interviewee, the native’s perspective of the organizational processes was seen, which is clearly seen as a strengths of observation by Marshall & Rossman (1995, p. 100)

Beyond the information that was observed when we conducted the interview and when being guided through the manufacturing hall, more information is also gained through one of us, who gained working experience in the company. Tinh has worked at the company for several years during the summers and he had seen some of the backsourcing processes being implemented. Even when this kind of observation was initially no aim to serve this study, it still contributes to the forming of the pre-perception about the company and about the backsourcing processes. By working with the equipment, and by working closely with the person having responsibility for operating the equipment, he recognizes some of the problems and challenges that the company had to deal with. This pre-perception had helped us in forming the interview questions and it also contributed to the data collection of our study with some facts. We are well aware that the information observed through work experience at the company is very subjective and without any deeper investigation on the specific issue. We
therefore do not make any hasty conclusions based solely on the observation, but rather analyze the information from observation together with the information provided by the managers of the company to get an overall picture of the backsourcing process.

3.8 Data processing

As we take an inductive approach, the analyses of the collected data is essential for gaining new insights to the phenomenon of backsourcing. Hence, the interpretivist view also requires us to give a meaning to the arguments of the interviewees and conclude from their perceptions on the topic of backsourcing. This will be done by using our ability to understand and draw conclusions, considering our own social background and by combining our empirical findings with scientific articles. Creswell (2003, p. 111) highlights that qualitative data analysis “is a search for general statements about relationships among categories of data”.

In fact, Creswell has introduced a six-step model, which should help the researcher to make sense of the collected data.

In the first step, it requires organizing and preparing the data. (Creswell, 2003, p. 191) The interview with the plant manager permitted to give an overall view about the company, its sourcing strategy and the managerial perspective on the backsourcing project. For this reason, this interview was the first one conducted and consequently, allowed us to develop our ideas about the investigated topic. The time frame between the first and the second and third interview allowed us to process the first interview separately and independently. By doing so, unclear or more detailed issues could be clarified in the next interviews. This means that we will transcribe the interview and type our notes from our observations and as agreed with the plant manager send the transcription for approval via e-mail to him. These transcriptions are free from any personal input from us, it is just written word-by-word what we discussed with the interviewee. Just after his approval, the data can be processed. Moreover, Tinh tried to bring his experiences concerning company culture and working atmosphere to paper.

In the second step, Creswell (2003, p. 191) recommends to make general sense of the collected information and reflect the meaning. Therefore, we have re-read the conducted interviews and made comments to certain phrases, which will help them to process the data. Hence, this step goes hand in hand with the next one.

Step three, which is called the coding process (Creswell, 2003, p. 192), requires to organize the collected data and build categories. Before interviewing the managers, we have already built some categories, which were derived from the literature framework. Even though, we had already built those categories, the restructuring was necessary, as it was an ongoing conversation and not necessarily a question after question interview. Moreover, some new ideas and concepts were raised during the interview; this permitted us to get an even deeper insight into the investigated topic. Thus, these new issues raised required additional categories, in order to be able to proceed.

The next step (step four) involves a detailed gathering of people and places. (Creswell, 2003, p. 194) Therefore, the interviewees were asked some questions about their role and responsibilities within the company on the one hand. On the other hand, the observations enabled us to gather some data about the setting. Again, the knowledge is relevant for structuring and to assess the gained information.
Creswell (2003, p. 194) recommends in the next step how descriptions and themes will be represented. Narrative passages are a common way of presenting; we will also follow this. Moreover, it was also tried to match concepts of the literature framework with statements and answers of the respondents. For example, when the plant manager was telling about the company’s outsourcing strategy, it was reviewed what was found in the literature about that. Moreover, the statements of the respondents are confronted to each other to identify more specific upcoming issues and success factors, which might have not been stated clearly. Thereby, also our observations might help, when interpreting body language of the interviewees.

Step six requires to make conclusions and lessons learned from the collected data. This means that we add personal interpretation, individual understanding and conclusions from our findings. (Creswell, 2003, p. 195) In the case of this thesis, we will interpret the findings from the analysis and draw conclusions. This implies abstracting the findings in order to connect them to broader literature.

### 3.9 Choice of literature and source criticism

Saunders et al. (2003. p. 43) state that there are two main reasons for reviewing literature. At a first glance, it is mainly about getting ideas, secondly it is necessary to review critically relevant articles and books. We are taking an interpretivist view, which means that gathered literature will be interpreted, but also concepts and theories themselves. (Bryman & Bell, 2011, p. 20) For this thesis, it means that we have to be aware of our role and our interpretations.

When the topic of backsourcing came to our mind, a general research on the internet helped to develop a first understanding of this matter. Thereby, less formal sources, thus, when it came to the formal processing of relevant literature and putting it into the theoretical framework, we only relied on peer-reviewed articles and journals. Secondary sources, such as books, journals or the internet are known for having a wider audience, “they are easier to locate than primary literature as they are better covered by the tertiary literature.” (Saunders et al., 2003, p. 51) Moreover, the PhD thesis of Hätönen had been used, as he worked intensively on the topic of outsourcing, which is in the field of primary literature.

When looking for articles, certain keywords have been used in combination or on its own. The most important keywords are “outsourcing”, “backsourcing”, “in-house”, “problems”, “projects”. Additionally, it needs to be mentioned that some keywords were also looked up by using synonyms or similar concepts like “contracting out” instead of “outsourcing”. Primarily, the articles have been screened on relevance for the research. Therefore, the abstract of the articles were the first point to look at. When the abstract seemed to fit to the research purpose or helped the readers to develop their understanding for the research, the discussion and conclusion were read. Moreover, some of the articles from the reference list of scientific articles were taken to gain more relevant articles on the investigated topic and last but not least, to have the primary resource to fully understand the developed concepts.

We base our work on literature, some criticism on the choice of authors and concepts can be raised. The theoretical framework of this thesis is separated into two main parts. As an introduction and premise, the concept of outsourcing and its implications are explained. Chapman and Andrade’s (1998) work is used as a starting point, as the main concepts and ideas are well explained in this piece of work. However, in the second main part of the
theoretical framework, backsourcing, Wong (2008) was used as the main source. Moreover, many different articles were used in order to build up the theoretical framework. In literature, one can find an uncountable number of definitions and research about outsourcing. Therefore, we agreed on using the approach that Perry (1997, p. 521) provided, namely that outsourcing is seen as a contractual agreement where a supplier provides services or processes to other companies. For backsourcing, we choose to make use of the definition of Van Weele (2002), who defined backsourcing as bringing the outsourced activities back in-house. It needs to be added that the matter of backsourcing is much newer and under-explored, more recent literature was reviewed. Whereas, the matter of outsourcing and its evolution rely on less recent literature less literature on backsourcing was found. In order to get the most recent and appropriate literature, scientific databases like Business Source Premier, Emerald, EbscoHost, Sage Journals, and Scopus were used in order to ensure that an appropriate theoretical framework is formed for this study.

Outsourcing has already been researched for decades, which implies that there is a lot of literature available in this field. As there was this huge amount of literature available, we tried to not exceed addressing literature, which was published more than 25 years ago.

Moreover, it was not only literature taken into consideration concerning our research topic, there was also literature reviewed on how to conduct a research. The main guiding books for research methodology were Bryman & Bell (2011), Saunders et al. (2003) and for the case study design we specifically used Yin (1984). Those books are giving researchers a guideline on how to conduct the research methodologically correct, but also on how to make it transparent and understandable to others.

3.10 Ethical considerations

By conducting the research under a universalist approach, we agreed that all infractions of ethical principles are wrong. This implies that breaking any of those principles would also damage our research. (Bryman & Bell, 2011, p. 124) Moreover, we will apply the ethical principles that Diener and Crandal (1978, p. 19) have introduced

Harm to participants

Harm can either be physically or concerning the participants’ development or self-esteem, but also stress and harm in career prospects. Harm can also be done vice versa, meaning that the research could be affected negatively while doing the research. Moreover, this issue implies keeping the records confidential as well as keeping the accounts anonymous. (Bryman & Bell, 2011, p. 129) These are the approach and principles that we are going to follow. As we sent back the transcriptions of the interviews to the interviewees, as well as pointing out specifically what company-related terms we will mention in our study, we are able to ensure that the interviewees kept the level of anonymity that they wanted. Moreover, as the CEO of the company is involved and interviewed himself, he will act as the control entity, so that no harm to the company and its reputation will be done. For keeping the persons interviewed anonymous, pseudonyms are used in the empirical chapter. However, we are aware of the fact that pseudonyms do not eliminate the possibility of identification entirely. (Bryman & Bell, 2011, p. 129) As the company wants to keep its name and the participants’ names anonymous, we will just be able to give some background information about the company, without referring to any webpages or brochures. Moreover, the product description has to be kept discrete as well, as there are hardly any competitors and they want to keep their competitive
advantage that they have reached through this project. Merely, the information is coming from the interviews, our observations and the knowledge that Tinh acquired during his time there.

**Lack of informed consent**

As the interviewees were asked about the backsourcing process in their company, they were fully informed about the research purpose beforehand. This means that they know for which reason they had to answer the questions and which intent the researcher had. In that sense, they were free to choose whether to participate or not. (Bryman & Bell, 2011, p. 133) However, when it comes to the observations made, we did not inform the people working at the machine about the research purpose. The observations made were done directly at the working place of the employees. Nevertheless, it has to be mentioned that their supervisors were informed and their anonymity is guaranteed. Bryman and Bell (2011, p. 134) talk about covert research in this context, they also suggest to inform the participants post-hoc. This will be done as a final step.

**Invasion of privacy**

This issue is concerned with the degree to which the invasion of privacy can be neglected. However, as we intend to study a social phenomenon within a company, the privacy of a single person is not being harmed by that. Thus, it is argued that the people might refuse to answer questions for certain reasons, especially when they have the feeling that topics are covered that are perceived as sensitive and they do not want them to become public. (Bryman & Bell, 2011, p. 136) For this reason, we oblige our interviewees with a high degree of anonymity and the possibility to check the transcriptions of the interviews.

**Deception**

The last issue introduced by Diener and Crandall (1978) deals with the extent to which the researchers present the purpose of their study to the studied entity. In this research, we explained the purpose of the interviews beforehand, in order to see if the studied phenomenon occurred in the company. Moreover, it was asked if it is ok to record the interviews. This goes along with the MSR code of conduct. Nevertheless, when it comes to the observations, the matter of deception is more complex. On the one hand, it is difficult to provide the participants with a complete picture of the research purpose, on the other hand, the we do not want to bias our results by informing the observed beforehand. Therefore, they were informed afterwards. This shows again, how difficult it is to draw the line within deception. (Bryman & Bell, 2011, p. 138)

### 3.11 Quality criteria

In this research, steps are taken to ensure its quality. The evaluation of qualitative research can be done in several ways. We have the choice of adapting the criteria of reliability and validity or choose alternative criteria for assessing the quality by using the criteria of trustworthiness. (Bryman & Bell, 2011, p. 395) We decided to follow the approach of trustworthiness, therefore, the following four criteria will be explained further before applying them to the research: credibility, transferability, dependability and confirmability. (Bryman & Bell, 2011, p. 395)
Credibility

Credibility should show that we have conducted and presented our research in a credible way, including a logical and credible way interpreting the collected data (Bryman & Bell, 2011, p. 397). We have used scientific, peer-reviewed articles, which should ensure the credibility of the theoretical framework. Moreover, the interview questions have been developed on basis of this, which should ensure that we will be able to confront the literature with the respondents’ answers. This will enable us to draw credible and logical conclusions out of this confrontation.

Moreover, in order to ensure the credibility of our research, we have sent the transcriptions back to the interviewees. Thereby, the interviewees had the chance to decide to which degree they want to be anonymous. This was done via e-mail, which was found to be the most efficient way in this case, but also provides us with a written proof. This would permit respondent validation, which is popular among qualitative researchers as it helps to have a good correspondence between the findings and the perspectives and the experiences of the research participants. (Bryman & Bell, 2011, p. 396) Moreover, it helps to redress the power imbalance between researcher and researched by providing the participants with a degree of authority in relation to the writing of the final research account. (Bryman & Bell, 2011, p. 397)

Another step that has been taken is the matter of triangulation. It entails the usage of more than one source of data to study a phenomenon. In the case of this research, we have used face-to-face interviews as a source on the one hand, but also the possibility of observation as they had the chance of a company visit on the other hand. Moreover, one of us has worked within the company already before, so he was able to reflect and act as a source as well. Kanter (1977, cited in Bryman & Bell, 2011, p. 397), state the usage of each source of data can be used to check information against the other source. For her, the combination of methods is the most valid and reliable way if an author wants to develop an understanding of a complex social reality.

Transferability

The matter of transferability is oriented on the question if and how the findings can be transferred to some other context, which is also referred to external validity. (Bryman & Bell, 2011, p. 395-398) Bryman & Bell (2011, p. 398) further argue for the matter of thick description, meaning to provide the others with a database for making judgments on how to transfer the findings to another milieu. For this research, it would mean that the results are transferable to other backsourcing cases. However, we are convinced that there are many influencing factors on backsourcing projects, which will hamper the transferability. Thus, we try to provide the reader with various input and ideas that might be applicable to other cases.

Marshall & Rossman (1995, p. 144) point out the fact that qualitative studies often lack transferability and generalizability to other settings, especially from a traditional research approach. However, one can argue that the by referring back to the theoretical framework and how it guided the data collection and analysis, challenges were countered. This permits to identify the parameters of the research, which will in conclusion allow others who are doing research within the same parameters to decide whether or not the described case of this thesis can be generalized and transferred to other settings. (Marshall & Rossman, 1995, p. 144) As
the purpose of this research is to identify critical success factors in backsourcing projects, those can be taken into consideration for other projects as well.

**Dependability**

Dependability refers to reliability in quantitative research. (Bryman & Bell, 2011, p. 398) Whereas a positivist would assume an unchanging universe, where each inquiry will be logically replicable, the interpretivist assumption of this thesis permits a critical view. As interpretivists, we assume that the social world is a constructed one and the concept of replication is seen as problematic itself. (Marshall & Rossman, 1995, p. 145) As this thesis is a qualitative research with semi-structured interviews focusing on how to deal with backsourcing projects, it seems to be difficult to guarantee a similar outcome by repeating this research in any other context. Additionally, as this is a real-life case study, it involves different social actors.

**Confirmability**

Bryman & Bell (2011, p. 398) point out the difficulty of being completely objective in business research, however, it should be aimed at not involving too many personal values or theoretical inclinations when conducting the research. As the interviewees are familiar with the process they are talking about and thereby experts, it is crucial for us to stay objective. For the processing of the interviews, it means that we will extract phrases out of the interviews for the empirical chapter in order to stay as objective as possible. Moreover, even though Tinh is connected to the company, Angelika is not, this will permit to have another viewpoint as well when processing the interviews.

Bryman & Bell (2011, p. 395) set confirmability equal to objectivity. Hence, Saunders et al. (2003, p. 135) therefore state that it is important to collect data accurately and fully, without a subject selection what you record. For us as researchers, it means that the interviews will be recorded fully (assuming that they agree) and processed. If they do not agree, notes will be taken in order to still be able to process the data.
4 Empirical results

In this empirical chapter, we will provide some insights about the investigated company. The main part of this chapter however will be the presentation of the empirical findings. In order to not lose the focus on the key topics, the interviews are proceeded one by one, moreover, they were confronted with each other within the fields of interrogation topic by topic.

4.1 Company background

The company we investigated is a middle sized bakery located in the northern part of Sweden. It is subsidiary to a larger corporation that was founded over a hundred years ago. The corporation has its headquarter in Finland, with operations located in 8 countries exporting its products to more than 40 countries. The corporation comprises of two business areas. The Food Service offers food and tailor-made solutions in contract catering, including breads and pastries, chocolates, biscuits, sugar confectionery and chewing gum. It has operations in Nordic countries, Estonia, Latvia and Russia. The Café & Shops offer consumers taste sensations in coffee- and bakery shops. In 2012, the turnover of the corporation was just under EUR 1.7 billion and the number of employees was approximately 15000.

In Sweden, there are five bakeries, around 20 bakery stores and approximate 220 restaurants and coffee shops. These companies in Sweden contribute to a little more than EUR 500 million, which is almost one third of the corporate turnover while they only have around 2800 employees. The operational cornerstones are said to be customer focus, excellent quality and team spirit.

The company is heavily dependent on the corporation when it comes to the decision making process. Most of the bigger decisions such as decisions about merger and acquisition, outsourcing and backsourcing come from the top with little possibility for the middle managers to influence.

4.2 Presentation of the case

When choosing the company for this case study, it was important that the company had recently conducted a backsourcing project or had an ongoing backsourcing project. The selected company had previously outsourced the production of one kind of bread to a company located more in the South of Sweden. For several reasons, the company decided to take the production process back and to produce in-house again. This project was a big and important issue, which has had a strong project management team. Moreover, we also wanted to know more about the current sourcing strategy, therefore the outsourcing strategy was investigated as well.

It deals with a product that has previously been produced by another company until the point that the company decided to produce it in-house again. The chosen project is now finished for a couple of years and the process is now fully implemented and the product is part of the product range.
4.3 The interviews - summary and results

According to the categories, which were defined within the interview guideline, the results are going to be presented. This should on the one hand help the reader to follow the thoughts and ideas and on the other hand provide a structure for the analysis.

4.3.1 General information about the company and its outsourcing strategy

In order to get into the conversation, but also as one of we did not know the company, some general questions about the company were asked. The plant manager described the corporate structure: the group is divided into three business areas, which can be described as equal in terms of size. When it comes to the bakery business, which is one of those three business areas, the core competences of the group are defined as providing coffee bread and crisp rolls, fast food bread and typical Nordic bread. The group is having its business areas in the Northern part of Europe, the Baltic countries and Russia. When it comes to the sourcing topic, we and the interviewee agreed on narrowing it down to the bakery business and the investigated plant. At the moment, they are having certain productions outsourced: “For Sweden, we have at the moment outsourced Pepparkaksdeg,..., we have Muffins and Donuts, we have also all Chocolate Chip Cookies that are some of the outsourced”.

However, they are also working with outsourcing in some of the facilities services. As an example for this, the distribution services are mentioned. The group owes a lot of lorries, but in peak times, it is hiring other companies. “Yeah, if we take that (other services) we have some of the distribution is outsourced”. The interviewee also mentioned the matter of outsourcing due to legal restrictions in Sweden: “In Sweden you need to have a license to hire an electrician, and I don’t have that license, so that was outsourced, it is so for every company. Most companies buy that.” However, he also mentions that this electrician employed at the plant is already working there for 10 years as a full time employee; in this case, the outsourcing (or insourcing by the theoretical definition) was a necessary step. This electrician is also pointed out to be the only one that does not belong to the company.

When it comes to the outsourcing itself and reasons to do so, the plant manager explained: “Well, when you have a certain amount of production capacity, you need to put a value on the time what each production line can produce. If it is better for ourselves to produce it, then we do it, then we earn more, or in the opposite if we see that another company does certain things that make the possibility for us to produce things that we earn more from.” As a consequence, a lot of planning and calculating needs to be done, before outsourcing. Moreover, outsourcing is used in this business area to complete the portfolio that the customer expects or to be able to offer a product that is just sold for a short time of the year. For both, the cost of machinery is one big reason why outsourcing is chosen; equally important is the knowledge about the product.

When we asked about the relationship to outsourcing partners, the plant manager raised another matter within sourcing. In general, he said, they are having good relations to their partners. More specifically, it is often some kind of co-operation in their business. This means that they are producing under the name of others or they are using other brands which will be beneficial for their sales, but also vice versa, so certain companies are using their name to sell the own products. Therefore, the management and relationship between those companies needs to be good. He clarifies: “we use the brand of angry birds for some products and then
we also use another company’s brand to sell our product and sometimes other companies need our brand,..., we put our brand in certain markets they are sold better”.

The middle managers also point out that parts of the outsourcing/sourcing-strategy and facilities services are managed by the national headquarter, so it is managed decentralized. However, this also implies that they have hardly any influence on matters like IT services. When asking the responsible middle manager for staffing about the use of temporary labor for peaks, he answered that they are not using any temporary labor from leasing companies like Manpower, it is all managed internally.

4.3.2 Reasons for backsourcing

The next set of questions concerned the reasons why the company decided to take this production process back in-house. Therefore, we wanted to know how the company came up with the matter, if there was a certain reason for backsourcing or if the contract just ended.

The plant manager pointed out that the main reason was their customer service, who was more and more contacted by dissatisfied customers. He states: “As mentioned, there were quality problems and also you could see the possibility for bigger market shares”. So, there was clearly a quality issue they had to work on. As this negative feedback could also lead to harming the whole brand which needed to be avoided in any case. The company also identified the possibility to enter the market and gain market shares. He further argues: “In our customer service, a certain amount of negative things happened with that bread with our brand, which is not very good. That was one of the reasons we started talking about not harming our brand that is very important to keep the brand strong”. Therefore, actions needed to be taken and a solution was needed.

One possible solution would have been to change the supplier. For this reason, an intensive research was done on possible suppliers in northern and central Europe. However, none of them could deliver the product and it was decided to produce it on its own. There are many factors to consider when you change the supplier as the customer is expecting a certain quality. For example, if you go to Germany to source that certain bread, you have to consider that German bread tastes different, but also the equipment used is different, so this influences the product and its quality. Considering this issue, the plant manager said: “so, it was a lot calculation, what we should invest in, how should we do it, it was quite a lot of work when you do this. If you want to backsource, you need to investigate what is the quality you want, how should it look like, what is the potential of the product and so on and so on.” He further adds what it implies to start such a project: “So you have consumer tests and quite a big thing, you put together a team, marketing, sales, production, technicians and so on. So you have a big group.”

The middle managers on the other hand, when they were asked about the reason for backsourcing, pointed out one main reason that is different from the point of view of the plant manager. The technical manager told that it highly depended on the acquisition that happened a few years ago. The company at that time belonged to another corporation, and they outsourced this particular kind of product to a partner. This partnership ended as a consequence of the company being acquired by the new corporation. After a short time break, the top managers decided to produce it in-house because they realized that there was possibility for them to gain the market share. The decision for backsourcing came from the top managers of the corporation, not by the managers of the company.
In fact, there is only one big competitor in the market, which is the old partner of the company. The competitor is located in the southern part of Sweden so there is plenty of space for the company to fit in, establish and gain market share. As the plant managers clarifies: “there is only one big competitor in this market, so if we could squeeze in, we could earn much much more.”

The company does not work together with the previous outsourced partner after the production line/services was taken back to the company. The plant manager states: “That does not work like that, you do that by yourself”. However, he further explains that if a corporation is written in the contract, they have the possibility to hire people from their partner to work for them. In the case of backsourcing the particular production line, the company did not hire any staff from its old partner, which is now its new competitor. However, if you change the production location from one plant to the other within a group, it could also be that you buy all the machinery and have help from the experienced plant to get the production going.

An alternative solution for bringing the production line back to the company is to acquire other companies. If there is enough motivation, the plant manager would consider the possibility of buying other companies: However, he clarifies that the decision still needs to come from the top. He also argues that the company has enough flexibility to deal with changes that follow as an impact of such an occasion.

4.3.3 Backsourcing process

As argued above, when implementing the backsourcing project, the company did not corporate with its old outsourcing partner or perceived any help from them. The contract ended and so ended the relationship. In a backsourcing project, the plant manager suggests that the first step is to identify the problems and to get a deeper understanding of the problems. He states: “the first step is to see the problem, to see the potential and from that you go on”. By identifying the problems and understanding them, the plant manager believes they came closer to the answer of what they needed to invest in to achieve their goals.

The reasons how the company came up with the backsourcing project were revealed previously in this study. Within a corporation, as the investigated company is in, it does not go so easily to start such a project. It is a decision of the management on a corporate level “Together with the site that wants to change this.” The plant manager clarifies.

The next steps is to create teams to define how the project should be done with the questions of what to do, how to do it and with whom to do it. The plant manager illustrates backsourcing stages as a fishbone: “Do you know the fishbone? That is one way to work with”. In the fishbone, there are many different teams working on the project and the project leader’s job is to provide information as well as guidelines and to link different teams together. Each one of the teams has its own project and in the projects, there are fishbones that they in turn have to work with. The teams are for example being assigned to finance, administration, logistic, production etc.

A major focus during the backsourcing process is laid on integrating different parts of the company and make them work together. The plant manager highlights motivating people as one the most important factors that they needed to consider: “you need to motivate people that you have, you need to have them all motivated”. He explains that because there are many
different teams working together, it is easier to integrate them if they are motivated to work on the same goal. This is particular important for him as plant manager because with his knowledge and leadership, the teams can be linked together as a whole entity.

However, the plant manager does not see the backsourcing process as something that differs from other projects. He argues that the stages would be the same, teams are formed and the project leader needs to link them together. He concludes: “if it is backsourcing or any other project it is the same. Backsourcing is not something special”.

4.3.4 Experienced challenges

One of the most difficult challenges identified is the technique to develop the appropriate machinery for the production line that is being backsourced. As the plant manager argues, “The biggest challenge was to find a technique how to do it. How to make the machinery, because it does not exist. So it’s partly developed on our own. You need to squeeze in new equipment among with other old equipment.” This means that this was a long development process, which required a lot of competence and knowledge. Thus, the technical manager illustrated further that they travelled around in Europe in order to find a company that would be able to meet their requirements and it was hard to find any comparable product. Looking on the German and Austrian market for example, there were on the one hand not that many comparable products, on the other hand there are other customer expectations and requirements, he reflected.

The technical manager further clarified how tricky the product is, because of its size and quantity it is difficult to get all the bread in the same size. Therefore, it was important to find some benchmarking companies, which would permit to show alternative solutions to this problem. Moreover, the bakery business is dealing with products that are “alive”, meaning they change form and characteristics, this makes the production more complicated. The product’s quality is influenced by the weather and humidity. Since the yeast reacts differently that is something that you cannot plan, the technical manager clarified. However, they are facing this kind of challenge in all kinds of products. Certainly, it is a bigger problem with smaller products, which have lower tolerance values.

The production manager did not see any special challenges in recruiting the right people for the work at the machines. From the author’s observation, when he was working at the company, they (the company) needed many people working at the new production line at the time it was installed. The number of employees working with the line was about 3 times more than now. The need for finding new people was so high that the middle manager asked his employees to see if they know anyone who could work for them during the summer. However, the middle managers explain that the increase in staff was expected and they did not perceive it as a potential problem. It is always necessary to have more people working in the beginning, as processes are not running smoothly and the people are not trained. So, it was like the plant manager said about finding the right people to work at the line: “No, that is the easy part.”

Furthermore, another challenge raised was the design and recipe of the product. As the company developed the product on its own and thereby became a competitor to its recent partner, they could not expect any help with that. This implies that it required a lot of trials to find the perfect recipe which would keep as much shape and fit at the same time the consumers’ taste. Additionally, it took them a lot more time to make the production line work as they expected. At the moment they are experiencing problems with having too much waste
from the production of this particular kind of bread that both lower down the capacity as well as being very costly for the company. The technical manager had to admit that they know that this kind of product is prone to produce a lot of waste and also the competitor is facing the same difficulties.

From our observation when being at the company, the production line at this point of time seems to be fully integrated. The machines work without problems and the number of employees working with the machines has been reduced to the optimum. In addition, the atmosphere is a lot better with less stress level to the employees compared to when the production line was installed. Moreover, we noticed that the product waste has been reduced, even when it is perceived as not yet reaching the optimist level that the managers want it to be.

One tough challenge the technical manager pointed out was the limited time frame. On a regular basis, the production and installation of this kind of machine takes six months. However, the group and the upper management just gave them four months to finish. Moreover, a lot of testing was required before being able to start the production. But also, when the machines were already running, there were still some problems. Overall, it took them almost two years to find the right settings in the end, as there were a lot of little adjustments to do.

An expected challenge, according to the technical manager, was the budget. Surprisingly, the budget was not a problem at all. Despite the pressure in time frame, they were able to finish the project with less cost than expected. They estimated that they had saved around 200 000 euros, which is very good considering the lack of experience and little support they received from other companies.

Above all, the plant manager also talks about the risk of losing customers, as another essential point. As the backsourcing project was connected to re-inventing the product, it does not necessarily mean that the consumers would like it. Therefore, they could only do some tastings with consumers to find out if it would meet the customers’ expectations. He states: “The risk with backsourcing, when you take a product back to your own company, you risk that you don’t produce the right quality that the customer expects, that’s the biggest risk. If you don’t deliver what the customer expects, you don’t have a second chance for that.”

Equally important, the plant manager mentions the risk of losing partners. When the outsourcing contract ends because the decision for backsourcing was taken, the outsourced partners still need to sell their products. They will have to either sell the products by themselves and become competitors to the company, or sell the products to other existing competitors of the company. He explained: “There is also the risk... they have the knowledge, the market and the capacity to produce more, cause you take away that part, they can go to our customers, that we were planning to go to and sell that product or under a competitor’s name.” In both cases, because there are more actors in the market, the company will have to face increased competition.

To review, the plant manager highlights the motivation of people as the biggest challenges, which is however not solely a challenge in backsourcing projects. In contrast, the technical manager argues that the backsourcing project was especially challenging from his perspective due to the time restrictions and the product specifications.
4.3.5 Critical success factors

The next set of questions should identify critical success factors that enable/secure a successful backsourcing. By critical success factors, we expected to get some points what the interviewees regarded as most important during the project, but also respectively. Moreover, this would enable us to gain some critical insights helping the reader to understand how these kind of projects can be conducted.

For this reason, we have derived six critical success factors from literature, which should be ranked by the plant manager to see which is the most important from his perspective. As the number one matter, he has identified leadership and human resources management. The matter of importance of the backsourced function was unclear on a first stance so it was ranked as the least important one. After explaining what is exactly meant by that factor, he concluded that it could also be number one. However, he rationalizes further that products that are identified as the core products for the company should be kept inside and managed by the company: “But I don’t think that you should have your number one product or products that are sorely important for you, they should never be outsourced”. The factors are listed below from the most importance to the least importance factors that are critical for the success of a backsourcing project.

1. Leadership and human resources management
2. Ability of the company to absorb changes
3. Technical factors
4. Financial factors
5. Ability of the company to corporate with partners
6. The importance of the backsourced function

When asking the plant manager if the decision to backsource was the right one, he answered: “The main thing is, when you work in a big market and you work within different countries and cultures and tastes, you need to be humble to accept the differences within the markets. If you don’t do that, you most certainly would fail.... If you want to change something, either it is within companies or it is in a big market. You need to consider it, so that it fits.” However, he describes his plant as being good in adapting to a changing environment, but also knowing how to cooperate with partners. “So you need to be flexible. If the company has the ability to cooperate with partners, we are also partners as I mentioned, so, to cooperate, that is very important for us with others and the opposite that could help.” This cooperation is especially important when it comes to the strategy of a company.

Instead of backsourcing, a company could also buy another company. It can actually be cheaper, because then you are actually buying the market share and gain all the market. According to the plant manager, the decision to make is if “you just want that product or if you want the whole cake.” He adds that they previously did that and also would do that if there is the opportunity for it. However, there are still some factors that the plant manager considers as barriers for the company not to acquire other companies in many cases: “we would not do that because we don’t have the space” and “That’s a huge risk. Sometimes you don’t backsourse because of that [partner becomes competitor]”

Another issue that the plant manager raised by himself was that the company gets its feedback directly from the customer: “If you do something wrong within a company, mostly the customers say no and you lose a lot of money.” This means that wrong decisions will immediately have an effect on the company’s performance. He also states that his company
has experienced failure with previous backsourcing projects and the reasons for failure often came from political decisions within the corporation. He as a plant manager tries all the time to fix such mistakes from the top and he believes that it is very important that the manager knows what he does in order to lead a project successfully. He states: “When you let politics decide, not the fact, then it most often goes wrong. That is a little bit what I try, you need to understand what you really do.”

Moreover, the plant manager highlights the importance of project management by stating that backsourcing needs to be handled like any other project. Every project has a strategy/purpose which needs to be fulfilled. Just by continuously asking “why” you will come closer to the answer and where you actually have to invest in. “You need to have a strategy to fulfil and you need learn to ask why, why why... you say in every question you have five why’s you need to answer. When you do that you come closer to the answer and to what you need to invest in.” By taking the project management approach, he describes the importance of the ability to lead people and motivate them. Having motivated people, you can form subgroups in all disciplines, who will make their own project out of it and the project manager is in the middle.

What can be seen from the interview with the middle managers, the knowledge about technical requirements and product specifications seemed to be critical in the success for the project as well. The technical and the production manager, both were talking a lot about the specifications of the product and the factors that needed to be considered when acquiring the machines. To conclude, a proficient knowledge of the branch is required.

4.4 Summary of the empirical results

So far, we have presented different points of views on the backsourcing process, from both the plant manager’s perspective and the middle managers’ perspective. The plant manager has a larger contribution to this paper because he has the general knowledge about the company and also the backsourcing process. The middle managers on the other hand are more focused within the backsourcing process, especially with the challenges that they have experienced during the implementation of the specific production line. As the one who links different parts of the company together during the backsourcing process, the plant manager has a broader view than the middle managers do. He could point out problems and issues that fall outside the middle managers’ area of responsibility. However, the middle managers contribute with specific problem identifications that the plant manager could not know about.

At a first glance, we could see that there are some similarities as well as differences between the views of the managers and the literature, and also between the plant manager and the middle managers. More investigation on this issue will be presented in the next section of this paper.
5 Analysis

In this chapter, the interviews are going to be analyzed. The key issue thereby is to interpret the words and meanings behind the interviewees’ answers. Again, we keep the same structure as in the empirical part to highlight the relation between theoretical and practical frameworks. In addition, this permits the reader to be able to follow the thoughts and our findings more easily. Moreover, it starts by analyzing the current outsourcing strategy, continuing with motives for the backsourcing decision, findings about the process, analyze risks & challenges the company was facing and finally coming to the critical success factors.

5.1 General sourcing strategy

By seeing outsourcing as the context the backsourcing project is embedded in and deriving from, the outsourcing strategy of the company is crucial for the further discussion, as it permits to show on the one hand the relationships to current suppliers, but most importantly, it shows the company’s sourcing strategy. As a reminder, the characteristics described by Fan (2000, p. 213) should be mentioned here: in contrast to regular purchasing agreements, outsourcing is the fact that the company is contracting out a part of existing internal services/processes. The roots of outsourcing are located within facilities services. Also, in the investigated company, we could identify that some of the typical processes as described in the literature by Harland et al. (2005) are outsourced. As an example, the plant manager clarified that the group has a lot of own lorries, however in peak times, it uses external ones as well, “third party logistics providers” - as they were called in the literature. So, the outsourced services are either non-capacity outsourcing (Fill & Visser, 2000) when it comes to the externally employed electrician or capacity outsourcing, when it comes to the lorries. The plant is not using any temporary labor forces, as it is often the case in bigger corporations. Thus, it was mentioned that it has employed the electrician through an agency due to legal restrictions. Within the literature framework, this matter has just been discussed briefly, so it was rather surprising for us to get such an explanation from the plant manager. Usually, external agencies for staffing are either used for recruitment or to get temporary staff which is needed for production peaks. (Belcourt, 2006) The Swedish law would require the plant manager to have a special permission for employing an electrician, therefore the service of providing electricians labour is used.

A special interest was to find out more about the sourcing strategy of the investigated company. In fact, the plant manager raised some very important issues:

- Co-operation & strategic interest: Most importantly, he talks about having good relationships with outsourcing partners, because in the bakery business it is common to have co-operations with other bakeries. Those co-operations are necessary to be able to offer the whole portfolio the consumer expects, this implies that their brand is sometimes used by others to sell more products and vice versa. In this context, Freytag et al. (2012) talk about different views a company can have on outsourcing. The relationship-based view argues that a company cannot be seen as a sole entity, it is embedded in a network. Outsourcing is seen as an instrument to build a strategy, specialize a company and thereby be able to improve productivity and innovation of a firm. This integration into a network, moreover, facilitates the achievement of competitive advantage and a way of handling resources. However, relationship
management in that sense, requires commitment to your partner and the willingness to exchange critical information (Handley & Benton, 2009, p. 347), in this case recipes. The conclusion of Freytag et al. (2012) being that outsourcing increases productivity, is congruent with the findings of the investigated company as it is always trying to use economies of scale. However, when applying this relationship based view (Freytag et al., 2012) on the investigated company, we could see that it is really taking care of its co-operations, which are part of its strategy. Moreover, it knows how to sell its brands. Consequently, the issue of brand equity raises. The plant manager highlighted the importance of not harming the brand through bad outsourcing and co-operations. So, this is clearly a risk a company has to consider when talking about outsourcing. When comparing this to the reviewed literature, one could refer to Fill and Visser (2000), who talk about contextual factors in outsourcing. Companies need to evaluate their strategic interest, as in this case, to offer the whole portfolio to the consumer and keep or raise the brand equity, against the risk that it brings to outsource. The second category of risks, Fill and Visser (2000) discuss, is the issue of strategy and structure, which describes that a company needs to clarify how important the outsourced process is for the company. Hence, this leads to the next key issue, the plant manager raised by himself.

- Keep core functions in-house: When interviewing the middle managers, we got the impression that outsourcing is not a topic for them at all. However, literature says that outsourcing for services might be relevant for core as well as non-core (Harland et al., 2005), this does not seem to be the case for the investigated company. The plant manager is convinced that he would never outsource any core processes, as this seems to be too risky for him. When talking about costs, literature argues that in mass production, like the bakery business is, the cost should go down. (Fill & Visser, 2000) Therefore, the reasoning of the plant manager is traceable, which was about production levelling in order to have large economies of scale.

- International sourcing: One major reason, why the backsourcing decision was taken, concerned the dissatisfaction with the current supplier. Therefore, it was necessary to find an alternative solution. Whenever dissatisfaction with the supplier appears, the company has to evaluate pros and cons against each other, the plant manager makes clear. In their case, they have looked around in Europe in order to find an appropriate alternative. However, there was no comparable supplier, especially since the consumer taste needed to be considered as well. He extensively explained that the consumer taste plays a major role and it is not the same overall Europe. When neglecting this matter, the company would face unexpected complications, as the product itself might have the expected quality, but does not fit the market requirements. (Weidenbaum, 2005, p. 313)

From what can be seen from the interviews, the company has a clear outsourcing strategy, with a clear focus on keeping the core-functions in-house. However, the bakery-business seems to work a lot with co-operations and therefore, it is necessary to know how to keep partnerships in a good condition. Otherwise, it could happen what the plant manager said: a shift from a partner to a competitor, which shows where backsourcing projects can derive from.
5.2 Motives for backsourcing decision

There are three main motivations for backsourcing in this case that we have identified. We would like to emphasize here that the motivations are defined differently by different managers, in which the plant manager lists two reasons and the technical manager pointed out the remaining one. As we do not have the right to determine which one is more important than the others, these three motivations will be analyzed as they are equally important, and that both opinions of the plan manager and the technical manager are right even when they are completely different from each other.

All three motives fall in the categories described by Wong (2008) and Veltri et al. (2008) in which they made a complete list of nine factors that are identified as the motivations for a company to backsource. However, in our case, there are only three factors that could be identified. This confirms the earlier argument that the importance of each of the factors may vary depending on the situation and the characteristics of each of the businesses. Thus, service companies may have different motivations than manufacturing companies; small sized companies may have different motivations than larger sized corporations etc. This is the gap in the literature that we aim to fill by finding more evidence confirming the statements of scholars in this area.

The first motivation we have identified is the contractual problems, defined by Veltri et al. (2008) or outsourcing expectation gap, defined by Wong (2008), concerning the failure in meeting expectations of the company by the outsourced vendor. In our case, the company was dissatisfied with the quality of the product delivered by the vendor as there were many complaints from customers to the company’s customer service. The managers considered the possibility of backsourcing as a solution to deal with this issue before it starts harming the brand image of the company. This could be linked to the argument of Veltri et al. (2008) who state that the client company choose to not continue the contract as it is not satisfied with the poor service quality that the incompetent partner may provide, which is exactly what had happened in this case based on the view of the plant manager. He is certain that they produce a lot better quality than what they got from the previous vendor, so it was a completely right decision to take back the production of this particular kind of bread in-house. However, this opinion differs from the view of the technical manager, who was skeptical about backsourcing the production line. The product that the company decided to backsource was argued to be difficult to produce by the technical manager, and even with new model equipment, the company still experienced difficulties in getting the appropriate quality of the product. This implies that the technical manager does not blame the vendor to be incompetent but rather believes that the problem lays in the characteristics of the product itself, and backsourcing is a risky decision to take.

The second motivation is concerning the possibility to gain market share. This could be linked to the change in vendor’s strategy - category defined by Wong (2008). When the relationship between the company and the vendor ends as the outsourcing contract ends, the vendor will have to change its strategy by either being a competitor to the company or by starting a new partnership with the company’s existing competitors. A difference between this case and the literature is that the literature suggests that because a company is dissatisfied with the changing strategy of the vendor, it decides to backsource (Wong, 2008). In this case the reverse happened; the vendor was forced to change its strategy because the company decided
to backsource. Surprisingly this scenario was not treated in the literature. Whatever the case is, the company will have to face increased competition.

The third motivation was identified by the technical manager, and concerns the acquisition of the company a few years ago. The company and its outsourced partner had a relationship, but this relationship ended when the company was acquired by a new corporation. This motivation is characterized by the second category identified by Wong (2008) that relates to power and politics, and the external driving factors of Veltri et al. (2008) concerning mergers, divestitures, and acquisition. Wong (2008) argued that because of a change in top management, which happens in this case of acquisition, there is a shift in power and politics. The new top managers may have different perspectives on the sourcing strategy that the company has. Thus, instead of continuing the relationship with the outsourced partner, they decide to make a structural change and therefore the decision to backsource was taken. This argumentation is strengthened in this case as the decision to backsource came from the top despite the technical manager expressed his concerns about the backsourcing project being too difficult and risky to implement.

5.3 Process of backsourcing

The previous literature seems to put a lot of focus on service companies when studying backsourcing, which has been argued to be the gap of this study. As a consequence, knowledge transfer is considered to be an essential concern for managers. Cooperation with outsourcing partners is therefore emphasized to ensure that knowledge transferring and integration processes will be as smooth as possible. In addition, a nine stages framework was developed as guideline with the main focus on reintegration issues for successful backsourcing processes. (Bhagwatwar et al., 2011; Overby, 2005)

As the studied company is a manufacturing company, we could identify some important differences between the actual backsourcing process of the company and the literature focusing on the service company. The most unexpected finding is that the company in our case did not go through a knowledge transferring process or anything similar as the literature suggested. Neither did it cooperate with the previous outsourced partner to smoothen the backsourcing process. An explanation for these differences is that the literature did not consider the development of relationship between company and its partner after the ending of the outsource contract. In our case, the relationship ended immediately when the contract ended, and the company and its partner became competitors. For this reason, there was no motivation at all for the old partner to help the company in its backsourcing process, neither in providing equipment nor transferring knowledge, if there was nothing else written in the contract. The literature on the other hand mentioned the dissatisfaction of the outsourced partner as a potential risk associated with the backsourcing process (Chapman & Andrade, 1998), but being dissatisfied and being competitors are two different things, in which the latter makes the situation a lot more difficult to handle.

Out of the nine stages framework developed by Bhagwatwar et al. (2011), we recognize that some of the stages were being used in the backsourcing process of the studied company. They include informing the vendor about the backsourcing decision, developing project team and plan, and a new employee hiring strategy. Because the issues relating to knowledge transferring and cooperation with the old partner were missing in our case, a big part of the framework therefore fell out of consideration.
5.4 Risks and challenges

The challenges when implementing the backsoourcing project are identified by the plan manager and the technical manager. As they have different areas of responsibility, they see the issues under different perspectives. Some challenges are perceived by both managers, some challenges are perceived by just one of them.

Chapman & Andrade (1998) suggest that one of the biggest challenges is the cost, including finance, time and efforts that a company has to put into the backsourcing process. In our case, finance was not a problem as they were able to complete the project under the budget even when it was expected to be a challenge. On the other hand, the technical manager did face the pressure in time as the time given for the project was less than it should be. As Chapman & Andrade (1998) argue, one of the reasons for outsourcing is lacking resources such as equipment, skills or competences to produce the service in-house. In addition, Whitten et al. (2010) argue that finding the appropriate equipment will most likely be an one-time investment but it will be very costly and result in short-term negative impacts on the balance sheet of the company. When analyzing the backsourcing process, it turns out that lack of equipment was a big concern, especially for the technical manager who has responsibility for this area. He had to find the appropriate machinery abroad, transport them back home, install the production line and get it running. All this actions were done during the tightly time frame with no previous experience and no support from outside partners.

In addition, technical issues after installing the production line were identified by both managers to be a tough challenge, that small adjustments still need to be made all the time in order to decrease the huge amount of waste associate with products failing to meet the basic standard. This challenge and the challenges in finding and installing the production line were derived from their lack of experiences and support from partners. In the framework of backsourcing process, the literature emphasizes the knowledge transfer and communication with the vendor as important factors to smoothen the process (Bhagwatwar et al., 2011). As both factors are missing in our case, obstacles are difficult to avoid that put even more pressure on the managers.

The literature also suggests that human resources is an important factor for managers to consider in the backsourcing process to ensure knowledge transfer (Bhagwatwar et al., 2011; Veltri et al., 2008; Whitten et al., 2010). However, in our case, the company experienced no difficulty in finding the people working with the new production line even when it had to recruit new ones and provide trainings. They consider it instead as part of the backsourcing process, meaning a normal activity that they always have to go through.

One huge risk with the backsourcing that the plant manager has identified is the risk of losing customers as they are dissatisfied with change in the current relationship between customers and company, and also the change in product quality that the company now delivers. Regarding this aspect, the literature explains that even when the process is often costly and time consuming, there is no guarantee that the result will be better than when the company chose to outsource (Bhagwatwar et al., 2011). If the company produces products that have lower quality than the quality expected by the customer, the backsourcing process will be a failure as the company may lose both customers and all the investment for the backsourcing. However, the plant manager perceived that the products they deliver have higher quality than the one delivered by their old partner, and that the decision to backsource was a worthwhile decision.
In addition, a company may also face the risk of losing its partners. The literature emphasizes that just like the customers; the partners may as well be dissatisfied with the relationship with the company after the implementation of the backsourcing process (Chapman & Andrade, 1998). This risk was identified as a bigger issue by the plant manager as the company is a manufacturing company, its partner was not only dissatisfied with the backsourcing decision, it actually became a competitor to the company. As mentioned, manufacturing companies, unlike service companies, need a large one-time investment on the equipment. The equipment is too important for the company than to sell off or give away, especially in our case where the outsourcing partner was the only one manufacturing that particular kind of bread in Sweden, the machinery became a core competency that it did not want to lose. As a consequence, with better experience and higher market share, it became a huge competitor for the company.

5.5 Critical success factors

In literature, there were just a small number of critical success factors identified. However, when interviewing the plant manager about it, he truly confirmed the found issues and raised even more, which are related to broader literature like project and change management.

As described in the literature by McLaughlin & Peppard (2006), instead of backsourcing, the company should evaluate, if there is any other possibility by renewing the contract, re-tender or looking for alternative suppliers. The plant manager of the investigated company described this behavior as well, as the backsourcing was related to a huge investment, it was necessary to evaluate alternatives carefully. Moreover, the company should consider the impact and relatedness of the backsourced activity on the core activities within the company. (Chorafas, 2003) As the investigated company backsourced the production of one sort of bread, this backsourcing concerned the core activity, namely baking bread.

As quality problems were the main problem with the outsourcing partner, it required the investigated company to show a high ability of resolving those conflicts and finding a solution. Literature suggests that the ability to solve conflicts is necessary to facilitate knowledge transfer in the backsourcing process, as this would enable the company to faster re-integrate the process. (Bhagwatwar et al., 2011; Whitten & Leidner, 2006) Controversially, the investigated company totally built up the manufacturing process on its own, which means that there was no transfer of knowledge, as it is suggested by the literature. This also justifies why the company had to do many experiments with the recipe, before being able to start the production. However, as the major problem was within the quality of the product, the new recipe was necessary in any case in order to improve the quality.

The plant manager when asking about critical success factors ranked leadership and management the highest. Also, in many articles (Thamhain, 2011; Geoghegan & Dulewicz, 2008) it is said that leadership and management are essential in backsourcing projects, as most decisions are taken by the management. Moreover, the management dimension is also a key factor within project management. This goes along with the statement of the plant manager, who pointed out that backsourcing is nothing special; it is just like any other project. From this, it can be concluded that by organizing the backsourcing process as a project and having a good project manager and project team, it is not a challenge to conduct such a backsourcing project.
Moreover, being able to absorb changes was ranked high from the plant manager; moreover, he adds flexibility in this context. This raises the issue of change management in enterprises.

The technical manager mentioned that the project was rather demanding from a technical perspective. Controversially, the plant manager had ranked this issue rather low. However, this might come from the matter that the technical manager was deeper involved in that part of the project.

Financial factors have not been ranked too high, as explained by the technical manager, their project went pretty good and was under budget. However, the performance financially is a bit under their expectations.

5.6 Comparison between theory and results

Figure 4: Backsourcing process in theory and practice
6 Discussion and Conclusion

In this chapter, we are going to discuss the research objectives briefly and then state the conclusions and results of the research. The main purpose of this research is to investigate the upcoming problems in backsourcing and thereby increase the understanding of critical success factors for backsourcing projects in manufacturing companies. In order to do so, the research questions are helping to fulfill this purpose. By investigating a manufacturing company’s backsourcing project, we are able to give some insight from a practical perspective.

6.1 Discussion

Firstly, we would like to emphasize that the company, despite different challenges, has successfully completed several backsourcing projects. The company was argued to have a high flexibility to adapt to the changes in the environment such as pressures and opportunities, and good leadership that was essential for linking together different parts of the backsourcing project. In this paper, it was crucial for us to investigate the backsourcing process from different viewpoints, which was the main reason for conducting the interviews with managers in different levels. We discover that opinions of the managers differ from each other relating to some important questions such as motivations for backsourcing and the challenges of the backsourcing process. These differences however were not used to confront each other to determine what is right and wrong, but they have rather been used as complementation in order for us to gain a bigger picture of the situation.

The actual decision to backsource the process was a huge decision, which needs to be well elaborated as it is a big investment connected to many risks. Besides having a budget, there were also time restrictions the company was facing during its project. Whereas the budget was a minor problem, the time restrictions were perceived as a major challenge. This could only be solved by developing a good partnership with the vendor of the machinery. However, as the process was backsourced because of an insufficient quality, the company had to find a way of increasing the quality and fulfill customer expectations. Consequently, an intense product development phase and testing was required. One major risk in this context was to lose customers as a consequence of unfulfilled expectations, in the worst case. This, however, could be turned to the best case for the company; it managed to become a serious competitor for its previous partner. Nevertheless, this could also happen to the company as well that one of their partners wants to backsource the production of a product that they had previously outsourced to them.

In order to fulfill the purpose of this paper, we have developed three research questions. They will now be answered below.

1. What are the motivations for a company to backsource?
Different companies may choose to backsource based on different motivations. In our case, three motivations can be highlighted. Dissatisfaction with the quality of the products delivered from the vendor was pointed out to be the starting point for considering if the outsourcing decision still was the best choice to continue. The company’s managers had a strong belief that they can do better than their partner, and that there is the possibility to increase the market share by changing the sourcing strategy. Hence, the decision to backsource was taken
as a response to the new opportunity. This is a logical explanation that has been well investigated by the literature for the service company and it confirms that service companies do not differ from manufacturing companies in this aspect.

In addition, being previously acquired was also argued to be the reason for the company to choose to backsource. It is highly likely that the acquisition was the triggering factor for the managers to take the decision after recognizing the previous two motivations. The reason is that the bad product quality should be a well-known problem for the company as the partner had delivered the same products for years, and the opportunity on the other hand was always there since no new competitor had entered the market. Still, it required the acquisition of the company for the decision to backsource to be taken. It is certain that one factor alone cannot lead to a decision to backsource, but all three motivations, in our case, have to be combined together to make the change. Thus, one conclusion that we make is that it requires several motivating factors as a combination in order for the managers to take the decision to backsource.

2. Which challenges can a company identify when implementing the backsource process and how do they cope with the challenges?

Just as the literature suggests, the challenges related to the backsource process can be derived from all directions, both internally and externally. In our case, the internal challenges are concerning the cost, including finance, time and efforts that the company has to put into the process, in which the finance factors had been overcome easier than expected. More emphasis was put on the technical issue, to find the appropriate machinery and to find the right technique to produce high quality products within the tightly timeframe. We believe this is the main difference between manufacturing companies and service companies. The service company, as the literature suggests, focuses on managing humans with knowledge transfer as one of the most important factors to consider. The manufacturing company on the other hand is focusing more on the equipment, while the human resources were not at all perceived as a challenge. In fact, in our case, knowledge transfer was completely missing as part of the backsource process. In addition, we found out that to cope with these challenges, it is very important that the company has a good cooperation with the vendor and also has a good project management.

The risk of losing relationship with customers and partners is also identified as a big challenge for the managers to handle. In our case, the fact that their partner would become a competitor was unavoidable and it was a factor that the company could not control. The relationship with customers on the other hand was more in focus and the backsource process actually was an effort of the company to improve this relationship. Identifying the core value of the customers and manage that value closely within the company by backsource is the way the company can ensure that the customers receive what they expect. This is how the company strengthens its relationship with the customers.

3. What are the critical success factors of the backsource process?

The empirical research clearly showed that a backsource project requires strong leadership and management skills. Without these skills, the realization of such a project would not be possible. During the interviews, we could also see that backsource needs to be embedded in broader literature and concepts than just the matter of sourcing decisions. The interviewees highlighted the importance of a good project management. Just by having a clear and structured project management, the backsource will be successful. Like every other project, backsource projects require a thorough planning, execution, monitoring and evaluation of
the results. Hence, it is indispensable for a company to deal and adapt to changes when dealing with a backsourcing project, especially when seeing that the process is within the core activity of the company and is thereby directly influencing the sales figures of a company. Therefore, we want to highlight the importance of change management in this context, as they conclude that it goes along with every backsourcing project.

Considering the purpose of this study, we conclude that the matter of backsourcing plays a major role in every company’s strategy. The resolution of a partnership can either be connected to dissatisfaction, the opportunity to gain market share or the opportunity of acquiring a competitor. Being clear about these motives and evaluating them carefully is the first step of the process. By having a strong project team, the challenges can be handled and overcome. Moreover, identifying and knowing the critical success factors enables the company to allocate its resources and in this sense to bring the project successfully to an end.

6.2 Theoretical, practical and societal contributions

The phenomenon of backsourcing is under-explored and it was identified in this paper to be one of the main gaps that needs to be filled. This paper contributes to the literature by examining an aspect that has been considered as being under-explored by the scholar as it focuses on a manufacturing company. Our results provide a deeper understanding on the issues of motivations, challenges and the critical success factors for a backsourcing process in a manufacturing company. The major theoretical implication of this research is that we have confirmed some of the understanding of the literature on the backsourcing process for service companies to be true even for manufacturing companies through our case study. In addition, we discovered some new findings that have not been considered by the previous literature, which are also identified as the major differences between manufacturing and service companies.

The practical implication of this study is to present some recommendations to the manufacturing company that has been studied in our case. These recommendations can also be applied to other manufacturing companies as well. Regarding the implementation of the backsourcing process, some of the obstacles were identified to be connected with the missing of knowledge transfer and cooperation with the outsourcing partner. Even when the company seems to emphasize equipment as one of the most important factors to consider, more focus should be on the human resources and the knowledge transfer process to ensure that the backsourcing process will be as smooth as possible. One major point is, that companies should have it embedded it already in the outsourcing contract that the outsourcer should help the company if the backsourcing process would take place, even when they later may become competitors. In addition, we recommend that the decision for backsourcing should not solely come from the top but should be discussed with the managers at lower level to give them a feeling of being involved and responsible for the success of a backsourcing project. The perspective of lower level managers might reveal better practical solutions that will reduce the obstacles as the same time increase saving for the company.

The actual action of taking a certain process or service back in-house, leads to the consequence that a company is losing a customer. This loss does not only mean a financial loss, but also it could imply the company has to reduce its workforce as some of it is not needed any more, which actually means that people are losing their jobs. In turn, the company that actually backsource, is creating work places. In fact, this is of course beneficial for the people living in this area, but also for the municipality or country region. The municipality is
becoming more attractive for people living there, but also by economically strong companies, the municipality is benefiting. Therefore, the investigation of backsourcing in manufacturing companies is interesting and essential since the actual decision of doing so has not only an influence on the companies involved in, but also on their environment. Critics may point out that the creation of jobs always implies a loss of jobs somewhere else on beforehand.

6.3 Further research

Due to the uniqueness of the case study in the bakery business, it would be interesting to conduct a broader research investigating the food industry and also other industries, as it seems that the research is taking an already broadly practiced issue from a theoretical perspective. However, it is not solely done by reviewing literature of make-or-buy and sourcing decisions. Thus, we would recommend viewing it from different theoretical angles, especially change and project management in connection to the literature of sourcing decisions and investigating the matter of backsourcing in this context.

In addition, as this study is a single case study, we recommend investigating deeper into the issue by conducting a comparative study in which several companies are studied and compared. As mentioned, the motivations and critical success factors may vary depending on the characteristics of the company and the business environment, comparing companies to see similarities and differences would likely reveal new knowledge that has not been considered.

Furthermore, in this study, we had used a broader context of the theoretical framework including outsourcing, project management, merger & acquisition. A more focused study is therefore recommended to narrow down the research and to go deeper taking just one perspective. For example, it could be a possibility to take the perspective on regarding backsourcing as a post-merger-integration issue, as there can be found various similarities.

6.4 Limitations

As stated in the purpose, the aim was to investigate a backsourcing project in a manufacturing company. Therefore, we have investigated a project in which the production was taken in-house again. Consequently, there must be a clear differentiation to service processes and service oriented companies.

Another limitation is that there has only been an investigation on two hierarchical levels, hence the upper management level was not accessible for us and it made no sense to go to any lower level, as the decision and the management of the project was on the upper levels.

Again, due to limited access to the people involved in the project, just the people still working and involved at the plant have been interviewed. People from other plants or the upper management (on corporate level) were excluded.

Finally yet importantly, a single case study brings a restriction in terms of generalization of the findings. We limited our study down to the backsourcing project, which is treated as the case.
References


Appendix

Interview guideline 1 (middle management)

I: General information
What is your area of responsibility?

In your field of responsibility, are there services and processes outsourced? or are you cooperating with temporary staffing agencies?

What do you consider as the most important reason for outsourcing?

explain backsourcing and what we are doing

II: Backsourcing

Why do you think, the backsourcing decision was taken?

How important do you see the backsourced function for the company?

How would you describe the impact that the backsourcing project had your area of responsibility?

Did you experience any challenges within the backsourcing project? (was that difficult to find the right people? was that difficult to run the machines? were there any conflicts? etc )

How did you overcome the challenges?

How long did it take until the backsourcing process was fully integrated?

What would you consider as the most important in this kind of projects?

III. Personal reflection:

What is your view about the backsourcing project before and after it has been implemented? has it changed?

What would you have done differently in your area if you were to perform a backsourcing project again?

Interview guideline 2. (Plant manager)

Introduction:
What is backsourcing

Purpose: the purpose of this study is to investigate the upcoming problems when backsourcing services/processes and to increase the understanding of critical success factors for backsourcing projects.
I. General questions
1. What would you identify as the core competences and core activities of the company?
2. What is your area of responsibility at your company?
3. What kinds of activities were outsourced or are currently outsourced? (for example cleaning service, coffee etc.)
4. What do you consider the most important reasons for the outsourcing of an activity or a function to an external provider? Do you think that it is an accepted practice within the company?
5. How would you describe the relationship with the outsourced partners?
6. What outsourced activity is now backsourced to an internal activity to the company? What was the biggest backsourcing project you have experienced? Describe it.
7. Why was the activity outsourced in the first place? Alternatively: Why was the activity decided to be provided from an external supplier instead of performing it internally? What were the motives for outsourcing?
8. Did you develop a strategy for the backsourcing process or did it emerge out of the situation? In case yes, can you summarize the stages of the backsourcing process?
9. What was your role within the backsourcing process?

II. Reasons for backsourcing
1. Why did you decide to backsourc3e?
2. How important is the backsourced function to the company?
3. Which advantages did you expect that the backsourcing project will contribute?
4. Did you consider a change of the supplier instead of producing in-house?

III. Challenges with backsourcing
1. Did you experience any problems or unexpected challenges during the backsourcing? (human resources, cost, technical issue etc.)
   - how do you deal with the problems?
2. How would you describe the impact that the backsourcing had on your company in terms of market/business area, human resources, finance etc.?
3. How did you manage to overcome the loss/lack of knowledge, was there a need of competence procurement or did you have the necessary knowledge already in-house?
4. Did you get help from other partners in the backsourcing project? in case yes, who are the partners and how did they help you?

IV. Solutions for the problems/ critical success factors:
1. What would you consider as most important within the backsourcing process?
2. Are there any critical success factors you can identify, such as: costs, technical issues, etc. - follow-up questions: Can you arrange these factors from most to less importance in order for the backsourcing process to be successful?
   - Leadership and human resources management
   - Technical factors
   - Financial factors
   - The importance of the backsourced function
   - Ability of the company to absorb changes
   - Ability of the company to corporate with partners
3. What would you consider as the biggest risks that you had within the backsourcing? How did you deal with the risk?

V. Your reflection about backsourcing process
1. What is your view about the backsourcing project before and after it has been implemented? has it changed? Do you consider the backsourcing project as a good investment so far?
2. What would you have done differently if you were to perform a backsource project again?

3. Do you consider to backsource other parts that are currently outsourced? do you have resources to do that?