Outsourcing Failure and Reintegration: Beyond Contractual Approaches

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ABSTRACT

This paper discusses the possible reasons that drive organizations to interrupt outsourcing and then to reintegrate activities formerly delegated to third parties. Contractual approaches offer some plausible explanations for reintegration originating from outsourcing failure. These explanations are related to asset specificity, poor contractual design and deficient monitoring. Although the examination of a real case of outsourcing interruption in industrial maintenance confirms these factors, other explanations can be added. Bandwagon behavior and isomorphic pressures exerted by external actors may also explain why some organizations reintegrate.

Key words: reintegration, contracting, isomorphism

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INTRODUCTION

Historically, the decisions concerning organizational boundaries occupy significant spaces on the agendas of company executives and scholars in strategy and operations management areas. A brief inspection of companies' practices reveals several possibilities in terms of activity coordination throughout the supply chain. Some firms control several stages of production components, product distribution and ancillary functions, while others specialize in just one activity. There are companies that combine internal provision with outsourcing to external suppliers. In this matter, outsourcing practices have spread in the past few decades and have been used in several organizational functions, such as cleaning, security, catering (Mclvor, 2000); manufacturing (Dyer, 1997); information technologies (Barthelemy, 2003b); intellectually based systems (Quinn, 1999); and so on.

However, although outsourcing may bring several benefits to organizations, empirical evidence shows some cases of reintegration, i.e., some outsourcing contracts are being rescinded and the corresponding activities formerly transferred have been incorporated. In spite of some famous cases of outsourcing interruption, such as the reintegration of maintenance functions taken by rail companies in United Kingdom (Mclvor, 2005) and JP Morgan's decision to perform IT functions that it had previously outsourced (King, 2005), literature focusing on reintegration is scant, which is probably because companies hardly ever report unsuccessful stories (Barthelemy, 2003a). Reintegration represents a shift in organizational strategy impacting on the sourcing structure and is probably part of a broader cyclical process. Therefore the analysis of the underlying reasons of reintegration can help to better understand how organizational boundaries evolve (Cacciatori & Jacobides, 2005).

In this vein, in the present paper we analyze some factors that might influence the reintegration decision. In order to understand the reasons why companies interrupt outsourcing, we use a single case study concerning the reincorporation of industrial maintenance activities in a metallurgic company, in which outsourcing was discontinued after more than a decade of external provision. While our empirical findings show that contractual hazards may explain the reintegration, which is reflected in the few previous works on reintegration (see Barthelemy, 2003a; Cacciatori & Jacobides, 2005; Whitten & Leidner, 2006; Frery & Law-Kheng, 2007), our paper's contribution relies on the identification of other drivers for reintegration: the influence of managerial fads and bandwagon behavior and isomorphic pressures.

We find that the influence of external actors and the institutionalization of managerial practices also shape the behavior of decision makers. These external influences may persuade companies either to outsource for the wrong reasons and/or to reintegrate.

Our work is structured as follows. The next section discusses some reasons that might lead to reintegration from the contractual and strategic management perspectives. We argue based on transaction cost economics, incomplete contract and core competence theories. We assume such a body of knowledge as being received wisdom. Subsequently, we present our methodological stances and the results observed in our case study. Our sources involve interviews and documentary analysis. Following this, we posit that although the received theory predictions apply to our case, they are not enough to entirely explain the dynamics of reintegration. Consequently, based on our empirical findings, we show that other factors affect the decision to reincorporate activities formerly transferred to external actors, and this enables us to sketch a more comprehensive representation of reintegration determinants. The last section concludes and summarizes our main propositions.

WHY DO FIRMS REINTEGRATE? RECEIVED WISDOM

The expression reintegration relates here to the decision of incorporating within an organization a function that had previously been outsourced. It normally involves the severing of outsourcing contracts and the reacquisition of resources, both human and material, and also the adaptation of organizational structures to accommodate the undertaken functions. If we understand outsourcing and integration as faces of the same coin, because the transfer of an activity necessarily implies its absorption by another external actor, in the same vein reintegration associates with vertical or lateral disintegration (Lavington, 1927).

Firms may opt to reintegrate activities in response to exogenous changes in the business environment (Cacciatori & Jacobides, 2005). From the outsourcer perspective, the perceived value of the transferred function evolves according to the dynamic characteristics of the market, which may justify the reintegration (Jacobides & Winter, 2005). A resource once not considered rare and valuable (Barney, 1991) can be reconsidered as crucial from a financial and strategic point of view due to the nature of the business environment, as in the case of the British building industry presented by Cacciatori and Jaccobides (2005). Ciarli, Leoncini, Montressor and Valente (2008) mention the role of technological change in firms' boundaries by arguing that when the supplier's technology no longer suits the buyer's needs, reintegration might be reconsidered.

Reintegration also facilitates certain strategic intents. For example, in electricity markets reintegration of the distribution phase may ensure the market for upstream generation (Haas, Glachant, Kesseric & Perez, 2006). Holt (2001) sheds some light on vertical reintegration of theaters by major Hollywood studios, which reflects the trend of expansion of parent companies of the studios in the direction of becoming entertainment conglomerates. Pepsi recently announced its intention to reintegrate manufacturing activities formerly outsourced in order to increase its control of beverage distribution (Worthen, Tuna & Scheck, 2009). Although vertical reintegration may enable efficiency gains (Oliveira & Tolmasquim, 2004), its impacts on market concentration and the related anti-trust problems signal precaution and deserve attention.

Other than strategic motivations, reintegration can also occur due to an outsourcing failure (Frery & Law-Kheng, 2007, Barthelemy, 2003a). We take this avenue in the present analysis.

Received theory sustains that outsourcing should take place in non-core activities of the firm (Prahalad & Hamel, 1990). However, a precise evaluation of a firm's core competences is not straightforward (Javidan, 1998) and may lead to the transference of activities to external actors that *de facto* should not be outsourced. Thus, undue outsourcing decisions are likely to be correlated to future reintegration (Barthelemy, 2003a).

Cost reduction is one the major drivers of outsourcing decisions (Mclvor, 2005), nonetheless the exclusive focus on cost delivery at the expense of quality may constrain the expected results of outsourcing (Greer, Youngblood & Grey, 1999). In fact, most outsourcing flaws might be addressed through contracting issues in such a way that Transaction Cost Economics (TCE) is the main framework to focus on subjects related to outsourcing and reintegration (Cacciatori & Jacobides, 2005). From a contractual perspective, the transaction attributes influence organizational boundary decisions (Klein, Crawford & Alchian, 1978; Anderson & Schimittlein, 1984; Williamson, 1991). In situations involving specific assets, opportunism from a supplier may arise and the safeguards to avoid ex-post hold-up are likely to increase contracting costs so that when assets are specific to transactions, firms tend to prefer internal forms of governance (Mayer & Salomon, 2006). Furthermore, the outsourcing of an activity with high levels of asset specificity can undermine the organizational efficacy, among other factors, because in this circumstance it is more difficult to find capable suppliers to perform the activity (Cabral & Azevedo, 2008). Even when there are available suppliers to execute complex activities, the management of outsourcing contracts is not trivial. Mclvor (2005) presents the case of a UK's rail network operator that outsourced track maintenance to private contractors. The inability to manage the complexity of railway systems left the rail network in a poor state of repair which caused a fatal accident and a number of derailments. As a result the network rail operator backsourced maintenance functions.

The incomplete nature of the contracts also matters in outsourcing contracts (Grossman & Hart, 1986). In fact, this is related to the agent's inability to verify the relevant variables and to build a clear and enforceable contract (Saussier, 2000). Of course, organizations are in a position to develop managerial capabilities to design more detailed contracts and this would allow companies to outsource transactions with higher levels of asset specificity (Argyres & Mayer, 2007). However, empirical evidence shows that companies do not make the necessary effort to develop adequate contracts, which leads to poor contracts (Barthelemy, 2003a). From the buyer perspective, the exercise of monitoring and enforcing outsourcing contracts demands governance and technical skills. In this sense, firms need to maintain their technical capabilities (Parmigiani & Mitchell, 2005) otherwise they will not have the proper devices for controlling the supplier. In this case it will be no surprise if outsourcing fails and reintegration arises as an outcome.

Nevertheless, the building of trust-based relationships may attenuate the contractual hazards and some deficiencies in terms of managing the outsourcing relationship, even in the presence of specific assets (Dyer, 1997). In this line, Cabral, Lazzarini and Azevedo (2010) when analyzing the case of prison outsourcing show that reputation and trustworthiness are pursued by prison service providers in order to get new contracts in the future. Incentive based contracts, both implicitly and explicitly, help to align the objectives of buyers and suppliers and foster successful outsourcing arrangements (Barthelemy 2003a). Conversely, the absence of such incentives in outsourcing contracts reduces the likelihood of success of externalization and increases the probability of reintegration in the future.

In summary, beyond the reasoning that reintegration tends to occur when it involves activities that should not be outsourced (Barthelemy, 2003a), the arguments supplied by the received theories allow us to make the following propositions:

> *Proposition 1: The greater the inability of the organization in specifying, monitoring contracts and enforcing, the greater the likelihood of outsourcing failure and reintegration.*
> *Proposition 2: The lack of capacity of the organization in managing relationships and in creating trust based relationships leads to outsourcing failure and reintegration.*

DATA AND METHODS

Although it is not our intention to test theories with a single case study, the empirical evidence helps us to understand the reasons why reintegration may occur. In fact, a case study may be appropriate in under-explored areas (Eisenhardt, 1989). We use an explanatory case study (Yin, 1994) involving a Brazilian company that interrupted the outsourcing of industrial maintenance by backsourcing the activity. The organization (for confidentiality reasons referred to as Organization X) operates in the metallurgic sector and plays a leading role in its market. It has around 1280 employees and annual revenue of US$ 2.2 billion as of the end of 2008. The production process begins with the receiving of the raw material – a special metal – and encompasses the concentrating, smelting and refining phases. All theses activities are vertically integrated. Between 1982 (company inauguration) and 1994 the maintenance activities were mainly provided internally. In 1994 company X outsourced industrial maintenance and brought it back in house between 2004 and 2005.

We weave causality relationships between the investigated variables and the theoretical framework (Scandura & Williams, 2000) using a combination of documentary analysis and interviews. Primary data covers internal reports, contracts, meeting notes, internal records concerning performance metrics. We also run semi-structured in-depth interviews with eight individuals from IT, contracting, maintenance and production areas. The questionnaire (available upon request) contained open questions about facts, opinions and expectations related to the investigated problem. Data were collected between July 2006 and January 2007. Two hired professionals conducted the in-company interviews and both were briefed about the problem of reintegration and the context of the organization. Interviews were recorded and latter transcribed. Texts were codified and analyzed in the Sphinx Lexica software. The very fact that one of the authors has worked in the observed organization obliged us to double-check the interpretation of the meanings in order to minimize bias. The author who never worked before in the Organization X performed the analysis separately. Then, both interpretations were crossed so that patterns of similitude and difference involving the two visions emerged, enriching the analysis. To guide our content analysis, we initially specified constructs according to the received theories (contractual frictions, asset specificity, core competences and so on). However, other aspects not previously foreseen such as institutional pressures and managerial fashion emerged in our analysis as possible explanations of the phenomena. On one side, if the emanation of these new factors enriched our analysis, on the other hand it forced us to work in a distinct venue to tackle these new constructs. In addition, we performed five informal interviews with executives of contractors and other three informal meetings with managers outside Organization X. These actions were necessary to increase our understanding of the dynamics of the industrial maintenance sector in the geographic area of our study. Finally, all sources of data were triangulated so as to increase the credibility of our findings.

CASE STUDY: REINTEGRATING INDUSTRIAL MAINTENANCE IN A METALLURGIC COMPANY

Before moving to the discussion of the case study results, it is interesting to take a brief overview of industrial maintenance the role of which is to conserve equipment and systems necessary for the production of goods.

Industrial Maintenance: A Brief Overview

Historically inherent to manufacturing, industrial maintenance is commonly seen as a non-core function and a cost to be avoided, which might imply in outsourcing (Murthy, Atrens & Eccleston, 2002). Contrarily, Pinjala, Pintelon and Vereecke (2006) sustain that maintenance has a strategic role by demonstrating that there is a strong tie between maintenance performance and organizational outcomes. Moreover, evidence suggests a positive correlation between proactive and aggressive maintenance strategies and performance (Swanson, 2001). Regardless of the allegedly strategic role played by maintenance and the problems associated of reverting maintenance outsourcing due to time and capital requirements (Pinjala et al, 2006), we do observe a massive transfer of this function to external actors as in the case analyzed here.

Normally three contractual arrangements apply in industrial maintenance. In a nutshell, the simplest mode is man-hour assignment, also known as time and material contract. A fixed fee covers the hours of labor of the professionals involved. In this arrangement contractors have weak incentives to ameliorate performance standards. The second type is turn-key contracts, which involve the contracting of a company for a specific task or package. In this case, the contractor takes the responsibility for fixing and leaving the equipment ready for operation. As this contract type allocate more responsibilities to the contractor, the underlying incentives to increase performance indicators are stronger (Von Branconi & Loch, 2004). Lastly, full-service contracts have been largely used in industrial maintenance outsourcing, in which the service provider delivers all the necessary goods and services to fulfill customers' expectations (Stremersch, Wuyts & Frambach, 2001). In the context of maintenance services, full-service agreements frequently involve a broader scope and have a longer duration as compared to turn-key contracts. The commitment level from the contractor side is likely to be increased in full service contracts. The following section analyzes industrial maintenance reintegration in the context of the chosen case study.

Reintegration of Industrial Maintenance in Organization X

In recent decades companies throughout the world have adopted managerial programs to reduce costs and concentrate on core activities such as: Business Process Reengineering (BPR), Total Quality Control (TQC), Activity Based Cost and outsourcing (Guller, Guillen & Macpherson, 2002). Organization X took its first outsourcing initiatives in 1988 with the transfer of non-core activities, such as cleaning, facilities management, medical services, and some minor and specific services in industrial maintenance, more precisely in boilers welding to third parties. In 1994 the company intensified outsourcing in IT and maintenance services covering electrical, mechanical and instrumentation areas. External companies were contracted on a turn-key basis for more complex events or per man-hour for simple tasks. Organization X kept some maintenance employees to supervise contractors. Between 1998 and 2004 several contractors performed outsourcing activities under short term contracts, lasting up to two years.

In 2004, Organization X decided to backsource industrial maintenance and IT services. We focus on the former here. In the reintegration process contracts were severed and new employees were hired, some of them from contractors. According to the official vision expressed in meeting minutes and internal newsletters, a feasibility analysis was conducted and it unveiled potential advantages with reintegration in terms of cost, quality, work safety and moral of employees.

Interviews reveal that Organization X recognized industrial maintenance as a core function:.

> We realized that we ought to reintegrate certain functions that are really attached to our production process. (Maintenance Chief 1)

Our analysis confirmed cost reduction as one of the main drivers of reintegration. Internal documents reveal that backsourcing would reduce maintenance costs by 38.61%. At first glance, such a saving appears overestimated. Although we were not in a position to audit the sources of the calculations presented by Organization X, we checked other sources to clarify this point. We compared the price increase in maintenance outsourcing contracts between 1999 and 2004 with the wage rises offered by contractors to their employees in the same period. If we take the electrical maintenance services as an example, we can see that in the period the amount paid to contractors increased by 104%, while the contractor's staff costs increased by only 47%. The contractors failed to pass on their increased income, as summarized in Table 1.

Insert Table 1 about here

Paradoxically, the cost-reduction expected with outsourcing did not occur. As a matter of fact, cost savings were made possible with reintegration. The obtained cost reduction with reintegration is correlated highly with the reduction in personnel to perform the maintenance activities in the new arrangement. Contractors usually employ more people to perform the same tasks, which suggest that third party suppliers overestimated the human resources requirements. On the other hand, observed data demonstrates the lack of Organization X's expertise in specifying their own needs and monitoring contractor's activities. Opportunism on the contractor side also explains the poor performance of the outsourcing. As the contracts on average lasted two years, the existing uncertainties regarding the continuation of the relationship seem to force contractors to earn as much as they could while they could. Rents captured by contractors from customers were not transferred to contractor employees, which compromised the quality of the manpower assigned to Organization X Low qualification skills and high turnover rates were significant during the outsourcing experience of Organization X and contributed to low quality services and reductions in productivity. Given the uncertainty as regards contract renewal and the short time in which to recuperate the investment in specific human assets from the contractor side, this gave rise to underinvestment and difficulties associated to the retention of human resources.

> Contractors hire people without experience using any criteria. There is no available qualified personnel to work in electrical, mechanical and instrumentation maintenance (…) They (the contractors) were simply allocating their personnel within our company, and thus leaving the responsibility with us. (Maintenance Chief 2).

Asset specificity seems to influence the outsourcing failure in Organization X as there is no similar company in the surrounding area. In fact, Organization X processes a special metal and the nearest similar plant is located more than 4000 km away. The machines and technologies used are unique in Brazil. It is evident that this imposes barriers to finding specialized suppliers to deal with such assets. Some of the ex-employees of Organization X laid-off with outsourcing were then hired by contractors and could have mitigated the adaptation problems; however, these professionals were either allocated to other customers or simply quit their jobs in contractors due to low salaries. Thus, inexperienced personnel prevailed.

> It takes some time to dominate the peculiarities of the business. Contractor employees may have experience in industrial maintenance, but they did not know our business and this takes time (..). During the period we experienced outsourcing it used to take about one year until the people (outsourcing contractor's employees) could walk on their own legs. (Maintenance Supervisor 1).

> When he (outsourced employee) is about to get the knowledge, he quits or he is laid-off and another inexperienced professional shows up. This is even worse here (at Organization X) where we have equipment and machines with many peculiarities. (Maintenance Supervisor 2)

A remarkable issue is the greater susceptibility of outsourced employees to labor accidents and occupational diseases. Data suggest that their lower qualification level and lack of commitment with internal work safety procedures explain the significant difference in terms of occupational hazards. Moreover, turnover rates in contractor employees and among contractors themselves contribute to the exhibited features in Table 2.

Insert Table 2 about here

Evidence confirms received theories. In the case of Organization X, reintegration features an unsuccessful outsourcing process (Barthelemy, 2003a). The inability to specify their

contractual needs impeded Organization X from exploiting the benefits of outsourcing (Robinson, 2001).
Moreover, it is clear that the outsourced activity has some degree of asset specificity (Williamson, 1985) and because of the absence of effective collaboration between buyer and supplier vertical integration seems to be more adequate (Dyer, 1997). Indeed, the relationship between outsourcer and outsourced contractors was built in an uncertainty atmosphere. Suppliers did not invest in the relationship due to the short contract term (up to two years) and did not exhibit the expected and necessary commitment. Such uncertainty originates from a classical principal-agent problem (Jensen & Meckling, 1976), which leads to increased transaction costs in the relationship (Williamson, 1991) as illustrated in the discourse below:.

> Why should I make an effort today, if I do not know if I will be here tomorrow? (Contract Manager of Organization X talking about how outsourced contractor staff and personnel allegedly think)

The "body-shop" based relationship as well as not stimulating extra efforts from the contractor side does not align organizational objectives with contractual hazards. According to Leiblein, Reuer and Dalsace (2002) these are essential factors in outsourcing performance. In our case, the inexistence of performance clauses mitigated the possibilities of learning and specific investment from the buyer and the supplier (Tarakci, Tang & Teyarachakul, 2009). Thus, outsourcing was not attractive mainly because contactors were not in a position to assume more responsibilities (Saouma, 2008). In general terms, the established propositions apply in the context of Organization X.
Nevertheless, despite the importance of contractual issues in reintegration dynamics, other unforeseen factors seem relevant in understanding reintegration dynamics: the influence of bandwagon behavior, managerial fads and isomorphic pressures both in the decision to outsource and reintegrate.

ISOMORPHISM AND MANAGERIAL FADS: PROVIDING ADDITIONAL EXPLANATIONS FOR THE INTERRUPTION OF OUTSOURCING

This paper initially explored contractual approaches (Klein, Crawford & Alchian, 1978; Williamson 1985, 1991; Anderson & Schimittlein, 1984; Dyer, 1997; Argyres & Meyer, 2007) to attempt to understand the underlying reasons of reintegration. Although we have not found sufficient elements to deny the pertinence of the received theories in explaining why companies might reintegrate, during the process of data analysis some new facts have emerged and illuminated the phenomena. The first is the effect of managerial fads and bandwagon behavior.

"Me too": Outsourcing and Reintegration as a bandwagon behavior

Increasing competition in the last three decades has hampered some managerial techniques to a panacea status (Gill & Whittle, 1992). Among them figure outsourcing, total quality control and business process reengineering (Abrahamson, 1996; Guller et al 2002; Lee & Chan, 2003). The adoption of some of these techniques was done in a bandwagon atmosphere (Malvey, Hyde, Topping & Woodrell, 2000), whereas certain innovations become standards in the industry (Abrahamson & Rosenkopf, 1997). Companies may accept managerial innovation; however they may not rely exclusively on internal assessments of the efficiency returns of the innovation. In this sense a bandwagon may occur when the threat of losing competitive advantage encourages organizations to adopt innovation (Abrahamson and Rosenkopf, 1993). Furthermore, such behavior has a close relationship with the fact that organizations that do not use certain techniques tend to appear illegitimate to their stakeholders (Abrahamson, 1991).

Evidence suggests that Organization X in response to external and internal pressures to reduce costs and increase competitiveness outsourced maintenance without the necessary prior examination of the situation. Organization X ignored the existing peculiarities of its business environment and as a consequence negative results were obtained *vis-à-vis* cost, quality and flexibility indicators.

> We went more or less on the same boat. Everybody was outsourcing. (Maintenance Chief 3)
>
> The fashion was that (to outsource). The Japanese gave the example (…) most Japanese employees were outsourced. (Contract Manager)
>
> At the time we decided to outsource, we did not pay attention to several details. (…) Outsourcing was a fever. Everybody was looking for cost reduction. (Maintenance Supervisor 1)

The quotes above illustrate the dynamics of the outsourcing decision that may go towards explaining the resulting reintegration process. Indeed bandwagon behavior correlates with decision makers' mindless, i.e., the willingness of individuals operating in a state of reduced attention that leads to rule-based conducts giving themselves a wrong perception of their environment (Fiol & O'Connor 2003). Successful companies are likely to shape the behavior of other companies to an extent that the reputation of first movers influences the diffusion of managerial practices (Abrahamson & Fombrun, 1994). One of the reasons is because 'followers' fear been recognized differently from early adopters. Non-adopters may have a shrewd perception that their performance is below-average because of the non-implementation of the innovation (Lee & Chan, 2003).

Organization X followed the example of benchmarking companies located nearby, firstly, in its decision to outsource and later in the decision to reintegrate industrial maintenance activities. Although the nearest similar company is located thousands miles away from Organization X, in a range of 30 km there are some plants of the major Brazilian companies of the petrochemical and metallurgical sectors. These organizations exert influence in the companies nearby..

> In Organization Y (benchmarking in the Brazilian metallurgic sector), they reintegrated almost everything, including maintenance services. Thus, we realized that it would be reasonable to reintegrate the maintenance functions. (Chief of Maintenance 2)

The Organization X's inability in terms of taking discriminating decisions in the face of bandwagons (Fiol & O´Connor, 2003) may be associated with the outsourcing failure in industrial maintenance. Thus, we expect that the decision to reintegrate is affected by bandwagon behavior in the following sense.

> *Proposition 3a: The greater the propensity of the organization to assume bandwagon behavior, the greater the likelihood of outsourcing and the greater the probability of reintegrating*
>
> *Proposition 3b: The greater the propensity of the organization to assume bandwagon behavior, the greater the likelihood of reintegrating*

Reintegration and Isomorphic Pressures

The adoption of management techniques is in part explained by institutional norms that may encourage organizations to shape their practices in order to conform to institutional norms (Meyer & Rowan, 1977). Such isomorphic behavior (Scott, 2008), which is presented by scholars of new institutionalism in sociology and organizational theory (DiMaggio & Powell, 1991) may also provide more details about the dynamics of reintegration. Although bandwagon behavior is an important explanation for managerial techniques adoption, the achievement of conformity through imitation does not rely solely on mimetic isomorphism. Isomorphic pressures originate from coercive and normative forces as well (DiMaggio & Powell, 1983).

As a matter of fact, organizations tend to look for a standard structure as a model to follow (Haveman, 1993). This allows a sort of generalized homogenization caused by the presence of similar characteristics in the implemented programs (Di Maggio & Powell, 1991). The reduction in diversity caused by the institutionalization of certain managerial techniques forces organizations to incorporate tools, myths, norms and values in order to fit themselves into the environment and to seek legitimacy, recognition and stability (Hall & Taylor, 1996). Isomorphism (or interorganizational homogeneity) is extensively accepted as a central indicator of institutionalization (Heugens & Lander, 2009). Scott (2008) adds that institutionalized practices are likely to be materialized through regulative, cognitive and normative process.

To a certain extent, the examination of Organization X's case permits some reflections about the process of institutionalization of the outsourcing practice. Such pressures led to outsourcing failure and – according to our arguments – the consequential reintegration of industrial maintenance activities.

In order to comprehend the "non-properly reflected" adoption of outsourcing in Organization X it is necessary to observe the context in which such a practice was disseminated. In fact, during the end of the 1980s and the beginning of the 1990s, Brazil and other Latin American countries were suffering the effects of economic stagnation and hyperinflation (Baer, 2001). Coercive (or regulative in Scott's definition) pressures from central countries via multilateral organizations constrained the behavior of public and private organizations (Bresser-Pereira, 1996). In brief, these economies had to promote trade liberalization, budgetary and fiscal discipline and accountability measures (Hay, 2001). Local organizations that in the past had not been exposed to fierce competition were suddenly impacted by a turbulent business environment that forced them to implement best practice management principles that would be able to promote efficiency gains (Carpinetti & Martins, 2001). In this sense, outsourcing was seen as a way to satisfy some organizational needs, namely cost-cutting and focalization on core competences (Mclvor, 2005). Nevertheless, evidence in Organization X shows the objectives above were not fulfilled. Indeed, Organization X implemented outsourcing under the influence of external actors and without carrying out an appropriate feasibility study. Evidence demonstrates that Organization X was influenced by external actors who played the role of advocates of new practices that allegedly would contribute to reducing workforce and cutting costs.

> At the time we decided to outsource, we had the influence of business schools, scholars, consultants and managers who brought that (outsourcing) into the organization. (Contract Manager).

The passage above reflects the prediction of Abrahamson (1996). He claims that consulting firms, management gurus, business mass-media publications and business schools act as management fashion setters, which disseminate certain management techniques and influence managers to implement these programs. Furthermore, in Organization X's case it is possible to verify the effects of normative and cognitive pillars (Scott, 2008) and mimetic pressures (DiMaggio & Powell, 1983) in the process of outsourcing.

Besides helping to understand the dynamics of outsourcing activities that should never have been outsourced (Barthelemy, 2003a), the effects of isomorphism also shed some light on the process of reintegration. If the precipitateness in implementing outsourcing is among the elements responsible for the observed failure in the Organization X, it is valid to ask: Will such a problem occur again with reintegration?

Indicia adduces that the same unsuccessful dynamics may repeat. As a matter of fact, the reintegration process in the Organization X signals precaution. It is possible to identify some skepticism regarding the pertinence of reintegration.

> There is no rule about what is better. In our case, now the topic is to reintegrate. In the near future, I don't know. (Maintenance Chief 2)
>
> In my vision this is not a taken for granted thing, precise and mathematic. It depends on the moment. (Contract Manager)

In addition, as previously seen the decision to reintegrate was mainly influenced by cost-cutting. We had access to the report prepared by middle managers for the top executives of Organization X about the benefits of reintegration. The report is flawed because it does not mention any plan to reach the targets and ignores strategic aspects related to the decision to reintegrate maintenance. Actually, in order to convince the top management about the feasibility of insourcing it just needed to prove that the decision would be cost-effective. In our research we did not find any evidence of a more detailed analysis about maintenance reintegration that could assess relevant information in the context of the organization, hazards and other conditions. Therefore, in this case it is not possible to guarantee the presence of necessary conditions to distinguish decisions that are suitable for others and those that are adequate for Organization X (Fiol and O'Connor 2003).

> In order to interrupt outsourcing, we had to show gains, financial gains. The newly appointed directors demanded evidence of the 'practical results' of reintegration, and in this case 'practical results' meant financial results. (Information Technology Chief)

Thus, in the same way that Organization X decided to reintegrate, it would not be surprising if executives changed their minds and outsourced industrial maintenance again. On the other hand, among other factors, organizational resistance to isomorphism is correlated with the degree of coercion behind institutional norms, the degree of external dependence on pressuring constituents, and the degree of economic gain perceived to be attainable from conformity to institutional pressures (Oliver, 1991). Culture may also impel organizations to resist isomorphic pressures (Kondra & Hurst 2009).

These considerations enable us to draw the following nexus of causalities between isomorphism and reintegration.

> *Proposition 4a: Outsourcing decisions taken under isomorphic pressure and that do not consider context-relevant issues lead to outsourcing failure and future reintegration.*
>
> *Proposition 4b: Organizations which are more susceptible to isomorphic pressures are more susceptible to promoting reintegration.*

CONCLUDING REMARKS

The present paper contributes to management theory and to managers by discussing some possible reasons that cause organizations to interrupt outsourcing and to reintegrate. The real case study used here supports received wisdom, which considers that reintegration might occur thanks to contractual hazards and as a result of outsourcing failure, i.e., reintegration is the response to an unsuccessful externalization process. In accordance to contractual approaches (Williamson 1991, 2008; Klein et al 1978) and to the previous work on reintegration (see Barthelemy 2003a, 2003b; Frery & Law-Kheng 2007; Whitten & Leidner

2006; Cacciatori & Jacobides 2005) we constructed two propositions related to reintegration phenomena.

Nonetheless, other factors emerged from the data we collected. Our case study suggests that bandwagon behavior could precipitate the adoption of outsourcing without the proper thought being given to the matter. Under these circumstances outsourcing is likely to fail and reintegration is a possible outcome. Complementarily, isomorphic pressures from external actors also may force organizations to adopt certain managerial practices. The absence of discretion from decision makers in terms of examining the pertinence of outsourcing adoption may lead to future failure and as a consequence the reintegration of activities former transferred. In addition, isomorphism, propensity to adopt bandwagon behavior and managerial fads may foster reintegration even if outsourcing did not result in a complete failure. In this vein, we built two propositions concerning these points. Although isomorphic pressures and mimetic behavior is not new in management theory, to the best of our knowledge no other works combine these aspects with contractual theories to discuss the dynamics of reintegration. Furthermore, the dialogue and cross-fertilization among different institutionalist approaches (Nielsen, 2001) may be useful to understand complex subjects such as reintegration.

We do recognize that reintegration may be an organizational answer to a firm's boundary dynamics and to changes in the business environment (see Cacciatori & Jacobides 2005; Jacobides, 2006 and Frery & Law-Kheng, 2007). However, we decided to explore the avenue of reintegration as a consequence of an unsuccessful outsourcing implementation, mainly because flawed stories are hardly ever reported, as reminded by Barthelemy (2003a). In fact, we believe that scrutiny of unsuccessful stories and an understanding of "what went wrong" potentially bring new learning opportunities and implications for managers and theory.

Figure 1 summarizes our framework. Besides illustrating our reasoning, the Figure 1 incorporates the strategizing behavior and the changes in the institutional environment presented by Cacciatori & Jacobides (2005) and Frery & Law-Kheng (2007).

Insert Figure 1 about here

The present study has some limitations. The most evident is related to the methodological limits of case studies in terms of generalizability. Second, although we made an effort to triangulate data and minimize biases, it is possible that our interpretations do not correspond exactly to the reality of the investigated organization. Third, subjects relating to managerial fads and bandwagon effects emerged during the interpretation of our data. We did not have the opportunity to go back to Organization X to address those topics with the interviewees again. Fourth, interviews were conducted by other experienced researchers rather than the authors. While such a procedure may avoid author biases, we are aware that missing points not captured by interviewers may exist. However, the several informal interviews helped us to mitigate such inconvenient.

In spite of these limitations, there is immense room for future investigations. One evident research path is to test our propositions in a multivariate context with several organizations that experienced reintegration in several functions other than industrial maintenance. Quantitative analysis may explore additional causality relationships among contractual factors and symbolic dimensions with reintegration. Although we did not find any support in our empirical research about the effects of new executives in the decision of reintegrating formerly outsourced activities, it is known that senior executive turnover impacts strategy decision making and the firm's performance (Virany, Tushman, & Romanelli, 1992). Studies with a broader sample may confirm or reject the effect of reversal of previous strategic decisions by newly-appointed top-executives. Reintegration remains a few explored topic with several implications for different areas of management theory such as strategy, operations and human resource management, among others. A more complete understanding of reintegration is crucial.

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TABLE 1
Cost savings with reintegration in Organization X (1999-2004)

	Outsourcing Cost (R$)[a]	**Forecasted Cost with internal provision (R$)**	**Savings (R$)**
Montlhly Cost	347, 338.17	213,202.30	134,135.87
Annual Cost	4,168,058.04	2,558,427.60	1,609,630.44

[a] As of the end of 2004, 1 US$ = R$ 2.70

TABLE 2
Number of accidents Outsourced versus Regular Employees of Organization X

Year	Number of Employees		Number of Accidents		Accident Rates	
	Org.X	**Outsourced**	**Org.X**	**Outsourced**	**Org.X**	**Outsourced**
2000	877	929	30	51	3%	5%
2001	869	894	37	64	4%	7%
2002	877	900	20	57	2%	6%
2003	851	854	22	130	3%	15%
2004	866	821	22	48	3%	6%

FIGURE 1
Factors affecting the decision to reintegrate