

RESEARCH ARTICLE

Drivers of outsourcing and backsourcing in the public sector—From idealism to pragmatism

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Abstract

Local governments are bringing previously outsourced services back in-house. Research into explanations for sourcing decisions in the public sector is growing, however, few researchers have investigated drivers of both outsourcing and backsourcing in local public-governance organizations. In this study we utilize transaction cost economic theory (TCE) and political ideology to investigate underlying motives of sourcing in local public governance organizations. Based on a 2018 survey of chief financial officers (CEO) in all of Sweden's 290 municipalities, this study shows that backsourcing is strongly associated with outsourcing and that outsourcing and backsourcing should not be understood as opposite phenomena, rather as interdependent phenomena in a dynamic sourcing strategy. Outsourcing and backsourcing are driven in part by different factors: Outsourcing by political ambitions and economic factors relating to TCE, while managerial and pragmatic concerns are foregrounded for backsourcing.

KEYWORDS

backsourcing, insourcing, local government, outsourcing, public organizations

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1 | INTRODUCTION

For decades, outsourcing of public services, that is, purchase of services from external providers that had previously been produced in-house, has been part of managerial reforms in public organizations across the world (Bel & Gradus, 2018; Bisman, 2008; Cristofoli, Ditillo, Liguori, Sicilia, & Steccolini, 2010). In accordance with the managerial ideals of New Public Management (NPM), political ideas favoring competition, freedom of choice, and management control have replaced earlier support for traditional bureaucratic, in-house production (Hood, 1995; Lapsley, 2009; Pollitt & Bouckhaert, 2011). However, with the political pendulum once again turning, in recent years neo-liberal marketization discourses have been challenged by the new left's green political ideas (Cumbers, 2019; Hall, Lobina, & Terhorst, 2013; Hanna, 2018; Weber, Cabras, & Frahm, 2019). An international trend towards back-sourcing has been observed; organizations are terminating contracts with external, primarily private, service providers and bringing production back in-house (Bönker, Libbe, & Wollmann, 2016; Hall, Lobina, & Terhorst, 2012; Wang, Mu, & Liu, 2018). Some authors have described this trend as the result of a politically driven change of direction towards new managerial ideals and a revised and critical view of NPM (Petalidis, 2018; Pflueger, 2019; Shakirova, 2019; Young & Macinati, 2012).

The aim of this paper is to investigate the drivers behind outsourcing and back-sourcing in local government and to test whether the phenomenon is politically driven or can be explained by other factors.

A major argument for focusing the study on sourcing in local government is methodological: an international comparative study is normally associated with a number of complications, especially since differences between countries tend to be heavily dependent on historical factors, national traditions and culture, and differences in constitutions and other regulations. Comparative studies of local governments overcome most of these problems as differences in economic, cultural and legal contexts between the cases are much easier to control.

The rest of the paper proceeds as follows. First, we very briefly provide background to sourcing activities in local government and review previous studies on sourcing decisions in local governments, as well as present the hypotheses to be tested in this study. Second, we present the methodology of the study. In the third section, we present the results. In the fourth section, we discuss the results and their implications as well as the limitations of the study.

1.1 | Background

While there is an abundance of research on outsourcing, its causes and effects, back-sourcing in the public sector and in local governmental organizations has received significantly less coverage in previous research (Bel, Hebdon, & Warner, 2018; Ekeboom, 2018; Petalidis, 2018; Shakirova, 2019; Von Bary & Westner 2018). As of yet, the hypothesis that back-sourcing is a political backlash has received limited empirical support. The existent studies on back-sourcing in local governments are mostly focused on American cases, where the relevance for other types of welfare state might be questioned. The studies that have tried to identify motives for sourcing in local governments have investigated a range of explanatory factors (Bel & Fageda, 2009; Bel et al., 2018; Ekeboom, 2018; Elinder & Jordahl, 2013; Fernandez, Ryu, & Brudney, 2008; Johansson, 2008; 2015; Shakirova, 2019; Warner & Hefetz, 2012; Zeemering, 2018). While some studies mention political motives for public sourcing (Elinder & Jordahl, 2013; Fernandez et al., 2008), most emphasize economic drivers such as fiscal constraints and efforts to improve economic efficiency (Bel & Fageda, 2009; Bel et al., 2018; Ekeboom, 2018; Hefetz & Warner, 2004; Johansson, 2008; 2015; Shakirova, 2019; Warner & Hefetz, 2012; Zeemering, 2018). The results obtained from these studies vary widely, with the only consistency seeming to be that their proposed models have a low level of explanatory power (Bel & Fageda, 2009). For example, Bel and Fageda (2009) carried out a meta-regression analysis focusing on motives for outsourcing in the United States during the period 1982–2004. The analysis, which covered 32 studies that in turn accounted for 66 observations, was not able to draw any clear general conclusions regarding motives, beside the fact that fiscal constraints and political interest groups were found to have some importance for municipalities' sourcing decisions in studies from the 1980s and 1990s. Some recent research into local governments' governance decisions in the United States also indicates that

political ideology and interest groups have an influence on sourcing decisions such as a demand for smaller government and opposition by public employees to privatization and outsourcing, which may account for some variations in local governments' tendency to outsource or backsource services (Fernandez et al., 2008). Bel et al. (2018), for example, claim that research in the United States on sourcing shows that back-sourcing in local governments is often part of a broader strategy of market management to ensure social choice and balance between the market and the interests of citizens.

European studies find back-sourcing to be motivated by pragmatic concerns in relation to market management and driven by dissatisfaction in external suppliers' ability to deliver services with both high quality and low cost (Petalidis, 2018; Shakirova, 2019; Young & Macinati, 2012). According to some studies, municipalities' sourcing decisions should be regarded as pragmatic experiments with new forms of service delivery in the search for cost efficiency and improved quality (Bel, Warner & Hefetz, 2012; Hebdon & Jalette, 2008).

In this study, we will focus on outsourcing and back-sourcing in Swedish local government. The Scandinavian countries, especially Sweden, are usually described as the most ambitious welfare states in the Western world, with high taxes and a large public sector (Anttonen & Häikiö, 2011; Moberg, 2017; Øvretveit, 2003). Perhaps paradoxically, Sweden is also known as a pioneer in NPM, with a high level of outsourcing (Blomqvist, 2004; Hood, 1995; Johansson & Siverbo, 2018; Meagher & Szebehely, 2013).

According to public statistics, €33 billion (≈SEK 370) was spent in 2018 by Swedish municipalities on purchasing services from external and mostly private suppliers (Statistics Sweden, 2019). From being a country where almost all of Sweden's local public services have been provided and delivered by the municipalities themselves, today external suppliers account on average for about 17% of the municipalities' total running costs (Statistics Sweden, 2019). However, there is a large variation in the extent to which Swedish municipalities rely on outsourcing (Statistics Sweden, 2019), with external suppliers accounting for about half of the total running costs in some municipalities, while other municipalities produce almost all of their services in-house (Statistics Sweden, 2019).

Scandinavian countries are distinguished by their high level of decentralization of public services and the strong role of local governments (Kirchhoff, Vik, & Aarseth, 2019; Meagher & Szebehely, 2013; Øvretveit, 2003). Compared to many other countries, Sweden has large municipalities with extensive political organizations (Loughlin, Hendriks, & Lidström, 2010). The local level deals with issues across the entire political spectrum (Hesse & Sharpe, 1991; Loughlin et al., 2010; Montin, 2015).

The services are to a large extent financed by local taxes, service fees, and central grants from the Swedish government (Loughlin et al., 2010). According to the Constitution and the Local Government Act, Swedish municipalities have extensive freedom to set their own taxes and decide on how they want to organize their service delivery if, for example, they want to make or buy services (Montin, 2015). However, regardless they are responsible for the financing and execution of these services. If they choose to procure services from external suppliers they are legally obliged to offer an open competitive tendering process for public contracts (Blomqvist, 2004; Kirchhoff et al., 2019).

The left–right conflict and issues concerning the scope of the public sector have traditionally dominated Swedish political life, and attitudes towards privatization and consumer choice among citizens, as well as among political leaders in all tiers of government, are polarized along the left–right ideological divide (Guo & Willner, 2017; Lindh & Johansson Sevä, 2018; Oscarsson & Holmberg, 2016). However, the trend towards increased outsourcing has not been driven by public demand, as there is limited public support for privatization (Svallfors & Tyllström, 2019). In Sweden, the parties of the right have traditionally been profiled as the strongest advocates for privatization and marketization of the public sector (Oscarsson & Holmberg, 2016). The two-bloc system, with a clear division between left and right parties, has been weakened over time and today it is not unusual, at least not at the local level, for parties to form broader coalitions in order to resolve complex parliamentary situations (Aylott & Bolin, 2019).

However, the party affiliation of what is the Swedish equivalent of mayor, the chair of the executive board, is still a good indicator of whether such broad coalitions lean mostly to the left or to the right. In addition, Swedish local governments are particularly suitable for analysis of party political effects, as there is a relatively high level of party

politicization in Swedish local politics compared to other countries (Klok & Denters, 2013), and the system is based on parliamentary principles (Guo & Willner, 2017).

One reason for the specific lack of knowledge of backsourcing in local government might be methodological. In countries with elaborate public statistics resources, it may be possible to measure the level of outsourcing in terms of number of services contracted out, sums of money paid for external service providers, and number of personnel with public and private employers. However, it is more challenging to measure the occurrence of genuine backsourcing, as the extent to which specific service units have been backsourced, after first being outsourced, is not systematically recorded.

1.2 | Theoretical framework and hypothesis

Earlier studies have mainly derived their conclusions from research on sourcing in the private sector, and transaction cost economic theory (TCE) has been the predominant theory used in this research to explain business sourcing decisions and the trend towards more sourcing (Bajari & Tadelis, 2001; Williamson, 1975, 1979). TCE offers a rational view of sourcing choice strictly based on the economic merits of cost associated with producing services internally within the organization compared to purchasing from external providers. TCE implies that sourcing decisions should involve and be based on a comparison of the total production costs incurred from producing services internally with the total transaction costs associated with purchasing a service from an external provider (Williamson, 1975, 1979).

The total transaction costs included in the sourcing (market) decision include the direct economic costs associated with sourcing service development and delivery, transaction-based monitoring, and control costs to ensure that the supplier acts in the best interests of the public and in a manner consistent with the terms of the sourcing contract (Williamson, 1975, 1979). Monitoring costs are any costs incurred by the principal to ensure that the agent is not engaging in activities detrimental to the principal and that the principal meets the basic terms and conditions of the outsourcing contract. Control costs represent the legal costs assumed by the principal to enforce the terms of the outsourcing contract if the term is violated. The increased use of outsourcing as a strategic tool has probably also given municipalities increased experience in designing effective monitoring and control systems to manage agent behaviour.

In this study, we will investigate the explanatory relevance of TCE as a driving force for municipalities' sourcing decisions. We will identify the occurrence of actual outsourcing and backsourcing, not from public statistics, but through a survey requesting this information from those who are most likely to know: Chief financial officers (CFOs) of Swedish municipalities. Even though the survey method entails a number of limitations and uncertainties, it will be possible for the first time (as far as we are aware) to empirically study, and simultaneously compare, the drivers behind sourcing in both directions. It should be emphasized that our study does not aim to explore why outsourcing occurred in the first place, instead we focus on what drives outsourcing and backsourcing in a case where outsourcing as a practice is already well established.

Overall, the predominant view in the public debate seems to be that backsourcing and re-municipalization is reversed outsourcing, a backlash stemming from a critical view of earlier privatizations (Cumbers, 2019; Ekebon, 2018; Hall et al., 2013; Hanna, 2018; Weber et al., 2019). Such a view means that the two phenomena of outsourcing and backsourcing might be described as two sides of the same coin (Ejodame & Oshri, 2018). We would expect outsourcing to decline when backsourcing emerges, with both forms of sourcing having common motives and explanatory factors—but opposite effects. To test these assumptions, our hypothesis is that:

- H1a: Outsourcing and backsourcing in municipalities are opposite phenomena where increasing outsourcing correlates with decreasing backsourcing and vice versa.
- H1b: Outsourcing and backsourcing in municipalities are opposite phenomena where driving factors enhancing one, detract from the other.

In previous research, cost-efficiency motives have been highlighted as the major drivers for Swedish municipalities' decisions to make or buy services (Johansson, 2008). A recent qualitative Finnish study on backsourcing in municipalities supports the important role of economic concerns as a driving motive for backsourcing (although the study also shows that backsourcing may have supplementary driving motives, e.g., political concerns) (Ekeboom, 2018). Market theory suggests that managerial concerns are in the foreground of both outsourcing and backsourcing decisions in local governments (Fernandez et al., 2008). The presence of several different suppliers competing for a contract affects the power balance between suppliers and buyer, putting pressure on prices and reducing the risk of opportunistic behavior (Andersson & Dekker, 2005; Williamson, 1979). More suppliers thus increases the benefits of purchasing services from external providers, and it is likely that a strong local market of external providers should be a driver of outsourcing.

This is a core assumption of market theory, that is, that competition incites private service suppliers to offer services of a higher quality at lower prices (Williamson, 1975, 1979). In a local market with few competing suppliers, the cost of transactions will be higher, as will the risk of opportunistic behavior (Williamson, 1975, 1979), and this will increase the likelihood of backsourcing.

Empirical support for this assumption can also be found in US studies. For example, Hefetz and Warner (2004) and Warner and Hefetz (2012) showed that the main motives for US local governments' re-municipalization of public services were a low level of competition for public contracts and inadequate associated cost savings. Similar kinds of research into local governments in the United States by, for example, Lamothe, Lamothe, and Feiock (2008) and others (Bel & Fageda, 2007), support the notion that local sourcing decisions are frequently motivated by pragmatism.

As availability of service providers and competition are the main drivers for outsourcing in the TCE literature, our hypothesis is:

H2a: More potential suppliers in municipalities increases the likelihood of outsourcing and decreases the likelihood of backsourcing.

It is also reasonable to assume that the size of the municipality influences sourcing decisions from a transaction cost perspective. Large municipalities are able to attract a greater number of potential suppliers, increasing the competition and cost advantages of outsourcing. Larger municipalities also have more resources and expertise to handle procurements, which increases the cost advantages of outsourcing public services.

However, the level of resources of large municipalities also provides better conditions for reintegrating services. According to the resource-based view, the market *per se* is not always the most cost-efficient provider of services if one assumes that not all resources and services are perfectly mobile and homogeneously distributed (Grant, 1991). In that context, the buyer's own economic resourcefulness may be of importance for the make or buy decision. The municipalities' own economic resourcefulness should have a significant impact on the degree of outsourcing of public services. Large municipalities with strong economic resources and an extensive capacity to provide specialized services should be able to rely to a greater extent on their own service production, while small municipalities with large deficits may be more pressurized to find cost-efficient solutions by purchasing services from external providers. Moreover, in municipalities with a low population density, private suppliers may also be discouraged from applying for contracts due to a fragmented market and the low possibility of achieving economies of scales. The size of the municipality should consequently facilitate if not drive backsourcing. In small municipalities, what was once outsourced is harder to bring back.

As with a TCE perspective, both outsourcing and backsourcing are easier to achieve in a municipality with a lot of resources, where there is a strong economy in the municipal organization as well as in the surrounding locality.¹ Our hypothesis is:

H2b: Municipalities with a high level of economic resources will be more active in sourcing.

The TCE framework has mainly been utilized to explain the sourcing decisions of private businesses. However, it is reasonable to believe that public organizations are governed, at least partly, by concerns other than those of commercial organizations. Local public governmental organizations are not only assessed on their merits in providing cost-effective services to local citizens, but also on delivery of public policies in accordance with the aims set out by democratic processes and their ability to uphold public values such as equality, impartiality, and communal good (Cordella & Willcocks, 2010). In the context of local governments, utilizing a strict transactional cost framework may thus be insufficient to explain drivers of sourcing, as their organizational goals are more diverse and complex than in private businesses (Cordella & Willcocks, 2010).

Moreover, the politicians may also be motivated by complex concerns. Even though social science has traditionally ascribed self-interest as one of the prime sources of behavior among political actors (Downs, 1957), it is also widely recognized that self-interest is multifaceted and varieties of altruistic or collective interests are equally important (Mansbridge, 1990; Sears & Funk, 1991). However, irrespective of whether we assume politicians' main motives to be idealistic and that they are striving for a common good in accordance with their principled beliefs, or whether they are mainly driven by career ambitions, one aspect is constant: politicians in a party-based representative democracy are generally inclined to implement policy in accordance with their party's ideology (Oscarsson & Holmberg, 2016). While realization of an ideology might be an idealistic project for some, for others it might be a means to secure re-election as voters are likely to reward parties which fulfil their promises (Karlsson, 2018).

From an ideological perspective, sourcing issues are linked to what is perhaps the most important political division in the modern Western world: the left–right dimension. (In-house) public service production is favored by the political left as a counterpoint to privatization and market capitalism. In this context, a favorable opinion of marketization and competition could be said to be implicitly in support of outsourcing of public services, as well as confidence in the abilities of private entrepreneurs. These are beliefs associated with the political right. Earlier research also bears out the fact that right-leaning local politicians are more likely to support (Guo & Willner, 2017) and implement outsourcing policies (Elinder & Jordahl, 2013).

This leads to an expectation that party ideology is one of the main drivers of sourcing decisions. More specifically, we expect that outsourcing might be seen as a strategy of the political right with the aim of shrinking the public sphere while backsourcing is motivated by a leftist critique of marketization and a support for in-house public service production.

Finally, we should recognize that support for sourcing may vary within the left and within the right, which means that there is room for a political explanatory factor for sourcing decisions in addition to ideology.

Our main hypothesis is that:

H3: Outsourcing and backsourcing in municipalities is driven by political and ideological motives.

Following the main hypothesis above, first, we expect that:

H3a: Outsourcing is more common in municipalities where the political right is stronger while backsourcing is more common where the political left is stronger.

Second, as decisions on outsourcing and backsourcing might be reactions to policies carried out by previous regimes, we would also expect a regime change to trigger a reversal of policies (if outsourcing has gone too far, backsourcing would be the reaction – and vice versa).

H3b: A regime change from right to left will increase backsourcing while a change from left to right will increase outsourcing.

1.3 | Materials and methods

Data on political majorities derives from publicly available statistics from the Swedish association of local authorities and regions (SALAR, 2019). Data on structural factors and municipal economies derives from the Swedish municipalities. The Swedish municipalities have a far-reaching obligation to report and make data available to the public through Statistics Sweden (Statistics Sweden, 2019). This includes data on the scope of their outsourcing as a percentage of their total expenses. However, even if it is possible to compare year-on-year changes in this material, it is not possible to accurately measure the extent of backsourcing in this way. If outsourcing is reduced, this might mean that services have been returned in-house, but the activities might also have been terminated and not replaced. And if a municipality outsourced and backsourced extensively but at the same rate—this would appear as stasis in the numbers.

In order to resolve this, we have collected data on outsourcing and backsourcing frequencies by means of a survey targeting CFO in all of Sweden's 290 municipalities. The CFO works closely with the chief executive officer (CEO) and the political leadership, mainly the Swedish equivalent of mayor, the chair of the executive committee. The CFO was considered to be the single most informed individual on sourcing activities in a municipality and the survey questions focused on their experiences of outsourcing and backsourcing. The questionnaire was pilot-tested and reviewed on former CFOs before it was finalized. The review was an assessment of relevance, understanding, and readability. Based on the pilot test, some questions and items that appeared to be unclear in the questionnaire were either adjusted or removed.

The online survey was distributed to CFOs in the period from September to December, 2018, and they were asked about the scope of outsourcing and backsourcing in the previous three years.

The CFOs' addresses were obtained by identifying and collecting mail addresses on official web pages. Four reminders were sent out. Of a population of 290 CFOs, 171 participated (59.0% response rate). One hundred fifty nine and 156 CFOs answered the key dependent variables on sourcing frequency, while 99 answered the question on the attitudes of the political leadership.

About 45% of the participants were women and 55% were men. The average age of the CFOs was 52 and on average they had been employed in their current position for six years. As set out in Table 1, the characteristics of the responding sample are similar to the non-respondents, with the exception that the population density for the participating municipalities was lower than that for the non-respondent municipalities. This means that there is no need to weight the data in order to correct for non-response bias.

1.3.1 | Scope of sourcing—dependent variables

The CFOs were asked: "During the last three years, how common has it been on average for your municipality to [out-source/backsource] services? (Please enter an approximate estimate) with the response alternatives "Never"; "1–2 times a year"; "3–4 times a year"; "5–6 times a year"; "7–8 times a year"; "9–10 times a year"; "more than 11 times." The responses were coded as times per year (0; 1.5; 3.5, etc.) and then converted into a proportional 0–100 scale where 100 represents the maximum answer (more than 11 times).

1.3.2 | Factors explaining sourcing – independent variables and modelling strategy

The H1 hypotheses concern the assumption that outsourcing and backsourcing are opposite phenomena. H1a was tested by introducing "increase in outsourcing" as an independent variable in the model, where backsourcing was the dependent variable, and a significant negative effect would support the hypothesis.

TABLE 1 Typology of the respondent and non-respondent municipalities (t-test with means and standard deviations in parentheses)

	Respondents—municipalities included in the study		Non-respondents—municipalities not included in the study		
	N = 171		N = 119		
	M	SD	M	SD	t
Population size	32,478	76,217	38,373	66,386	-.682
Population density ^a	111	423	154	558	-1.550**
Average income ^b	199.90	11.74	201.90	12.60	-.138
Average age	43.36	2.64	43.25	2.60	.859
Education ^c	27.80%	8.43	28.06%	8.54	-.614
Total expenditure	2.172 b.	464	2.327 b.	453	-.645
Purchase from external suppl. ^d	16.42%	7.67	16.59%	7.48	-.468
Left political majority	35.70%	-	31.90%	-	-
Right political majority	30.45%	-	33.60%	-	-
Votes for moderate party ^e	17.77%	9.03	18.19%	7.78	-.572
Votes for social democrats ^f	34.09%	8.54	33.94%	7.89	.352

^aInhabitants per km².

^bAverage income for person aged 20 and above.

^cPercentage with education above upper secondary school.

^dPercentage of services purchased from external suppliers in relation to total expenditure.

^ePercentage that voted for the Social Democratic party in the municipal election 2014.

^fPercentage that voted for the conservative party, "Moderaterna" in the municipal election 2014.

H1a was tested by an overall analysis of the effects in the models, with the hypothesis being supported each time a factor gives a positive effect with one form of sourcing and a negative with the other.

The H2 hypothesis relates to transaction cost theory and the assumption that sourcing decisions are more likely when the cost to successfully implement such policies is lower. One such aspect is the number of potential suppliers available in a municipality, which we measured by (1) the number of private companies in a municipality, and (2) whether the municipality is situated in an urban area where the supply exists nearby if not in the municipality itself.

Empirically, municipal size and number of potential suppliers are strongly correlated as there are more suppliers in bigger cities (Pearson's $r = 0.97$). This makes it impossible to distinguish between effects of suppliers and the size of the municipal organization. In our models, we used the number of potential suppliers (private companies) in a municipality as our indicator for both competition and size.

H2a was regarded as supported if there were positive effects of number of potential suppliers and urban location on outsourcing and negative effects on backsourcing.

Furthermore, the transformation of a traditional organization to outsourcing, as well as re-municipalization, places major demands on local authorities. Municipalities with substantial resources are likely to be able to pursue sourcing of both kinds.

As a measure of the level of resources in the locality as a whole, we used what is sometimes referred to colloquially as the local GDP—the average taxable income of all inhabitants. This indicator correlates closely with the level of education ($r = 0.80$), and because of that only one of the two indicators of level of resources needed to be included in the same model.

In addition, three key financial ratios indicating the strength of the municipal economy: the equity/asset ratio of 2017; the net income of the municipality, measured as a mean 2014–17², and the size of the municipal debt (per inhabitant).

TABLE 2 Hypothetical relationships between independent and control variables on outsourcing and backsourcing, respectively

Factors	Indicators	Predicted effect outsourcing	Predicted effect backsourcing
H1a Opposite phenomena	Increased outsourcing	(NA)	-
Economic efficiency (TCE)			
H2a Competition and size	Number of potential suppliers of public services (also ~size)	+	-
	Situated in urban area	+	-
H2b extent of economic resources	Average taxable incomes of all inhabitants 2018, "local GDP"	+	+
	Equity/asset ratio 2017	+	+
	Net income of the municipality (mean 2014-17)	+	+
	Debt per inhabitant	-	-
Political ideology			
H3a regimes	Right-leaning regime	+	-
H3a the political leadership's attitude (as perceived by the CFO)	Left-leaning regime	-	+
	Attitude to outsourcing	+	-
	Attitude to backsourcing	-	
H3b change in political leadership after previous election	Change from left to right	+	-
	Change from right to left	-	+

H2b was regarded as supported in each case that one of these indicators has a positive effect on sourcing of both kinds.

The H3 hypotheses concern the importance of political ideology based on the mayor's party. We included mayors belonging to the left party, the social democrats or the green party as the left; and the moderate party, the Christian democrats, the center party, and the liberals as the right. Some municipalities are ruled by coalitions of both left and right parties, with the mayor's party determining the orientation of the coalition. We used a set of four (dummy) variables indicating the political orientation of the local regime: a municipality could be ruled by a stable right—(RR) or left—(LL) leaning regime (mayor from left or right party for at least two election periods). Or there could have been a regime change after the previous election—three years ago—from left to right (LR), or from right to left (RL).

In the survey we also asked the CFOs: "What is the local political leadership's attitude to [outsourcing/backsourcing]?", and they responded on a scale from 1 "very negative" to 5 "very positive."

H3 was regarded as confirmed if these ideological indicators have any significant effects. H3a was confirmed if RR and LR have positive effects on outsourcing and LL and RL have positive effects on backsourcing. H3b was confirmed if LR has a positive effect on outsourcing stronger than the effect of RR, and RL has positive effects on backsourcing stronger than the effect of RR.

A summary of all the hypothetical relationships between the independent and dependent variables are presented in Table 2.

2 | RESULTS

In this section, we will present our model design and test our hypotheses. The results are presented in three tables, with three models presented in Table 3. In the first model, we relate the independent variables to the municipalities'

TABLE 3 What explains increases in outsourcing and backsourcing? OLS regression (*b*-values and standard errors)

<i>Independent variables:</i>	<i>Model 1 Frequency of outsourcing</i>	<i>Model 2 Frequency of backsourcing</i>	<i>Model 3 Frequency of backsourcing</i>
Regime: RR stable right	+4.6 (3.2)	-	-
Regime: RL change left to right	+12.7* (5.8)	-	-
Control: Left (LL+RL)			
Regime: LL stable left	-	+2.9 [†] (1.7)	+3.8* (1.8)
Regime: RL change right to left	-	+2.5 (2.0)	+3.9* (1.5)
Control: Right (RR+LR)			
Number of potential suppliers	+0.2 (0.2)	+0.3* (0.12)	+0.2 [†] (0.1)
Metropolitan area	+1.2 (3.9)	+2.5 (2.0)	+2.1 (1.9)
Average taxable incomes of all inhabitants 2018, "local GDP"	+2.4*** (0.7)	+1.3*** (0.4)	+0.8* (0.3)
Equity/asset ratio 2017	-0.1 (0.1)	0 (0)	0 (0)
Net income (mean 2014–14)	-0.3 (0.3)	0 (0.1)	0.1 (0.2)
Debt per inhabitant	0 (0)	0 (0)	0 (0)
Outsourcing rate (0–1)	-	-	+23.5*** (4.3)
Constant	-34.8**	-21.7**	-14.3** (6.3)
<i>N</i>	159	156	156
Adj. <i>R</i> ²	0.14	0.20	0.33

[†] $p < 0.10$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

Frequency of outsourcing. In the second and third models, the dependent variable is *Frequency of backsourcing*. Models 1 and 2 share the same independent variables, while the dependent variable of Model 1, frequency of outsourcing, is introduced in Model 3 as an additional independent variable in order to test the effect of the prevalence of outsourcing on the occurrence of backsourcing. In order to support H1a, we would expect this effect to be negative. If the effects of Model 1 are mirrored in Model 2, so that factors associated with higher degrees of outsourcing are also associated with lower degrees of backsourcing (and vice versa), H1b would be supported.

The first section of independent variables in Table 3 are political factors, signifying the political orientation of the ruling regime in the municipality and whether the previous election had produced a regime change, from a right-leaning to a left-leaning regime (RL) or from a left-leaning to a right-leaning regime (LR). There is also the option of political stability over the previous election period (RR = right-leaning regime or LL = left-leaning regime both before and after the latest election). In Model 1, where outsourcing is the dependent variable, regimes changing from left to right (LR) and stable right-leaning regimes are independent variables while controlling for left-leaning regimes (LL+RL). In Model 2, we test for the effect of a regime change from right to left (RL) or of stable left-leaning regimes (LL) on backsourcing, simultaneously controlling for right-leaning regimes (RR+LR). This means that effects of both block differences and regime change become clearer.

The second section of independent variables in Table 3 is associated with the TCE hypotheses (H2a and b) and include indicators of municipalities' economic resourcefulness.

The analysis continues in Table 4 by introducing a new variable into the models: the CFO's perception of the political leadership's attitudes towards outsourcing and backsourcing.

In Models 4 and 5, this question is added as an independent variable to explain frequencies of backsourcing and outsourcing in order to test H2a. The partition of Tables 3 and 4 is due to a lower response rate for this new question, as effects in Models 1–3 should be compared to Models 4–7 with caution.

TABLE 4 The sourcing attitudes of the political leadership, OLS regression (*b*-values and standard errors)

<i>Independent variables:</i>	Model 4 <i>Frequency of outsourcing</i>	Model 5 <i>Frequency of back sourcing</i>	Model 6 <i>Political leadership positive to outsourcing</i>	Model 7 <i>Political leadership positive to back sourcing</i>
Regime: Stable right (RR)	-0.6 (4.4)	-	+27.9*** (5.9)	
Regime: Change left to right (RL)	+19.3** (6.5)		+13.2 (9.4)	
Control: Left (LL+RL)				
Regime: Stable left (LL)	-	+0.9 (2.1)		+11.1* (4.8)
Regime: Change right to left (RL)	-	+1.6 (2.4)		+7.3 (5.4)
Control: Right (RR+LR)				
Number of potential suppliers	+1.6 (1.5)	+2.3** (0.7)	-2.0 (2.1)	+2.4 (1.8)
Metropolitan area	+3.9 (5.4)	+0.7 (2.7)	+9.4 (7.9)	+4.9 (6.5)
Average taxable incomes of all inhabitants 2018, "local GDP"	+0.6 (1.0)	-0.5 (0.5)	-0.4 (1.5)	+0.6 (1.2)
Equity/asset ratio 2017	-0.1 (0.1)	0 (0)	-0.1 (0.1)	-0.2* (0.1)
Net income (mean 2014–14)	-1.0 (0.8)	+0.7 [†] (0.4)	-0.7 (1.2)	+2.4* (1.0)
Debt per inhabitant	0 (0)	0 (0)	0 (0)	0 (0)
Outsourcing rate (0–1)	-	+15.8** (5.0)		
Political leadership positive to outsourcing	+5.2** (1.8)	-0.1 (0.9)		
Political leadership positive to back sourcing	-0.9 (2.15)	+2.6* (1.1)		
Constant	-14.3	-14.3** (6.3)	51.6 [†]	29.6
N	99	99	99	99
Adj. R ²	0.18	0.27	0.22	0.13

[†] $p < 0.10$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

In Models 6 and 7 of Table 4, the CFO's perception of the attitudes of the political leadership towards outsourcing and back sourcing are introduced as a dependent variable in order to illustrate how this intermediate variable relates to the other independent variables. Finally, in Table 5, the attitudinal differences between left-leaning and right-leaning political leaderships on outsourcing and back sourcing are illustrated descriptively.

Starting with the H2 hypotheses relating to transaction costs (saving our main hypothesis, H1, for last), the results in Table 3 (Model 1) show that no factors for competition have any effect on outsourcing, and—contrary to expectations—the number of potential suppliers, which hypothesis H3a suggested should theoretically facilitate outsourcing, seems to have a positive effect on back sourcing (see Table 3 and Model 2). H2a is thus not supported.

Regarding hypothesis H2b, there is only one factor relating to economic resources that affects sourcing: the average taxable income has significant effects on both outsourcing and back sourcing. This result supports H2b. A control analysis that is not presented in the table shows that the same effect would appear if wealth was used instead. However, the key ratios for the municipalities' internal economy have no effects, meaning that municipalities with economies in good order are not more inclined to implement sourcing than others. One possible interpretation is that the positive effect of suppliers on back sourcing may be spurious and relate to the size (and organizational strength) of the municipality, and thereby support H2b. In Models 1 and 2 the average taxable income of the municipality has weak but significant effects on both outsourcing and back sourcing, further supporting H2b, while curiously, the debt ratio has no effect. Overall, the results relating to the H2 hypotheses indicate that it is income (and general level of resources) in the locality rather than the strength of the municipal economy that drives sourcing decisions.

TABLE 5 Attitudes to outsourcing and backsourcing in municipalities with respectively left and right governing majority

<i>Attitudes to outsourcing</i>						
<i>Governing majority</i>	<i>Very negative</i>	<i>Rather negative</i>	<i>Neutral</i>	<i>Rather positive</i>	<i>Very positive</i>	<i>Balance^a</i>
Left	10.8%	54.0%	27.0%	8.1%	0%	-56.7
Right	0%	7.1%	35.7%	46.4%	10.7%	50.0
<i>Attitudes to backsourcing</i>						
<i>Governing majority</i>	<i>Very negative</i>	<i>Rather negative</i>	<i>Neutral</i>	<i>Rather positive</i>	<i>Very positive</i>	<i>Balance</i>
Left	5.4%	8.1%	59.4%	24.3%	2.7%	13.5
Right	3.6%	25.0%	67.9%	3.6%	0%	-25.0

^aThe balance value is the percentage of respondents who chose one of the two negative values, minus the percentage of respondents who chose one of the two positive values. In other words, the balance value is a number between -100 and 100. A strongly positive number indicates a generally positive attitude, whereas a strongly negative number indicates a generally negative attitude.

Turning to the H3 hypotheses in relation to ideology, the results show that there are indeed ideological effects on both forms of sourcing. As expected, there are also positive effects deriving from right-leaning regimes on outsourcing and of left-leaning regimes on backsourcing, supporting H3a. However, it is only in municipalities that recently changed to a right-leaning regime that the increase is statistically significant. Stable right-leaning regimes do not increase as much. These results validate H3b, which predicts that regime change triggers sourcing reactions. However, there are no such differences in left-leaning regimes relating to backsourcing, where both stable and new left-leaning regimes backsource with the same intensity. H3b is thus only supported in relation to outsourcing.

In Table 4, we also note that the attitude to sourcing (as perceived by CFOs) is heavily dependent on political color, with stable regimes in particular perceived to have strong opinions—to the right and to the left. In Models 4 and 5 it becomes apparent that the attitudes also have significant effects in the direction predicted by H3. However, the effect of a shift to the political right is even stronger in this model, further strengthening H3b in the case of outsourcing. An explanation for why we do not see the same pattern in relation to backsourcing could be that backsourcing is less politically controversial and that the attitudes to backsourcing vary more among left-leaning leaderships, and that it is those attitudes rather than party membership that is the most important factor here.

Table 5 below provides a further illustration. As shown in Table 5, the attitudinal differences in the political leadership (as they are perceived by the CFOs) between municipalities with a right and a left governing majority are more pronounced for outsourcing than for backsourcing.

Finally, regarding our main hypotheses, H1, on the fundamental relation between outsourcing and backsourcing, our expectations were definitely *not* confirmed. H1a predicted that increased outsourcing would mean decreased backsourcing, but the results firmly show (in Model 3 of Table 3) that the opposite is the case: municipalities with the highest levels of outsourcing are also the ones with the highest levels of backsourcing. It is even reasonable to suggest that outsourcing seems to be the main driver of backsourcing.

Regarding H1b, the hypothesis was supported in relation to the political, but not the economic, factors. There are no non-political factors where a positive effect on one type of sourcing causes a negative on the other.

3 | DISCUSSION

Over a period of several decades, the practice of outsourcing in the public sector has become well established in many countries, not least in the Nordic countries that have been somewhat pioneering in NPM and the privatization of

public services (Bel & Gradus, 2018; Bisman, 2008; Cristofoli et al., 2010; Johansson & Siverbo, 2018). However, in recent years there has been an international trend towards re-integrating or back-sourcing services (Bönker et al., 2016; Gradus, Schoute, & Budding, 2019; Hall et al., 2012; Wang et al., 2018). This trend has also been evident in Sweden at the local level and in local governments, the Swedish municipalities, but little is known about why this is happening now and whether the driving motives are the same for back-sourcing as for outsourcing (Jordahl & Persson, 2020).

In earlier research, the emergence of sourcing, and first and foremost outsourcing, has been perceived as a result of both political ideas and new managerial ideals connected to NPM (Johansson & Siverbo, 2018; Meagher & Szebehely, 2013), with back-sourcing mainly portrayed from that perspective as inverted outsourcing, a phenomenon that is opposite to outsourcing but with the same motives and drivers (Butler, Slack, & Walton, 2011; Ekebohm, 2018; Shakirova, 2019; Young & Macinati, 2012). This is the first study to scrutinize this perception by investigating motives for both outsourcing and back-sourcing in the Swedish municipalities. Contrary to what had previously been taken for granted, this study found that outsourcing and back-sourcing are not opposite phenomena with common motives, rather they are positively correlated but driven by different motives. Political factors such as the political color of the ruling majority and a change in political leadership were shown to play a more significant and important role as drivers for outsourcing than for back-sourcing. The influence of political motives on outsourcing decisions at local government level finds support in some previous research, mainly from the United States (Fernandez et al., 2008), although in most studies outsourcing has principally been explained from a TCE framework with the focus on managerial and economic motives (Bel & Fageda, 2009; Hefetz & Warner, 2004; Johansson, 2008). The results in this study show that political ideology matters, even in a European context. This result partly contrasts with previous research which used a TCE framework to explain outsourcing in Swedish municipalities (Johansson, 2008). The unique contribution of this study is that it targets both the drivers of outsourcing and back-sourcing and the interrelation between outsourcing and back-sourcing at the local governmental level. In contrast to previous studies, it shows that outsourcing and back-sourcing should not be regarded as two opposite and separate phenomena on a one-dimensional scale with common drivers, rather outsourcing and back-sourcing at the local governmental level are closely interconnected. With previous research in mind, one would expect back-sourcing to be a politically driven backlash against NPM and privatization of public services, however the results in this study show on the contrary that back-sourcing is mainly motivated by pragmatic concerns while outsourcing, previously portrayed as motivated by economic rationality and efficiency (TCE), has strong political drivers. This adds new knowledge to earlier studies that have disagreed on the role of politics in sourcing decisions (Bel & Fageda, 2009; Bel et al., 2018; Ekebohm, 2018; Elinder & Jordahl, 2013; Fernandez et al., 2008; Johansson, 2008; 2015; Shakirova, 2019; Warner & Hefetz, 2012; Zeemering, 2018), and highlights the important role of political ideology in sourcing decisions (Bel & Fageda, 2009a; Johansson, 2008; Shakirova, 2019; Warner & Hefetz, 2012). The attitudes to sourcing in the political leadership are definitely associated with municipalities' ideological leanings, and back-sourcing is definitely more common in municipalities with left-leaning regimes. Increases in outsourcing are greater in municipalities where a right-leaning regime has taken over from a left-leaning regime, and both new and stable left-leaning regimes are keener on back-sourcing.

The general findings in this study are in line with the notion that the large variation in outsourcing between municipalities is hard to reconcile solely with a TCE framework and its focus on cost-efficiency as the main motive (Elinder & Jordahl, 2013). However, as in previous studies on sourcing in municipalities, there is a major unexplained variance in this study, and it is also evident that the motives for sourcing in local governments are complex and related to specific circumstances at the local level such as level of economic resources (Johansson, 2008; Warner & Hefetz, 2012). Thus, no single theory seems to be sufficient on its own to explain outsourcing in municipalities, not least when it comes to decisions to back-source services (Bel & Fageda, 2009).

While outsourcing, founded on political idealism and NPM, is perceived to be both more politically driven and more politically controversial, back-sourcing seems to be a more politically neutral issue and choice driven by pragmatism and influenced by local managerial considerations rather than by political ideology.

Pragmatism is one theoretical concept that might address the need for local governments to adjust to local specificities and changing circumstances (Lorino, 2018). Where an ideologue is driven by principles and an ambition to change society, a pragmatist is shaped by the logics of appropriateness and (perceived) restrictions and necessities within existing practices. Pragmatism is characterized by adequacy and concreteness, focused on facts, and idealizes action and power (Lorino, 2018). Through the prism of pragmatism, back-sourcing can be viewed as the abandoning of political ideals when turning to neutral facts. To extrapolate, the ideals might be questioned because the decision based on ideology—the decision to outsource—was followed by back-sourcing. The outsourced services were brought back in-house, regardless of the stakeholders' beliefs in the rightness of outsourcing (politically right wing) or back-sourcing (politically left wing). Such a turnaround can be confusing and perceived as the abandoning of ideologies—political ideologies or the reliance on NPM.

However, research that solely portrayed the trend of increased back-sourcing as a critical reaction to the disappointing accomplishments of outsourcing may be missing something. The limited overall decline in outsourcing in Sweden may indeed be a result of a reaction against NPM and the strong outsourcing trend that has dominated the Western world during the last thirty years, however, our findings simultaneously show that rather than being a reaction to outsourcing, most increases in back-sourcing in Swedish municipalities are occurring simultaneously with increases in outsourcing. Municipalities are thus pressing the accelerator and brake pedals at the same time. This is not a sign of a reversal due to a new understanding of sourcing, rather outsourcing and back-sourcing should be perceived as two interdependent phenomena in a pragmatic and dynamic sourcing strategy which might itself be regarded as the outcome of a development from politically driven idealism to managerially driven pragmatism. This development is the result of a revised and critical view of NPM and neo-liberal marketization discourses from the new left focusing on green political ideas (Cumbers, 2019; Hall et al., 2013; Hanna, 2018; Weber et al., 2019), but it is also a pragmatically driven change towards new managerial ideals (Petalidis, 2018; Shakirova, 2019; Young & Macinati, 2012).

3.1 | Limitations and future research

There are a number of limitations, mainly methodological, in the study that need to be highlighted. First, it would have been better if the study could have relied on annual, systematically recorded, data over a longer period on the extent to which the Swedish municipalities back-source their services. However, this type of data was not available and as a consequence this study has had to rely on cross-sectional survey data and respondents' estimations rather than on precise, objective numbers in relation to back-sourcing. The fact that the response rate decreased with the length of the questionnaire also weakens the reliability of the results somewhat in models where assessment of the attitudes of the political leadership is included. The majority of the drop-outs are caused by a single question with a forced response with no option to choose "not relevant" or "lacking knowledge" placed in the first section of the questionnaire. We therefore interpret the missing values first and foremost as an active choice of no opinion. There were few additional missing values after this question. The missing-value analysis also indicates that the sample is missing completely at random (MCAR).

Moreover, even though our response rate was relatively respectable, it is important not to neglect the potential importance of the missing cases. Nevertheless, we found no major differences between respondents and non-respondents in relation to most characteristics. The fact that population density was marginally lower among the participating municipalities is unfortunate and adds a risk of bias in the results, but as the difference is only marginal the reliability of the main results are not in question. Furthermore, data collection also took place during a period of time when the Swedish municipalities had acquired extensive experience of sourcing, and the results may very well have been different in times past, as well as in countries where sourcing is less prevalent or more of a novelty. We can also only speculate on whether the results would have been different if we had focused on a time period that was longer or shorter than three years. It is likely that a longer time frame would show less back-sourcing in relation to outsourcing, as periods of establishing outsourcing as a practice need to precede periods of back-sourcing. More

research is also needed to study sourcing in local government organizations, not least qualitative research to really assess the importance of different motives, for example, research that not only targets operational officers but also political officials. It would also be important to conduct research with a broader scope that compares local governmental and private business sourcing decisions in order to achieve a deeper insight, not only into the motives, but also the backsourcing processes and how they differ between the public and private sectors.

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Notes

- ¹ Locality is referred to as the local population within the borders of the municipality rather than the local government organization.
- ² We have generally chosen to use data as close to the survey as possible, however, as income data is a less stable indicator we have used a mean for three years.

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DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available from the corresponding author upon reasonable request.

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