ORIGINAL ARTICLE

Involuntary backsourcing in the public sector: From conflict to collaboration

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Abstract

The aim of this study is to contribute to the literature on how involuntary backsourcing in public organizations is performed in practice and how it affects the relationship between principal and agent. The study focuses on two questions: (1) Which stages characterize the process when public contracts are involuntary terminated? (2) How does involuntary backsourcing affect the relationship between principal and agent during the transfer period? The study's case concerns public backsourcing in Sweden, in particular, how a metropolitan municipality manages involuntary backsourcing. This study provides in-depth insights into backsourcing and its practice, as well as the degree to which the conflict dimension between the parties is affected. The study shows—paradoxically—that the relationship between principal and agent during the transition phase is characterized by dependence, mutual exchange of information, collaboration, and less conflict. The study contributes to developing the theory of backsourcing, particularly the behavior that is played out between principal and agent in the transition stage. The findings identify the need for public organizations which make outsourcing decisions to have contingency plans for bringing operations back in-house.

1 | INTRODUCTION

Outsourcing and backsourcing in the public sector is a form of management that is often described in the literature in rational terms (Lacity et al., 2016; von Bary & Westner, 2018). Classical market theories are based on assumptions regarding competition, conflict, and opportunism, with the parties expected to act rationally in order to maximize their own benefit (Coase, 1937; Alchian & Demsetz, 1972/1986; Baiman, 1990). Competitive procurement and well-formulated contracts are expected to put pressure on prices and ensure quality (Greasley, 2019). However, if the provider's work does not meet expectations, the public purchaser can end up in a situation where the operation needs to *bring back a previously outsourced activity or service and perform it in-house*, so-called "backsourcing" (Tadelis, 2007, p. 265; von Bary & Westner, 2018. p. 62; Thakur-Wernz, 2019, p. 44). The threat of backsourcing is assumed to produce a tendency in the provider to do its utmost to retain its contract (Lacity et al., 2010).

However, the reality is not always so straightforward and streamlined (Damanpour et al., 2019). Agreements are broken, trust is lost, and antagonism between parties may arise. This also applies to contracts in the public sector, for if the situation becomes problematic for the contractor, it too can choose to withdraw from the contract, with involuntary[1] backsourcing becoming necessary. However, unforeseen terminations can lead to diminished institutional confidence in private companies as providers of public services (Berg & Johansson, 2020). As a phenomenon, involuntary backsourcing is an especially interesting and relevant object of study, as it can come about quickly, lead to quality defects, reduced trust and expenses, and affect a large number of users. Previous research has not highlighted, studied, or addressed involuntary public backsourcing. It is also unclear whether the most common theories that have previously been used to describe and explain how, for example, outsourcing and backsourcing function (e.g., agency theory; Dharwadkar et al., 2000; Van Slyke, 2007) can be used when involuntary changes suddenly occur.

1.1 | Aim of the study

This article therefore focuses on what happens when a private company surrenders an activity that a public organization has to involuntarily bring in-house. *The overall purpose of the study is to contribute to the literature on how involuntary backsourcing in public sector organizations is performed in practice and is affected by the relationship between principal and agent during the transfer period*. In this context, we will examine the degree to which rational theories that have previously been used to analyze these relationships (agency theory, compare Lacity et al., 2010) function in order to interpret our findings. We will analyze the process from a behavioral perspective in order to produce new insights into the relationship between principals and agents in involuntary public backsourcing. In doing so, we can move away from a theoretical understanding characterized by opposition, conflict, and a breakdown in relations, to a more pragmatic praxis-centered understanding of backsourcing.

The study will focus on a case of involuntary backsourcing regarding a special housing complex for elderly care in Sweden. More specifically, we will seek to answer two research questions:

1. Which stages characterize the process when public contracts are involuntary terminated?
2. How does involuntary backsourcing affect the relationships between principal and agent during the transfer period?

2 | INVOLUNTARY BACKSOURCING

2.1 | Backsourcing: A background

In recent decades, New Public Management (NPM) has been a trend in the public sector (Christiansen et al., 2020; Hood, 1995; Lapsley, 2008), with public sector activities being carved up, sold off, or contracted out to private

companies and nonprofit organizations (Berg & Johansson, 2020; Lacity et al., 2016; Macinati, 2008). The ambition has been to bring about competition, reduced costs, more choice, more efficient management, and dynamic production of services (Lapsley, 2008). Outsourcing problems have sometimes led public authorities to bring activities back in-house and contractors sometimes decide to pull out from their obligations (Macinati & Young, 2009; Shakirova, 2019). As outsourcing has become increasingly common, so too has backsourcing (Jansson et al., 2021; von Bary & Westner, 2018). This development has been described as a "backsourcing trend" (Kotlarsky & Bognar, 2012, p. 80).

Reasons for initiating backsourcing have involved cost increases (Macinati et al., 2009); reduced flexibility (Macinati & Young, 2009); crises of confidence; loss of control; supply issues; and shortage of bids (Aspir et al., 2019, p. 539; Thakur-Wernz, 2019, p. 46). Multiple conflicts and failures have occurred in connection with public outsourcing (Lacity et al., 2016; Macinati, 2008; Shakirova, 2019); for example, low responsiveness and low accountability on the part of the contractors; inflexibility in satisfying the requests of local residents and public officials; and profit maximization (Shakirova, 2019). There have also been issues with supply, collaboration, quality, and trust (Hefetz & Warner, 2004).

Backsourcing between private organizations (nonpublic businesses) has previously been studied (Ejodame & Oshri, 2018; Kotlarsky & Bognar, 2012; Law, 2018; Nagpal, 2015; von Bary et al., 2019; von Bary & Westner, 2018), but there are only a small number of studies which have studied backsourcing in public organizations empirically (Petalidis, 2018; Young & Macinati, 2012). In addition, there are theoretical/conceptual studies that have been conducted in relation to closely related phenomena such as backshoring (Thakur-Wernz, 2019), insourcing (Hartman et al., 2017), and hybrid insourcing (Yang et al., 2020), for example.

There have also been a few studies into backsourcing in local government—sometimes referred to as "re-municipalization" (Clifton et al., 2019) or "bringing services back in" (Shakirova, 2019). Research into the contractual process in the municipal sector has been conducted from various perspectives (Hefetz & Warner, 2007). Municipalities have come to manage a wide range of services that have been contracted out and sometimes brought back in-house, in a form of "pragmatic market management" (Warner & Aldag, 2019, p. 11). Longitudinal studies on sourcing in local government have revealed a move toward increased outsourcing in the early 1990s in the United States, which then declined toward the end of the decade (Hefetz & Warner, 2007). However, a more recent study shows that the pendulum movement has slowed down and that the situation has become more balanced and stable (Warner, 2016). Studies on re-municipalization of water services in France and energy in Germany highlighted challenges concerning quality and trust issues (Hall et al., 2013).

The phenomenon of *involuntary* public backsourcing[2] has not been addressed at all in the limited literature surrounding backsourcing. The intention is for this study to fill that gap.

2.2 | Framing the study

Despite the fact that the problem of backsourcing seems to be complex, significant, and widespread, previous studies have not been interested in the phenomenon of involuntary backsourcing in public organizations. Based on the aims cited above, we would like to highlight three points of departure/problems which frame this study and make research into involuntary public backsourcing important.

First, it concerns how backsourcing is performed in practice and which relations arise between the actors. Moving from outsourcing to backsourcing has sometimes been described as a fairly frictionless movement from Position A to B (see, e.g., Akoka & Comyn-Wattiau, 2006, p. 333; Veltri et al., 2008, p. 52; von Bary & Westner, 2018, p. 69; Warner & Hefetz, 2012, p. 318). In contrast to the previous description, in this study on involuntary backsourcing we assume the transitional process[3] to be multifaceted. For example, public backsourcing processes are likely to depend on how the issue arises and the status of the relationships among actors involved. In order to gain an understanding of the phenomenon of involuntary backsourcing in public organizations, we need to develop new in-depth

knowledge on how backsourcing is carried out in practice and in its different phases. Although we can learn from previous studies of the private sector (e.g., Ejodame & Oshri, 2018; Law, 2018; von Bary et al., 2019), these findings cannot easily be translated to the public sector, where activities are significantly legally restricted and specified, more resistant to change, larger in scope, and more complex and socially vital (Christiansen et al., 2020). Bringing an activity back under public control therefore entails significant adjustments, prioritizations, and sacrifices (Young et al., 2020).

Second, when public backsourcing is carried out *involuntarily* during an *ongoing* contractual period, this can lead to significant difficulties. The involuntary aspect implies that both principal and agent end up in an unwanted and disadvantageous situation, where they both need to interact for some period of time. This means that to some extent the parties need to relinquish their ordinary procedures, roles, and patterns of behavior. This arises when operational-, continuity-, and quality problems make the operation hard to lead, plan, and develop (Young & Macinati, 2012). Users' service and continuity suffer when a lot of information has to be transferred to new personnel in a short period.

Third, there may be good reasons to assume that *involuntary* backsourcing should be viewed as a natural component of publicly financed activities (Reiter & Klenk, 2019), as it is reasonable to expect that not only the public principal but also the private sector agent may take the initiative to terminate a contract. Public principals must therefore be prepared to handle the situation at short notice. When backsourcing takes place at the initiative of the *principal*, it is natural for the principal to drive, plan, and implement the measure. However, when backsourcing instead happens at the initiative of the *agent*, the distribution of tasks and the work process are not altogether clear. On the basis of market economy assumptions of tension between principal and agent (Alchian & Demsetz, 1972/1986; Baiman, 1990; Petersen, 1993), we assume that it is particularly important to focus on the relationships between the parties involved in involuntary public sector backsourcing.

3 | THEORETICAL FRAMEWORK

This article takes the theory of backsourcing and agency theory as its general starting point in order to explain how involuntary public backsourcing is carried out in practice. We will use a theoretical model that describes the "sourcing process" in various steps (Veltri et al., 2008, p. 52). Veltri et al. (2008) developed this model in order to describe backsourcing in the private sector (pp. 54–57). The process starts with the principal being required to decide whether an activity or service is to be produced externally (outsourced) or internally (insourced). In Figure 1, "Insource" means that, after deliberations, a choice is made to not place the activity externally, but rather, to perform it in-house in the organization. As this study focuses on involuntary backsourcing, insourcing will only be addressed marginally. If the activity is contracted out to an external organization, a situation arises after a while when the principal needs to decide whether to continue with the existing provider or not. The principal then has three choices (Akoka & Comyn-Wattiau, 2006, p. 333; Veltri et al., 2008, p. 52): (1) to extend the contract with the existing provider; (2) to change to another external provider; or (3) to bring the activity back in-house. Figure 1 provides a theoretical diagrammatic sketch of the various steps.

The model is based on the assumption that backsourcing occurs as a preplanned procedure that goes through a number of predetermined steps. It is expected that the parties will act as agreed and that the procedure is well supported by various parties. It is also assumed that there is a conflict of interest between principal and agent. The significance of the separation between principal and agent has been highlighted and addressed previously (O'Flynn & Alford, 2008, pp. 205–206). The separation is expected to make things more difficult for a public sector purchaser, as the principal often lacks knowledge of the service users' needs and how the services can best be produced (O'Flynn & Alford, 2008). Competition between the organizations is also assumed to reduce the likelihood of the staff being willing to share their detailed knowledge (O'Flynn & Alford, 2008, pp. 205–206).
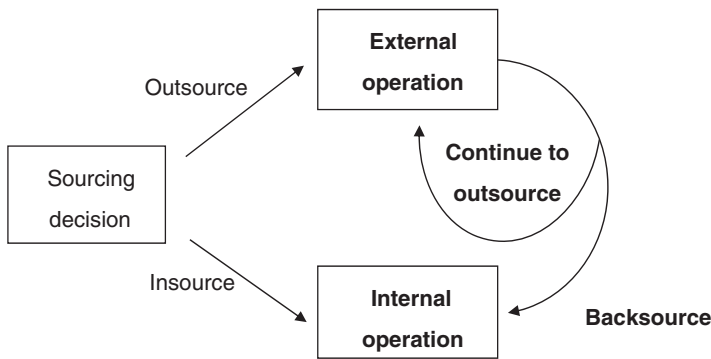
FIGURE 1 Backsourcing—A diagrammatic sketch (figure taken from Veltri et al., 2008, p. 52)

If an organization lacks the expertise required to produce a product or a service, classical organization theory suggests that it can instead have somebody else perform the service (Coase, 1937). Agency theory, also referred to as the principal-agent model, presupposes a simplified situation in which two parties are expected to act from different perspectives (Baiman, 1990, pp. 341–342; Petersen, 1993, pp. 277–280). Agency theory focuses on how two opposing parties can correct opportunistic behavior when one can derive benefit from asymmetric information (Eisenhardt, 1989). A principal invites an agent to perform a service on the principal's behalf. The former has money and authority, the latter has information and knowledge that enable the task to be carried out (Petersen, 1993, pp. 277–278). If the parties reach agreement, a contract is signed such that the collaboration is repeated until one party terminates the contract or it expires (Dranove & White, 1987). If the collaboration continues for a fairly substantial period, the parties are assumed to develop a dependence on each other (Baiman, 1990). However, the task being performed entails certain sacrifices for the agent. Accordingly, the agent is expected to strive to minimize its work and prioritize the areas that the principal can monitor (Pratt & Zeckhauser, 1985, pp. 1–24). The parties are thus expected to have opposing interests and information, a circumstance that they can use to their own advantage (O'Flynn & Alford, 2008, pp. 205–206). Agency theory is based on a tension/opposition arising between principal and agent, which is linked to information disadvantage/advantage and that the parties are assumed to achieve various advantages, which can lead to suspicion developing between the parties (Eisenhardt, 1989).

The theory highlights two problems. The first is the difficulty for principals to observe the agents' actions (*hidden action*), as agents may choose what information to convey to the principal. The agent has an information advantage over the principal, which can be used to the agent's advantage. In order to strengthen the principal's control, significant efforts are required regarding information gathering and monitoring (Petersen, 1993). The second problem is that it is difficult for principals to know whether the results depend on the agents' achievements or are consequences of the input of others (*hidden information*) (Dranove & White, 1987, p. 406). Both problems concern how asymmetric information is to be managed in order to make principal and agent pull in the same direction. It may also be difficult for the principal to measure performance, particularly if it is difficult to see this in concrete terms (Pratt & Zeckhauser, 1985). When it is difficult to monitor/measure performance, the theory assumes that it is easier for the principal to perform the activity in-house.

There are two ways to resolve the situation: The first is *increased monitoring* and engagement of inspectors (Alchian & Demsetz, 1972/1986, pp. 140–141). However, inspectors are costly, and sometimes the inspector needs to be monitored as well. Too much monitoring can be viewed with distrust by agents, which can lead to diminished intensity in their work (Frey, 1993). The second approach is *inducing mutual trust*. If there is trust between the actors, exchange of information takes place through informal means, without routines for collaboration or elements of compulsion. Trust is particularly important when collaboration extends over longer periods. Mutual trust is built on

repetitive behavior (Veltri et al., 2008) and reduces the risk of one party being tempted by short-term profits (Dranove & White, 1987, p. 407 ff.).

Based on agency theory, there is a specific reason to focus on: (1) how the assumption regarding tension/opposition between municipality and care company is validated when an operation is unexpectedly handed back prematurely; and (2) how the actors' relationship develops during the transition period in a situation where there is a dependency relationship between the parties, where the relationship cannot be terminated and where it is not easy to demand responsibility.

In her description, Eisenhardt (1989, p. 71) emphasizes the fact that the theory is particularly relevant to use when there are severe contractual problems including conflicting aims, measurability, and observability. Further, Eisenhardt (1989) maintains that agency theory needs to be "expanded to a richer and more complex range of contexts" (p. 71). There are therefore good reasons to study precisely involuntary public backsourcing as it is likely that conflicting aims will arise where the parties need to act differently than under normal circumstances and to improvise. For the principal, the situation is hard to manage as it is difficult to procure a new contractor in a short period. It is also difficult for the agent to rapidly withdraw from the contract. Information needs to be transferred, new recruits need to be made and premises with material handed back.

Economic theory may suggest that market forces will always solve the problem when agents are failing, but literature on premature termination of contracts in the private sector suggests that market forces are not always immediately evident, especially in "...complex organizations where human fallibility, politics, creative accounting, and a myriad of other influences can combine to create a complex and poorly understood reality." (Drummond, 2005, p. 175).

Through testing and developing the aforementioned theories, the hope is that the tools can be modified and made more powerful in order to better understand and explain the phenomenon of involuntary public backsourcing and the actors' behavior under different organizational conditions.

4 | METHOD

4.1 | The case study: Backsourcing of a special housing complex for elderly care

The study's empirical case consists of involuntary backsourcing in a Swedish metropolitan municipality. The study follows involuntary backsourcing of an old people's home called the Ladybird (fictitious name) in a large Swedish municipality (Andersson et al., 2005; Yin, 2011). An old people's home is a relevant object of study as it is staffed 24/7, personnel-intensive, and vital for society. It is also an important service, which can be assumed to have a major impact on the recipient's life, well-being, and health (Berg & Johansson, 2020 p. 295). We[4] had the opportunity to study, observe, and document involuntary backsourcing in real time (2018–2019). This is a large operation with approximately 150 residential units and some 40 staff in a range of full-time positions and 15 in part-time positions. The service users (residents) have been allocated a service apartment by the municipality for medical reasons. The staff comprise section manager, deputy section manager, coordinator, physician, registered nurses, assistant nurses, care assistants, physiotherapist, occupational therapist, and caretaker. In Swedish elderly care, no physicians can be employed by the municipality. The physicians in the study were therefore consultants. The private care company had been contracted to operate old people's homes over a long period (from 2005 to 2018) by the municipality.

Data from the case has been gathered from observations, interviews, and documents (Stake, 1995). Data collection began in January 2018 when we had the opportunity to follow the backsourcing of the Ladybird when the contractor decided to terminate the contract (June 2018). The study started by contacting unit managers from different parts of the municipality's social services administration. The interviews gave us a good overall picture of how backsourcing was managed and interpreted within the municipality (Tracy, 2019). In the next stage, senior executives, economists, and controllers from the municipality were also contacted in order to obtain a more detailed

picture. Personal interviews were conducted with managers, municipal officials, politicians, nursing staff, service users, and relatives. A total of 32 respondents (11 male and 21 female) were interviewed, on average for about 1 h. We used semi-structured interview guides which were based on questions where the interviewees reported on their experiences of backsourcing.

Based on the study's interview guide (see Appendix), the interviews were focused on how backsourcing was carried out and its challenges. The respondents described their roles in the process, previous experiences of backsourcing; other experiences with the care company; their assessment of the company's and the municipality's commitments and collaboration; perceived difficulties and risks; as well as why backsourcing was carried out. The questions set were theoretically linked and, among other things, addressed: motives for backsourcing, the degree of cooperation and conflict during the transition process, the trust the parties had in each other, and which roles were taken during the transition. The participants' written consent was obtained in all 32 interviews in accordance with the Swedish Ethical Review Act. The interviews were recorded digitally and transcribed (total: 573 pages) and saved in de-identified form (see Table 1).

Observations enabled us to follow the day-to-day internal preparatory work that was carried out before the special housing complex for elderly care was to be surrendered (Pope & Mays, 2019). These observations captured the dynamics, variation, and tension that arise when two parties (principal and agent) are negotiating an involuntary backsourcing process. A total of 20 observations were carried out, lasting on average around 2.2 h/observation (total 48 h). The observations took place in connection with internal planning meetings, working meetings, negotiations, information sessions, and the re-opening. In order to obtain a more in-depth understanding of backsourcing, backsourcing of the old people's home was studied from a procedural perspective, with the meetings conducted in such a way as to make the process visible. Scientific observation is an effective method in gaining an understanding of how praxis develops over time (Tracy, 2019). Notes (total 40 pages) were taken at the meetings and structured immediately after the respective observation (Pope & Mays, 2019) (see Table 2).

4.2 | Analysis and limitations

Relevant parts of the interviews were transcribed and coded together with field notes from meeting observations (Krippendorff, 2019). The aim was to look for roles, patterns, overlaps, and meaningful descriptions that laid the foundations for creating relevant themes (Tracy, 2019). The first step entailed finding meaningful units that formed categories. These comprised key sequences that were perceived to be important in order to understand the involuntary backsourcing process (Krippendorff, 2019). Nodes were created that were linked to our theoretical framework, with terms including "outsourcing" and "contract" (Akoka & Comyn-Wattiau, 2006, p. 333; Veltri et al., 2008, p. 52) as well as "termination of contract,", "backsourcing," and "collaboration" (Veltri et al., 2008, p. 52; O'Flynn & Alford, 2008, pp. 205–206; Eisenhardt, 1989). Subsequently, these sequences were condensed by shortening the

TABLE 1 The study's observation data

Observation	Organization	Observations (quantity)	Length (h)	Notes (pages)
Internal planning meetings	Municipality	6	14	12
Working meetings	Municipality and care company	6	13	12
Negotiation meetings	Municipality and care company	5	11	8
Information meetings	Municipality	2	5	4
The re-opening	Municipality	1	5	4
Total		**20 observations**	**48 h**	**40 pages**

TABLE 2 The study's interview data

Interview subject (title)	Organization	Gender (M/F)	Interviews (number)	Interview length (min)	Transcribed (pages)
Head of department	Municipality	(3/6)	9	571	201
Deputy head of department	Municipality	(1/0)	1	61	33
Controller	Municipality	(1/3)	4	204	28
Medically responsible nurse	Municipality	(0/1)	1	51	21
Section manager	Municipality	(2/0)	2	126	31
Service user and relative	—	(2/1)	3	105	18
Employee representative	Trade union	(0/1)	1	29	10
Politician	Political party	(1/1)	2	167	35
Regional manager + deputy regional manager	Care company	(0/2)	2	116	30
Operations manager + deputy operations manager	Care company	(1/1)	2	140	70
Coordinator	Care company	(0/1)	1	22	17
Assistant nurse	Care company	(0/4)	4	140	79
Total		**(11/21) (M/F)**	**32 interviews**	**1732 min (28 h 52 min)**	**573 pages**

content used to create different dimensions. Sub-nodes were created during the coding such as: "trust," "inspection," and "collaboration" or "sanction," "monitoring," and "re-establish trust." After several read-throughs, the material was analyzed abductively, where we moved from empirical observations to theoretical concepts and back (Krippendorff, 2019). This enabled us to perceive how the backsourcing process could be gradually described and explained. In a second analytical step, we were able, as we gradually observed how the different parts were linked, to compile the different parts into a whole. We were thus able to describe and explain the patterns of behavior that arose in connection with involuntary public backsourcing. The four categories "close collaboration," "scrutiny," "reciprocal collaboration," and "in-house operation" were found to describe the backsourcing process in general terms.

The description depicts the process from introduction to conclusion, providing a picture of how a backsourcing process proceeds in practice (Krippendorff, 2019) (see Table 3).

The presentation in Table 3 is based on the four phases. Dimensions within each phase are identified and the analysis will show how the phases link together, and how involuntary backsourcing is interpreted, managed, and developed. The quotes in the empirical presentation below have been chosen to provide meaningful and illustrative examples from the study's data material.

The choice of case study as research design also has its limitations. One risk of following a specific case which included situations that are difficult to recreate, as we did, is that the study is hard to repeat. However, we have good reasons to assume that the theoretical patterns we were able to distinguish are relevant for this type of process. Another risk is of the results becoming too context-specific, in our case, to elderly care in Swedish metropolitan municipalities, and that the possibility of generalizing the results is restricted. However, analytical generalization nevertheless make it possible to learn a lot from a case (Flyvbjerg, 2006; Stake, 1995). The case study can give us in-depth and relevant theoretical results that further our understanding of how involuntary public backsourcing works in practice, and how the process is structured in (Eisenhardt and Graebner, 2007).

TABLE 3　The study's empirical categories and dimensions

Categories	Dimensions
Outsourcing	
(1) Close collaboration	a) Confidence
	b) Passive inspection
	c) Maintain reputation
Warning signs of mismanagement	
(2) Scrutiny	a) Active inspection
	b) Map/structure
	c) Sanction
Early termination of contract by contractor	
(3) Reciprocal collaboration	a) Consensus
	b) Pragmatism
	c) Self-monitoring
Backsourcing	
(4) In-house operation	a) Staff turnover
	b) Stabilize
	c) Create trust

5 | RESULTS: INVOLUNTARY BACKSOURCING—IN A METROPOLITAN MUNICIPALITY

5.1 | Close collaboration: Trust-building

The care company had been running the special housing complex on behalf of the municipality for more than 10 years. Companies that are contracted for this service are mainly "Public Service Conglomerates" (Greasley, 2019 p. 453) or "Outsourcing Conglomerates" (Bowman et al., 2015 p. 58), specialized in running operations on behalf of the public sector. The parties enjoyed a close collaboration and the municipality relied on the company carrying out what had been agreed in the contract. The municipality performed regular monitoring of all special housing complexes in the city run by both public and private operators. These inspections were described by municipal officials as low-intensity, passive and distanced. Outsourcing was described by several officials as a convenient way for the municipality to "offload responsibility," "be defensive," and allow a care company to take care of "operations, maintenance, and development," although they were self-critical in emphasizing that the municipality needed to be more "alert" and "do more monitoring."

> …in the municipality we let go of things a bit when the contract comes into force, and we say "we'll be along in a year or so to check everything's working OK." It's not good enough. (Interview 9, Municipal official)

The care company's focus on "running a business" was perceived as permeating the activity, and was evident in working conditions, operations, workload, and level of collaboration. The company wanted to save money, cut costs, and rationalize, which was perceived as delivering a lower standard of care, instead of providing good-quality care. The company's managers were described as being concerned above all with the company's standing, reputation, and brand. When the care company's managers studied the economic margins, they were perceived as miserly. This miserliness was felt to make "operations, dialogue, and collaboration" more difficult.

> They really tried to squeeze out every last krona. Some of it involved really petty things. (…) After all, the company has earned a lot of money over the years. Right to the end, they're trying to squeeze out even more. (Interview 8, Manager, municipality)

> It's about money (…) It's all saving: saving on staff and saving a lot of money on (…) incontinence protection and things like that. (Interview 25, Assistant nurse)

This first phase, preceding the backsourcing, was characterized by steadily increasing trust and confidence, enabling the municipality to save expenses by maintaining a low level of monitoring (Frey, 1993). From a principal–agent perspective, trust can indeed serve to appease conflicts between principal and agent, especially if the exchange proceeds over a long period and a gradual dependence develops between the parties (Pratt & Zeckhauser, 1985). Reduced monitoring also served to lower the risk of, for example, discovering any defects which would lead to public criticism and calls for costly remedies. An overly thorough system of scrutiny toward the care company was therefore actively avoided as it might lead to a negative backlash for the municipality. Whereas the municipality's control was passive and routine, as agency theory cautions, the company used its information advantage to its own ends, which meant that the activities that they knew it was difficult for the municipality to monitor were performed to a lesser extent (Eisenhardt, 1989). This might explain why the care company exploited the trusting relationship by reducing its input to the extent that it was not fulfilling the contract. And it was only once it became obvious to everybody that the care company had mismanaged the contract that the municipality was forced to act. The municipality then considered that several incidents showed that the care company was not fulfilling the terms of the contract. The care company felt that it was difficult to abide by the contract as it was deemed to be based on poor financial terms.

5.2 | Scrutiny: Monitoring

Mismanagement resulted in a detailed, active inspection. Managers from the care company used the inspection information for professional development.

> A lady came to observe. She came here five times. She went around observing everything and wrote a report. (…) It was actually really interesting to get the feedback. We talked about it at our staff meetings. (Interview 11, operations manager, care company)

The care company's level of self-reported incidents was low, which was interpreted by the municipality as under-reporting, a quality defect that made long-term, systematic learning more difficult. In the follow-up, the assessment was that there were shortcomings in "… treatment, accessibility, knowledge, and transparency…" (the municipality's contract follow-up, 2018, p. 12). The municipality assessed that the care company had several quality defects (care measures, follow-up, poor treatment, low accessibility, missed injections, and inadequate emergency routines), which caused the municipality to lose trust in the care company.

According to the municipality, the measures requested were not implemented. In January 2018, the municipality therefore decided to withhold the annual increment to the care company's remuneration until all the defects had been remedied. The municipality also threatened to fine the care company (approximately 1000 euros per week). The company explained the defects as the result of staff turnover and lack of routines. After failing to implement a number of requests from the principal, the care company decided to terminate the contract prematurely, resulting in a situation of *involuntary backsourcing*. A care company manager purports that the contract was terminated for economic reasons.

> We agreed to terminate the contract. (…) We don't want to run this operation (…). At the end of the day, we can't operate at a loss. (Interview 27, manager, care company)

Several municipal officials were self-critical in describing how they had previously put too much trust in the care company; and that there had been too little monitoring, scrutiny, and supervision. The contract was perceived as "difficult to follow up" because it was "unclear" with "woolly formulations." The municipality's low-intensity action, poor communication, and low expectations were perceived to have given the company too "free a rein." However, scrutiny has numerous challenges—not least in determining who is responsible for problems identified (Van Slyke, 2007). This became evident when the care company claimed that the shortcomings were not a result of their actions. This development aligns with the predictions of agency theory, according to which problems like this are likely to occur when the results of the agent's work are not solely dependent on their own accomplishments (Dranove & White, 1987). Delay, omission and nonchalance led to the municipality imposing economic sanctions against the company. However, both parties wanted to avoid a legal dispute, as this could lead to loss of legitimacy and prestige (Alchian & Demsetz, 1972/1986). The situation involving problems with monitoring and information was perceived as a difficult one for the municipality to resolve. The parties endeavored to achieve a frictionless transition, without any claims for redress or compensation. The relationship between principal and agent developed from one of trustful idealism to formalism and scrutiny. However, ironically the second phase did not lead to a breakdown of relationships and legal battles but to a situation of mutual understanding and alignment of interests (Van Slyke, 2007).

5.3 | Reciprocal collaboration

Termination of the contract gave rise to a new situation in the relationship between the parties. Friction was toned down and passed into a phase of reciprocal collaboration during the final period of the contract, with both parties trying to take responsibility. During the period of notice, no new staff were employed by the company without the municipality's consent.

> ...we've been quite open with each other. They [the care company] have not appointed any new staff. They have had staff employed on an hourly basis. (...) This has been a win–win situation where we have both benefitted. They've had help from us and we've had help from them. (Interview 4, Head of elderly care, municipality)

Both parties stated in interviews that they had not had any previous experience of planning and implementing backsourcing. Despite the breach of contract, the municipality decided not to enter into a legal dispute with the company as this could risk the service users' care and welfare and lead to high costs. Another feature of the reciprocal collaboration phase was that both parties started toning down the quality defects that had been identified previously. The perception among municipal officials was that neither municipal senior politicians and officials, nor the CEO and general manager of the care company, wanted to risk public scrutiny and potential criticism. The collaboration was subject to several contradictions as the parties had both shared and opposing interests. In one sense, opposite parties suddenly became cooperating parties. On the other hand, the municipality wanted access to a lot of information which the care company was unwilling to release. In order to maintain the collaboration, the municipality was obliged to handle the situation on the basis of "see" but "don't touch." The transitional phase, from termination of contract to handover, was therefore perceived as difficult for the municipality to manage. Another way of effecting the reciprocal collaboration was to use alternative pretexts for why the activity was being surrendered. The respondents understood this as a way for both parties to avoid scrutiny on the quality of the activity and the handover could be carried out quietly and without a fuss. Concentrating on factual matters made the work easier for both parties. One new pretext used by the municipality was that the activity was being brought back in-house because the property required extensive renovation.

Once the contract had been terminated, the attitude changed from formalistic to pragmatic. The municipality did not contest the breach of contract during the notice period. The care company no longer had the same motivation to withhold information (Frey, 1993). Instead the parties tried to forge a relationship involving active collaboration (Van Slyke, 2007). The collaboration that was cultivated enabled both parties to avoid compulsory interventions

(Warner & Aldag, 2019). This can also be interpreted as a way of handling practical difficulties in a situation where indispensable housing services had otherwise been suspended. As such, Phase 3 describes an intermediate step within the backsourcing process—an "organizational limbo"—that has not been described in previous research. The step is distinguished by a mutual reduction in accountability, from which both parties are expected to benefit. The parties share more information with each other than previously, leading to reduced risk of sanctions.

5.4 | In-house operation: Disconnection

After a six-month period of notice, operation of the special housing complex was brought back in-house. The take-over was celebrated with an opening ceremony, sparkling wine, canapés, and cake, served by the municipality's managers. Politicians and leading officials welcomed guests, made speeches, and expressed a hope for beneficial future collaboration with staff and service users.

As part of our observations, we were able to see how meetings and information sessions were used to create solidarity and rebuild trust among the nursing staff.[5] Just like the previous transitional phase, the first 6 months after the takeover were also described by employees and managers as a difficult period. New routines, rules, and schedules needed to be introduced and the staff needed to be retrained to reflect a new culture and routines. Many people had high expectations that staff would be more in attendance so that conditions would stabilize. The daily routines were also perceived to be important and stabilizing, but not everything went to plan:

> …the routines are really important in order (…) to succeed in what we do. (…) Taking them away from one day to the next can be confusing. The staff don't really know what they're supposed to be doing. (Interview 9, municipal official)
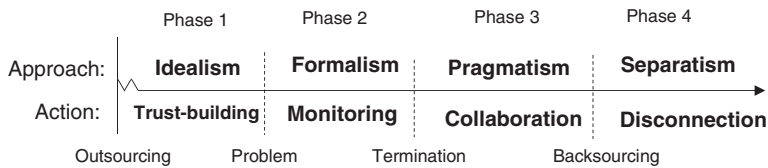
The municipality's managers had a good relationship with the trade union, but salaries, conditions, and uncertainty saw the Ladybird losing registered nurses. Rebuilding the activity was a quest to recover trust and create a positive atmosphere and a good working environment. The municipality tried to infuse hope, stability, and job satisfaction, but it was an up-hill march. After the final handover by the care company, the local collaboration ceased between the managers of the municipality and the care company. However, relations were not terminated as the care company was still responsible for several other special housing units within the municipality. The disconnection thus changed the relationship from pragmatism to separatism (cf. Jansson et al., 2021). The celebratory re-opening can be seen as a symbolic marker of a new start, emphasizing cohesion, trust, and confidence in the operation of the special housing complex. In this way, the management sought to boost the trust of staff, service users, and their relatives. The new management worked to tone down previous business ideals (efficiency and profit motive) (Bowman et al., 2015) and highlight instead a public service ideal (rules, stability) (Christiansen et al., 2020).

Overall, our findings showed that the relationship between agent and principal during the transfer period was based on collaboration and not the rivalry on which economic theory is based. The municipality and the care company entered into a close collaboration during the transfer period, until the operation had been handed back. The process was characterized by a hybrid relationship which switched between rivalry and collaboration.

6 | ANALYSIS AND DISCUSSION

6.1 | Involuntary backsourcing: A four step model

One aim of this study was to examine the degree to which rational theories (e.g., agency theory) that have previously been used to analyze these relationships function in order to interpret our findings. We have identified the phases of the process,

	Phase 1	Phase 2	Phase 3	Phase 4
Approach:	**Idealism**	**Formalism**	**Pragmatism**	**Separatism**
Action:	**Trust-building**	**Monitoring**	**Collaboration**	**Disconnection**
	Outsourcing	Problem	Termination	Backsourcing

FIGURE 2 Involuntary backsourcing—A process description

focusing on the relationships between principal and agent during the transfer period, and are now able to summarize our findings and make a contribution to the literature comprising a model that describes the involuntary backsourcing process. Figure 2 shows how the parties' relationship evolved over time through four phases with varying approaches and actions.

In Phase 1, where sourcing is ongoing, the buildup of trust creates an idealistic and harmonious relationship between principal and agent. When trust is broken and problems arise, a second phase of formalism and scrutiny follow, which could potentially lead to a normalization of the relationship or, as in this case, a third phase with termination of the contract and involuntary backsourcing. After the termination, a fourth phase of collaboration and pragmatism follows, before the parties finally separate when operations are brought in-house.

## 6.2 | Development of theory to enable better understanding of involuntary backsourcing

One aim of this study was to interpret our findings by examining the degree to which rational theories that have previously been used to analyze these relationships function. We have found that in a number of instances agency theory provides credible interpretations of events occurring in our case study, including an emphasis on the conflicts of interest between principals and agents, the value of trust, the problem of information asymmetry, and the challenges of monitoring services and holding agents accountable.

However, this study also shows that the backsourcing process becomes *more complex* and *contradictory* than previous studies have indicated, as the behavior required to manage a contract surrender swings between collaboration and the manifestation of conflicts of interest. The backsourcing process has previously been described as a planned and relatively predictable process (Veltri et al., 2008). In this respect our findings instead indicate that they are *unplanned* and *unpredictable*.

Furthermore, an even more unexpected and counter-intuitive finding was how the initial breach of trust initiating the backsourcing process did not cause the antagonism, breakdown of relations, rivalry, and polarization that is assumed in earlier literature (cf. Eisenhardt, 1989; Petersen, 1993; Pratt & Zeckhauser, 1985). Instead, intensified collaboration and alignment of interests between principal and agent emerged. The parties developed a mutual dependence, where they decided *not* to oppose one another during the handover. Apparently, costly litigation and the risk of public scrutiny and critique were in neither parties' interest, especially not that of the municipality. The collaboration, which entailed adjustment of routines, enabled other conflicting interests to be resolved simultaneously.

The explanation for these deviations from theoretical expectations lies in the nature of public sector activities, which must be taken into account. Our findings have, *first*, underscored the *critical nature* of many public services. The essential nature of the services—in this case housing services for the elderly—means that they must be carried on in order to avoid irreparable harm. There is little room for shutting down a malfunctioning or unprofitable activity—the work must go on as the life and health of clients often depend on it. The need for collaboration was therefore immanent. The collaboration also created *stability* for the nursing staff and service users in a situation that otherwise risked leading to disorder, conflict, and division.

Second, involuntary backsourcing in the public sector relates poorly to conventional market theories. In an ideal market situation, the public principal is expected to be a strong actor with an abundance of choices, while private
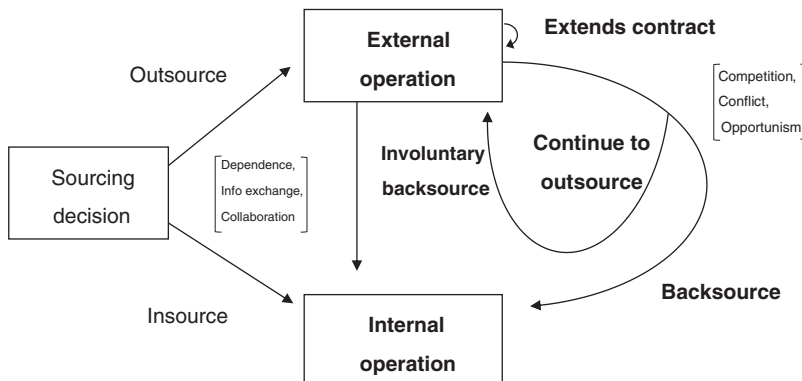
FIGURE 3 Involuntary backsourcing—A diagrammatic sketch (developed from Veltri et al., 2008, p. 52)

companies are expected to compete for sourcing contracts, driving a competitive price (O'Flynn & Alford, 2008). The fear of losing an existing assignment is expected to make private companies abide by contracts entered into and try to get them renewed. Voluntary relinquishment of a contract goes completely against this logic. The result suggests that public principals may be in a weaker position than the theory assumes. For example, after an involuntary backsourcing, it is very difficult to quickly find another agent that is prepared to take over when the operation has been surrendered at a competitive price. Neither does the principal want to jeopardize future relations with a large company and risk impairing its reputation with other potential agents in the locality. This precarious situation—with weak competition and a high level of public responsibility—explains the low cost for agents to breach contracts and the unwillingness of public principals to penalize them.

A *third* aspect concerns the "public principal's principal," that is, the people. Public sector organizations and their political leaders are democratically accountable, and they have a strong interest in avoiding negative public scrutiny. The option of legal action and punishment of agents who misbehave might backfire, as scrutiny from the media could easily paint a picture of the public management as negligent, and responsible politicians might lose voter support.

Overall, the findings emphasize the great difficulties associated with each step of an involuntary backsourcing process: (1) the difficulty of increasing monitoring of an agent when a breach of trust has occurred due to information asymmetry; (2) the lack of options in disciplining agents who break contracts; and (3) the challenges of hastily bringing complex operations back in-house when there are no contingency plans for doing so.

Backsourcing in the public sector is a fundamentally different affair compared to the private sector (Akoka & Comyn-Wattiau, 2006, p. 333; von Bary & Westner, 2018 p. 691), and the theoretical expectations must be amended in a number of ways (Drummond, 2005).

Finally, based on Veltri et al.'s (2008, p. 52) description of backsourcing, there is now reason to modify the figure in order to more precisely describe public sector backsourcing based on this study's findings. We note that the backsourcing that has previously been described is characterized by independence, secrecy, and rivalry, while involuntary backsourcing is characterized by dependence, exchange of information, and collaboration (see Figure 3).

7 | CONCLUSIONS: INVOLUNTARY PUBLIC BACKSOURCING AND ITS IMPLICATIONS

The article highlights two principal observations which make it possible to conduct an advanced discussion on how involuntary public backsourcing is performed in practice, and how it affects the relationship between principal and agent.

The *first* concerns the fact that, as we previously emphasized, backsourcing of public operations, contrary to previous research into backsourcing in the private sector, turns out to be more complex, multifaceted and contradictory than previous studies have demonstrated. In public procurement processes, private agents compete to win profitable contracts by outbidding each other, putting pressure on prices and offering services that may not be easy to achieve. It should therefore come as no surprise that the private agents sometimes fail to fulfill their contracts and prematurely surrender the operations, forcing the public principal to involuntarily and prematurely bring the activity back in-house.

Contrary to earlier literature, which depicts the backsourcing process as a planned and relatively predictable process, this study instead indicates that they are *unplanned* and *unpredictable*. This is important information for public organizations that have a large proportion of their activities contracted out, that is, that they need to be prepared to manage the unforeseen. On this basis, we draw the conclusion that backsourcing does not need to be a friction-free movement from Position A to B, but rather can be relatively complex, contradictory, and multifaceted. As we showed, our study also indicates that the parties tend to establish a form of collaboration, instead of the rivalry and polarization that is assumed in earlier literature (cf. Eisenhardt, 1989; Petersen, 1993; Pratt & Zeckhauser, 1985). The study indicates even that the length, status, and origin of the collaboration is significant for the parties' behavior. Surveying the process has enabled us to describe involuntary public backsourcing, and the adjustments, priorities, and sacrifices that are made, in more detail. Further, the concept of involuntary backsourcing is an important contribution to the literature. The involuntary element means that public purchasers end up in a weaker position than market theory assumes (cf. Eisenhardt, 1989; Petersen, 1993; Pratt & Zeckhauser, 1985). In the real world, outside of theoretical models, it is hard for public purchasers to find new agents with the right experience at a good price (Van Slyke, 2007). The involuntary aspect thus contributes relevant new assumptions on how backsourcing is implemented in practice, which provides relevant additions to the literature.

The *second* concerns the fact that involuntary backsourcing can lead to an "organizational limbo" arising, with an unfavorable and difficult situation which needs to be managed. The study demonstrates that, in distinction from earlier theoretical assumptions about opportunistic behavior (Eisenhardt, 1989), the process was characterized by exchange of information and collaboration, which leads to reduced accountability and risk of sanctions, from which both parties can derive benefit. The parties' consequently refrained from their usual procedures and roles, and applied continuity instead of conflict during the period of notice. The study contributes theoretically by highlighting the occurrence of collaboration between principal and agent, so that the operation can be returned in an orderly manner.

This study shows the more profound relationship at an overall level that can arise between principal and agent in connection with involuntary backsourcing. The findings show that a more in-depth and complex relationship develops. By using our new theoretical knowledge on how principals and agents are assumed to act in order to manage polarized situations, the findings can also be used to explain behavior during the transfer process within other areas. This knowledge is important in explaining how the transfer process needs to be managed and regulated in future contracts. Likewise, increased knowledge concerning involuntary backsourcing can have significance for the propensity that principals and agents have to enter into contracts and impose sanctions in future contexts. In that we now know more about which behavior we can expect, we can more easily formulate preparations, handover, and follow-up according to more correct assumptions. Our study indicates that the previous trust and relationship may affect the degree to which the parties are inclined to cooperate. More knowledge on how involuntary public backsourcing is affected by previous relationships between parties, as well as the characteristics of the operations, should be considered in future studies. Furthermore, the findings stress the major need for public sector organizations that are involved in sourcing management to develop a readiness to prepare, manage, and follow-up involuntary backsourcing.

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CONFLICT OF INTEREST

The authors declare that there is no conflict of interest.

DATA AVAILABILITY STATEMENT

The data that support the findings of this study's are available on request from the corresponding author. The data are not publicly available due to privacy or ethical restrictions.

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ENDNOTES

[1] Involuntariness can be described as unintentional, enforced, or compelled. The terms are used in this study to highlight the fact that both principal and agent end up in an unintentional situation that they try to manage in various ways. Backsourcing can entail the parties arriving in a situation where they find it difficult to foresee the consequences of their actions.

[2] Involuntary public backsourcing is distinguished by the fact that the contract is terminated prematurely by the provider and the activity is handed back.

[3] "The transitional process" starts when the contact is terminated and continues until the operation is handed back.

[4] This refers to everyone in the research group who worked on planning, data collection, sorting, and analysis of the study's data.

[5] Registered nurses are rare in elderly care in Sweden, and the predominant group of carers comprises assistant nurses. The term care personnel refers to both registered nurses and assistant nurses.

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APPENDIX: INTERVIEW GUIDE

1. Indicate why elderly care was put out to contract?
2. Indicate why you decided to take the operation back in-house? (Care company: Indicate why you decided to terminate the operation and hand it back?)
3. Indicate whether you have any previous experience of backsourcing? What?
4. Indicate what data was used for the decision on backsourcing?
5. Indicate how the handover was executed in practice (preparations-execution-conclusion)?
6. Indicate what it was like to collaborate with the municipality, or care company, during the backsourcing process?
7. Indicate what policy you had concerning information transfer between the parties?
8. Indicate which roles the municipality and the care company respectively occupied during the backsourcing process?
9. Indicate whether any conflict arose between municipality and the care company during the backsourcing process? Why was that?
10. Indicate whether any cooperation arose between the municipality and the care company during the transition? Why was that?
11. Did you learn anything from the backsourcing process? What? Give examples.
12. Was it what you expected? What deviated from your expectations?
13. What trust did you have in the municipality, or the care company, during the backsourcing process?
14. What were the advantages of backsourcing?
15. What were the disadvantages of backsourcing?
16. What effect did backsourcing have on the personnel? Residents?
17. Do you have any more questions you think are important in connection with backsourcing?