CIPS KNOWLEDGE

Insourcing

Globalisation is a reality ...You can sit around and wish that something else was taking place or you can take advantage of globalisation, what we call 'insourcing' (Sam Jones, Mayor, Mobile, AL, USA)

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Introduction

Very often the terms 'insourcing' and 'backsourcing' are used interchangeably: in practice many insourcing decisions and case evidence are actually cases of backsourcing rather than elaborate processes that lead to an insourcing decision. There is, however, a fine theoretical distinction between the two terms. Thus, backsourcing refers to bringing back inhouse certain activities that had previously been outsourced (Chadee and Raman, 2009), whereas insourcing is the decision to retain core competencies inhouse. In other words it is often a decision against outsourcing (Youngson and Cheung, 2007).

A recent trend suggests that manufacturers prefer to insource the 'intellectual part' of the business and send more of the 'heavy lifting' externally (outsource) (Reed, 2008). Many companies also choose to insource those goods that require high levels of quality control and/or are critical products for the company. For example Unilever, producer of the Dove product range, introduced around a decade ago the Dove beauty soap bar which contained moisturiser, something soaps did not contain at the time. The special ingredients formula differentiates the Dove soap from the competition which is why Unilever decided to keep all sourcing and production of the soap and other products containing moisturisers in-house (Pinto, 2011).

A strong shift towards insourcing has been also observed in business practice. Along with efficiency and cost considerations (SenGupta, 2010), the reasons companies opt for insourcing include poor quality of service provided by third parties, service provider's failure to meet business objectives, outsourcers wish to keep control over the function or process, and cost-saving (Overby, 2011). Other arguments for insourcing include risk or compliance and the belief that the firm is better able to perform the activity inhouse (Youngson and Cheung, 2007). A co-ordination across an organisation's business functions must be in place for successful insourcing between the firm's internal IT department and other business units of the firm. Usually, insourcing is easier to establish and coordinate than outsourcing, since it is easier to achieve formal and informal communication between functions by the means of mechanisms, such as routine meetings and co-location (Qu et al., 2010).

Definition

Insourcing generally refers to the decision of an organisation to retain core competencies inhouse (Youngson and Cheung, 2007). The combination of inhouse work and outsourcing is used by every organisation but on different scales. Michael Munger, the jocund chair of the Duke University department of political science, argues that a computer company would not make its own furniture, bake bread in its cafeteria, or make waste-baskets). Profits define the line and helps companies decide what to buy and what to produce. The line, however, constantly changes (The Economist, 2008).

Successful Application

Generally, outsourcing and insourcing are not opposites and it is collaboration between organisations and external consultants or across organisational functions that matter. The choice should be made based on the approach evaluation of advantages/disadvantages of both options and the assessment of organisational resources (Fee, 2011). Alternatively, the decision to insource will often be that to 'backsource' (the terms are often used interchangeably). In most cases there is no overlap between the implementation steps whether the process is being conducted as insourcing or backsourcing. Bhagwatwar et al.

(2011) identify the following stages of the backsourcing process: (1) informing the supplier about the backsourcing decision; (2) conducting a financial viability analysis; (3) establishing a backsourcing team and designing a backsourcing plan; (4) defining workforce requirements and responsibilities during backsourcing; (5) developing strategies for re-hiring of employees or new hires; (6) defining security policies; (7) ensuring the continuity of business operations; (8) stakeholder management (9) knowledge management (Bhagwatwar et al., 2011).

Steps to Successful Application

- For implementing insourcing, companies must identify where external vendors are not able to provide services in a way that contributes to competitive advantage.
- Rank opportunities by priority, considering both potential for internal value added and external profits.
- Develop those capabilities internally, according to priority.
- Offer the developed services on external markets.
- Establish new organisational units so that those services can become core competencies that can be offered to both internal and external customers.

King (1995)

Hints and Tips

- Insourcing requires very high levels of internal company expertise (Qu et al., 2010).
- Both costs as well as added value must be appropriately considered when making the insourcing decision (Qu et al., 2010).
- Perceptions of, and the agenda for, an insourced function must be aligned (Hirscheim and Lacity, 2000).
- In order to prevent negative effects of internal politics, senior executives should allow managers of the functions to be outsourced/insourced to bid in competition with external providers (Hirscheim and Lacity, 2000).

Potential Advantages

- Insourcing is often cheaper than outsourcing and hence it can save costs (Overby, 2011).
- Through insourcing, firms can keep control over the overall direction and make sure it is aligned with strategy (Overby, 2011).
- Insourcing can maximise the use of internal resources (Fee, 2011).

Potential Disadvantages

- Insourcing can be expensive to implement and can constrain existing resources (Fee, 2011).
- Insourcing activities and performance measures are difficult to capture and quantify, and are usually not tracked for those reasons, as well as for reasons of impracticality (Overby, 2011).

- Measuring the actual success of insourcing is difficult: different stakeholders (e.g. senior management, business unit managers and users, IT managers) can have different expectations and might focus on different dimensions (Hirscheim and Lacity, 2000).

Performance Monitoring

- Cost of production factors (Dachs et al., 2006).
- Cost of communication, monitoring and coordination (Dachs et al., 2006).
- Service level/Availability of supply (Dachs et al., 2006).
- Availability of qualified personnel (Dachs et al., 2006).
- Inhouse investments (Qu et al., 2010).

Case Studies

- Wal-Mart decided not to outsource its entire IT activities and instead had its own Information Systems Division to manage all Wal-Mart's IT projects, ranging from programming to process reengineering. The company spends less than 1% of its worldwide revenue on IT, which is a below average IT spend for retailers (Sullivan, 2004).
- In 2006 Sainsbury's recorded five consecutive quarters of like-for-like sales and market share growth following steps taken by Mr King, its Chief Executive, in 2005. At the same time, his initiatives on debt restructuring and insourcing of the company's IT system from Accenture, along with charges associated with the business review reduced net profits in the short term by almost 70% to £58m (Griggs, 2006).
- Unlike many other manufacturers Sunseeker, a customised boat manufacturer, makes most of its boat components inhouse rather than have these made up by outside contractors, thus achieving as much flexibility as possible. 2,000 insourced products include furniture (beds and chairs) and stitching of upholstery, duvet covers and blinds (Mansell et al., 2007).

Further Reading/Reference

CIPS Source Downloads

- CIPS & PACG: Business process re-engineering & business process outsourcing
- BuyIT: IT outsourcing
- CIPS: Outsourcing
- CIPS: Savings
- UWE, CIPS & KPMG (2002) I-SAVE: Independent savings analysis verification and evaluation

Web Resources

- Article in which the terms 'insourcing' and 'backsourcing' are used synonymously
  http://www.cio.com/article/598415/9_Questions_to_Consider_Before_Insourcing_Outsourced_IT

- Is insourcing the new outsourcing?
  http://www.cio.com/article/221017/Is_Insourcing_the_New_Outsourcing
- How to save by ending IT outsourcing deal
  http://www.cio.com/article/549463/Company_Saves_Millions_By_Ending_IT_Outsourcing_Deal
- Apple insources Samsung Chip Processing to Texas
  http://www.cio.com/article/549463/Company_Saves_Millions_By_Ending_IT_Outsourcing_Deal
- Backsourcing: An emerging trend http://www.outsourcing-center.com/1998-09-backsourcing-an-emerging-trend-article-38943.html

Books

- Outsourcing and insourcing in an international Context, Marc J. Schniederjans, ISBN 978-07565615855
- Outsourcing Insourcing and IT for Enterprise Management, Dr Dimitris N. Chorafas, ISBN 978-1403903457
- Outsourcing – Insourcing: Can Money be made from the new Relationship Opportunities, Per Jenster, Henrik Stener Pedersen & David E. Hussey, ISBN 9798-0470844908
- Beyond the Information Systems Outsourcing Bandwagon: The Insourcing Response, Mary C. Lacity & Rudy Hirschheim, ISBN 978-0471958222
- Insourcing Innovation, David Silverstein, Neil DeCarlo & Michael Slocum, ISBN 978-1420062274

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Video

Thomas Friedman: Insourcing
https://www.youtube.com/watch?feature=player_embedded&v=TKfaVCVC8aM

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