

## The Effect of Insourcing Strategy on Organizational Savings\*

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### Abstract

The study aims to analyze the effect of insourcing initiatives on cost savings within organizations. The data was analyzed using the regression technique with the aid of Special Package for Social Science (SPSS). The regression result shows that cost-related insourcing and non-cost related insourcing have a significant effect on organizational cost savings. The study concluded that cost-related and non-cost-related insourcing are the main determinants of organizational cost savings. As a result, the study recommended that management should increase the level of non-cost-related insourcing, like insourcing product development functions to develop products more tailored to the needs of the customers, insourcing manufacturing operations to improve quality, insourcing marketing functions for better control of brand images, will result in more organizational saving.

**Keywords:** Cost related Insourcing; Non-Cost Related Insourcing; Strategy; Organizational Saving.

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### Introduction

Organizations are continuously seeking for ways to increase operational efficiency and cost control in today's dynamic and competitive business environment. The insourcing movement, which involves companies bringing back-in-house previously outsourced services or operations, is one such strategy that has gained popularity in recent years. Several factors impact the choice to outsource, such as the requirement for enhanced oversight of crucial processes, heightened quality control, and the possibility of cost reduction.

The insourcing paradigm represents a reversal of the long-standing outsourcing trend, which saw businesses contract out a range of tasks to outside partners and vendors, including supply chain management, manufacturing, IT services, and customer support. Diverse objectives might be the driving force behind outsourcing. There are many strong reasons why organizations think about outsourcing their work. The most significant of these is the possibility of cost savings (Hoang & Hartner, 2014).

Organizations feel that by regaining control of specific processes or services, they may streamline operations, reduce overhead expenses, and eventually reach more favorable cost structures. Insourcing is also consistent with strategic goals for quality control, risk mitigation, and supply chain resilience (Deloitte, 2015).

Insourcing has gained significance in recent years as organizations across all industries rethink their operational strategies and attempt to optimize cost management. Insourcing is a strategy change in which organizations bring previously outsourced tasks or services back in-house, reversing the outsourcing trend that characterized company operations in the late twentieth and early twenty-first century (Hartman et al., 2017). While there are numerous advantages to outsourcing, the attraction of cost reduction remains a significant motivator for organizations considering or launching insourcing efforts. Insourcing gives organizations direct control over labor expenses, material sourcing, and manufacturing processes, allowing them to make cost-effective decisions (Täfvander & Ödling, 2017). Organizations can utilize economies of scale by combining processes under one roof, optimizing resource utilization, and attaining cost efficiencies. Increased control over internal processes frequently leads to improved quality assurance, lowering costs related with defects, rework, and customer complaints (Hoang & Hartner, 2014). Insourcing can result in lower overhead costs associated with maintaining and coordinating outsourcing partnerships, contracts, and vendor interactions. Organizations can streamline logistics, cut transportation costs, and better manage inventories through supply chain insourcing (Constantin & Oana, 2014).

The goal of this study is to provide important insights for practitioners, policymakers, and scholars in the fields of organizational management and cost optimization by shedding light on the complex relationship between insourcing and cost savings through a thorough analysis.

Organizations are continually investigating tactics to optimize their operational efficiency and performance in today's quickly changing global business world (Hodges, 2017). The insourcing effort, in which organizations seek to bring previously outsourced operations or services back in-house, is one such strategy that has attracted a lot of interest lately. While insourcing has numerous potential benefits, such as more control and increased quality, a significant question arises regarding the amount to which it truly generates cost reductions, which is a critical concern for organizations across industries. Although it can be challenging to determine the overall cost in practice (Johnson et al., 2014).

The anticipation of cost reductions often drives the choice to undertake insourcing efforts. However, empirical research on the real cost-saving impact of insourcing is patchy and inconclusive. Several key issues and questions, ranging from various cost implications, remain. According to existing studies, the cost-saving benefits of insourcing can vary greatly among industries, functions, and organisations (Gallimore, 2023). While some organisations report significant cost savings, others report just minor or no cost savings. This raises concerns regarding the factors influencing these disparate outcomes. Labour costs, material procurement, overhead charges, and supply chain complexities all have an impact on organisations' cost structures. It is unknown how insourcing activities affect each component of these cost structures and whether the net consequence is a reduction in substantial savings (Luhtala, 2021).

When businesses outsource, they frequently reallocate resources, such as human capital and technological investments, to support in-house operations. The question is whether these resource reallocations result in genuine cost savings or create hidden costs or inefficiencies. Accurately calculating the cost reductions from insourcing projects is a significant challenge. Organisations frequently lack a standardised methodology for quantifying and comparing pre- and post-insourcing expenses, making determining the exact economic impact challenging (Deloitte, 2016). External factors, like as changes in market conditions, industry upheavals, and regulatory changes, continue to have an unclear impact on the cost-saving potential of insourcing initiatives. When evaluating the effectiveness of their insourcing decisions, organisations must consider these external dynamics (Täfvander & Ödling, 2017).

These challenges create a research gap and necessitate in-depth analysis: Although the existing corpus of literature gives helpful insights into the motivations and possible benefits of insourcing, there is a significant research gap regarding the subtle and multifaceted nature of cost savings arising from insourcing. This research study aims to fill this essential vacuum by undertaking an in-depth investigation of the impact of strategic management insourcing initiatives on cost savings, while taking into account the various elements and constraints that organizations encounter in attaining substantial and lasting cost reductions.

The findings of this research hold the potential to offer valuable guidance to practitioners, policymakers, and scholars in the field of organizational management, cost optimization, and strategic decision-making.

This research study aims to investigate the effect of insourcing strategy on organizational savings. The primary research objectives include:

To assess the effect of cost related insourcing strategy on organizational savings.

To examine the effect of non-cost related insourcing strategy on organizational savings.

Julkunen (2023), examine the driving forces behind the decision to outsource. The outcome shows that choices about insourcing versus outsourcing are crucial to an organization's success as a whole. For businesses to benefit more, strategic sourcing directs these choices. Additionally, Nuñez (2022) adopted the framework for environmental decision-making put forward by Sexton et al. (1999). The analysis of the two choices under consideration involved a partial life cycle assessment and the application of a custom-developed approach for evaluating the decision criteria. Subsequent analysis of the data led to the recommendation of Hanza actions to enhance the sustainability of the supply chain. The findings demonstrated that, should production be moved from China to Sweden, Sweden would have all the prerequisites to enhance the sustainability of the supply chain. Social and economic sustainability may be the next most significant drivers, after environmental sustainability. Furthermore, Hanza's manufacturing cluster strategy might be inferred to promote environmental sustainability in the supply chain by reducing emissions from transport. Nonetheless, the business might take a number of actions to increase its contribution.

Henri (2021), examines the make-or-buy choice, which is something that every organization utilises to some extent. More specifically, the act of producing or acquiring something internally—known as insourcing is the main focus. This research uses transaction cost economics and background theory of transaction costs to analyze the advantages and disadvantages of insourcing for a case company as well as in theory. Important components of these ideas are outlined as crucial elements influencing the make-or-buy choice. From a make or purchase standpoint, the report gives strategies for outsourcing and insourcing. With varying variances in content, method movement, and influencing influences, the techniques selected and provided by various writers all address the make or buy procedure. The process of making a decision is examined through the transaction pricing economics in order to identify common elements that influence the make or purchase decision. The study delves deeper into scholarly literature on insourcing, including its benefits and challenges. The purpose of this study is to provide background information on the issue under investigation by refining the concepts of insourcing theory and vertical integration. The study, which examined an unnamed tech company, is a qualitative matter study in and of itself. The corporate representatives have requested that the forename or other instantly identifiable characteristics not be disclosed.

Grela and Hofman's (2021), analysis of insourcing produces findings and validates important theories about the financial ratios of businesses. In order to compare one of the most important financial ratios, the financial statements of the questioned organizations were obtained. This study randomly selected 100 sectors for insourcing and another 100 industries for non-insourcing. There were four comparisons of the financial status. We compared the significance of relevant statistical tests with the mean and median data of various indicators. The outcome shows a U-shaped curve for financial success over time for businesses who used insourcing, and a reverse U-shaped curve for businesses that did not. Consequently, outsourcing procedures results in long-term benefits.

Ražnatović, Čudanov, and Jaško (2019), carried out an extensive investigation on organizational processes, focusing on the case of outsourcing. The study makes the point that well-known methods of outsourcing are frequently skewed in favor of the outsourcing choice and end up becoming self-fulfilling prophecies. Management assigns departments for outsourcing based on a biased selection of the least valuable departments, paying little or no attention to the departments' attributes or position within the organizational network. Consequently, shifting focus from the production chain to the analysis of the relationships among organizational units might help managers make better decisions.

Nujen et al. (2019) outline the essential elements of backshoring readiness and talk about how these elements can facilitate a seamless transition away from global sourcing operations. It seeks to provide answers to the following queries: what exactly backshoring preparation entails, and how does this effect the backshoring transition? A conceptual model is built based on theoretical departures from the fields of organisational readiness and backshoring, which is a developing field. The variables that define backshoring preparedness as outlined in the study are then demonstrated through a numerous qualitative case study. According to the study, ownership arrangements have an impact on limits regarding the availability of firms' capabilities because of prior outsourcing, and backshoring seems to be time-sensitive. The study outlines three crucial components of backshoring readiness and suggests a thorough comprehension of readiness as a crucial concept to improve backshoring success. The short number of examples, high-cost context constraint, and conceptual study design all limit the conclusions. As a result, findings and suggested improvements require additional research, ideally using bigger samples of case studies. This study is of particular interest to practitioners and academics because it introduces contextual variables beyond traditional cost considerations. This is because the absorptive capacity for the exploitation of cutting-edge knowledge is globally scarce, and as a result, it is relatively expensive in Western countries compared to traditionally low-cost countries. The conceptual backshoring readiness framework, which helps direct businesses in familiarizing themselves with the resource availability in their home area, is another useful contribution of this study.

Lam and Khare (2017), emphasizes that there has been a rise in awareness of the challenges and sustainability of the globally integrated business sector since the financial crisis. Emerging evidence suggests that outsourcing, a widely accepted feature of global supply chains, is declining while insourcing and rear shoring are becoming more and more commonplace worldwide. The reasons for the change are as follows: cost (labor costs, transport costs, tax differentials,

exchange rates, etc.); quality control (reliability of the provider, availability of internal expertise); customer satisfaction; security (protection of creative property and privacy of details); market speed; effect on innovation (e.g., proximity of operations with R&D); and generally risks and uncertainties (e.g., political and environmental stability). The benefits of outsourcing are essentially diminishing with time, especially when productivity-adjusted labor costs are taken into account. But there are drawbacks to outsourcing, particularly when it comes to infrastructure, human capital, and the extent of resource commitment. All parties involved have a part to play in guaranteeing the sustainability and effectiveness of sourcing. Operational procedures and strategies need to coincide. If not, the scales might tip back in favor of outsourcing. This analysis looks at how emerging economies, who have suffered from insourcing, might "fight back" by making changes to their markets, economies, and organizational structures in order to reverse the trend.

Mildred and Amir (2012), examined how the dynamics of insourcing and outsourcing urban services likely affect pragmatic testing by government officials in both directions. Monitoring is essential for the direct provision of public services, particularly as cities experiment with outsourcing services that have higher transaction costs. Maintaining the ability to offer in-house services and managing industry competitiveness are equally important.

The transaction cost theory framework serves as the leading theory in the corpus of existing research on insourcing. Given that the framework's primary focus is the source decision, this is not shocking. When choosing between sourcing choices, managers should include transaction costs in addition to production costs (material, labor, and capital) (Täfvander & Ödling, 2017). Transaction costs refer to the expenses incurred when planning, directing, monitoring, and controlling transactions. The framework's primary objective is to maximize performance and minimize costs by making the best use of the time and resources available (Hartman et al., 2016); put another way, the task should be outsourced if it can be completed by someone else for less money (Freitag et al., 2012).

Transaction cost theory, developed by Oliver E. Williamson, provides important insights into the connection between strategic management insourcing activities and cost savings within organizations. Transaction cost theory provides a framework for understanding sourcing choice. Insourcing is influenced by transaction costs, asset specificity, and uncertainty. When deciding how to organize activities according to the transaction cost theory organizations aim to reduce transaction costs. Searching for acceptable suppliers, negotiating contracts, and performance monitoring are only a few of the costs involved in conducting commercial transactions. In the context of strategic management, organizations must take into account transaction costs. For example, when businesses choose to outsource a particular function, they frequently do so to cut costs associated with recruitment. In outsourcing, finding and choosing the best outside vendors requires a lot of work. By depending on their internal resources, organizations can minimize these search costs through insourcing. Contract negotiations with outside vendors can be difficult and time-consuming. Contrarily, insourcing makes negotiation easier because it frequently involves internal stakeholders and doesn't call for intricate contractual arrangements with outside parties. It might be expensive to make sure that external suppliers fulfil their obligations under contracts and meet deadlines. As businesses have more control over their internal operations and can set up their own performance evaluation systems, outsourcing can save monitoring expenses (Williamson, 1986).

Asset specificity describes how much an asset is devoted to a particular transaction or use. Asset specificity affects whether to outsource or to source internally. Transaction cost theory implies that insourcing may be desirable when assets are very specialized to a given transaction or organizational setting. When an organization outsources, they run the danger of losing significant investments and highly particular assets that may not have viable alternative uses. By properly utilizing these specialized assets, insourcing can result in cost savings. One method of reducing uncertainty is by strategic management insourcing. By lowering their reliance on outside parties, organizations that outsource important tasks or activities lower their risk of incurring costs connected to uncertainty. Reduced transaction costs and risk management can result in cost reductions (Williamson, 1986).

For understanding the connection between strategic management insourcing activities and cost savings, transaction cost theory offers a solid framework. It emphasizes how asset specificity, uncertainty mitigation, and transaction costs all play a part in determining how an organization makes decisions and achieves results in terms of cost reductions.

## Methods

A cross sectional research design was used to analyze the cost implication of insourcing strategy on organizational savings. The data was analyzed using with SPSS.

The five point Likert scale ranging from strongly disagree (1) Disagree (2) Undecided (3) Agree (4) and strongly agree (5) were used to collect data. Five (5) items adapted from the original scale by Njeri (2015) were used.

## Results

This section discusses the result of the regression analysis.

#### Model Specification

The model specify as follows:

$$\text{OGS} = \beta_0 + \beta_1 \text{MC} + \beta_2 \text{MS} + \epsilon_i$$

Where,

OGS = Organizational Saving

$\beta_0$  = the he autonomous parameter intercept/ constant)

$\beta_1$  and  $\beta_2$ = coefficients

CRI= Cost Related Insourcing (Independent Variable 1)

NCRI = None Cost Related Insourcing (Independent Variable 2)

$\epsilon_i$  = Random Error or Error Term

Table 1 displays the variable's mean, standard deviation (Std), minimum and maximum values. Organizational saving (OGS) = 3.99; cost-related outsourcing (CRI) = 3.88; and non-cost-related outsourcing (NCRI) = 3.91 are the average values. The Benchmark. Variable deviation is as follows: OGS = 0.57, CRI = 0.69, and NCRI = 0.91. Based on the outcome, it appears that insourcing has an impact on organizational savings.

**Table 1: Data Presentation and Analysis**

Construct	Number of Observation	Minimum	Maximum	Mean	Std. Deviation
Organizational Saving	500	1.00	5.00	3.99	0.57
Cost Related Insourcing	500	1.00	5.00	3.88	0.69
None Cost Related Insourcing	500	1.00	5.00	3.91	0.91
Valid N (listwise)	500				

Source: SPSS outputs, 2023

To determine the strength of the association between the variables, the correlation between the variables was examined and evaluated using the study's model. Table 2 displays the correlation result.

The correlation analysis table shows a strong positive association between OGS and CRI with a coefficient value of 0.7743. Also, there is a strong positive relationship between OGS and NCRI represented by the correlation coefficient of by 0.6637. This shows that the both cost related insourcing and non-cost related insourcing have a strong relationship with organizational saving.

**Table 2. Correlation Matrix Result**

Constructs/Variables	OGS	CRI	NCRI
OGS	1		
CRI	0.7743	1	
NCRI	0.6637	0.5684	1

Source: SPSS output, 2023.

The table 3 shows based on this study R adjusted of .470 means 47% of OGS is explained by CRI and NCRI while the remaining percentages are explained by the other variables that are not included in the model.

We tested if serial autocorrelation existed between the variables using the Durbin Watson (DW) statistic. Since the DW value of 1.525 lies between the permitted zones ( $0.525 < 2.5\%$ ), it suggests that there is no first order serial autocorrelation among the variables. This indicates that the model of the study is fit.

The Analysis of Variance (ANOVA) result is shown in Table 3 The finding further confirms that the regression model of insourcing on organizational savings is significant for the data  $F = 947.84$ ,  $p$ -value was 0.000 which is less than 0.05. It is therefore fit for the study.

**Table 3: Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.675 <sup>a</sup>	.471	.470	1.12104	1.525
a. Predictors: (Constant), MC, MS, IN					
b. Dependent Variable: AGBP					
Source: SPSS Output					

#### ANOVA<sup>a</sup>

The Analysis of Variance (ANOVA) table 4 shows there is a significance difference between the means of the two groups since the  $p$ -value is less than 5% at .000.

**Table 4: ANOVA<sup>a</sup>**

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	381.834	3	95.458	947.84	0.000b
Residual	36.155	497	0.101		
Total	417.989	500			

a. Dependent Variable: OGS

b. Predictors: (Constant), CRI, NCRI

Source: SPSS output, 2023

Multiple linear regression was used to test the hypothesis, and  $t$ -values, or  $p$ -values of the  $t$ -statistics, were calculated. Rejecting the null hypothesis and accepting it both depended on whether the  $p$ -value was less than 0.05.

**H01:** The impact of Cost Related Insourcing (CRI) on Organisational Savings is negligible. The aforementioned table displays the derived  $t$ -value (2.826) and  $p$ -value (0.0471) at 95% confidence levels for the association between Cost Related Insourcing and Organisational Savings. We concur that cost-related insourcing has a significant impact on organisational savings and reject the null hypothesis (H01) because the  $p$ -value is less than 0.05 (or 5%).

**H02:** The impact of non-cost related insourcing (NCRI) on organizational savings is also significant. According to Table 5, there is a 2.872  $t$ -value and a 0.0152  $p$ -value at a 95% confidence level for the relationship between non-cost related insourcing and organizational savings. Rejecting the null hypothesis (H02) and concluding that non-cost related insourcing has a significant impact on organizational savings is the result of the  $P$ -value being less than 0.05 (5%).

**Table 5. Multiple Linear Regression Result**

Organizational Savings	Beta Values	Std. Err.	t-values	p-values	Decision
Cons_	1.626	0.172	9.486	0.0000	
Cost Related Insourcing	0.876	0.310	2.826	0.0471	Rejected
Non-Cost Related Insourcing	2.599	0.905	2.872	0.0152	Rejected

Source: SPSS Output, 2023

## Discussion

The study entails that cost related insourcing positively enhanced organizational saving. This means that the more the organization increases it insourcing totally or selectively in order to reduce cost the higher there is increase in organizational savings, this result established that cost related insourcing have positive and significant relationship with organizational saving.

The study also indicates that non-cost related insourcing also has a positive and significant effect on organizational saving. This means that increasing the level of non-cost related insourcing like insourcing product development function to develop products more tailored to the needs of the customers, insourcing manufacturing operations to improve quality and insourcing marketing functions for better control of brand images etc. will result to more organizational saving. This is because, there is a linear relationship between non-cost related insourcing and organizational saving.

Since this study only looked at two explanatory variables which are cost and non-cost related insourcing on organizational saving, subsequent studies may choose to incorporate other variables in their models, such as cost drivers and again mediation variables may be employed in subsequent studies

## Conclusion

It is concluded that this study differs from previous studies of insourcing as it takes a unique approach by examining cost related and non-cost related insourcing by employing data which is an added value of the analysis in the field of insourcing. It is concluded that cost-related outsourcing increased organizational savings in a good way. This suggests that the more an organization outsources, either fully or partially, to save costs, the greater organizational savings it will experience. This demonstrates the strong and positive correlation between cost-related outsourcing and organizational savings.

The study also concludes that non-cost related outsourcing contributes significantly and favorably to organizational savings. This means that more organizational savings will come from increasing the level of non-cost related outsourcing, such as outsourcing the product development function to create products more suited to customer needs.

## List of abbreviations

Not applicable

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