

CHAPTER 1

INTRODUCTION

Government organizations at all levels in the United States are continually confronted with an environment of accelerating change, increasing demands, an ideological crusade to reduce the size of government, a renewed faith in the text book model of the free market leading to calls to become more efficient and business-like, and perhaps most importantly, reduced budgets. A 2002 survey of municipal finance officers found 55% saying their cities were less able to meet financial needs than in the previous year. The vast majority of states began 2003 with budget deficits totaling billions of dollars, but had to work within balanced budget requirements (National Council for Public Private Partnerships, 2003, p7).

In response to these challenges, jurisdictions have been faced with one of three choices for providing services: 1) raising taxes; 2) cutting services; or 3) improving efficiency. For political reasons, raising taxes has proven to be unpopular in most jurisdictions as noted in the recent 2-1 votes against a \$1.2 billion tax increase in Alabama and a coffee tax in Seattle. Cutting programs has proven equally problematic. The compromise position, one that is very popular or faddish, is to become more efficient through some form of privatization, of which, contracting out is the most popular.

All across the United States, governments are disposing of the historic model of government as the sole, monopolistic provider of services. This “business as usual” model is no longer affordable and has been replaced by competition. Since 1980,

hundreds of thousands of government jobs at all levels have been contracted out, most at blue-collar levels, although some have affected white collar and middle management positions as well. Most government organizations have contracted out to some extent, and far from being a one-time experience, many of these agencies resort to outsourcing year after year. The number of outsourced government jobs over the past twenty-five years has been huge and continues to grow.

Various authors identify as many as thirteen different types of privatization (see Chapter 2). This dissertation focuses on one of these types, namely “outsourcing,” which can be defined as American government managers contracting out services previously performed by the government agency, to outside organizations, for whatever reason (e.g., to improve efficiency, to save money, to get out of competing with the private sector, for political reasons, etc.). The terms “contracting out” and “outsourcing” will be used interchangeably throughout this dissertation. This definition of outsourcing as a subset of privatization is consistent with Savas (1987, p3), a founding father of the study of privatization, who says it is “... the act of reducing the role of government, or increasing the role of the private sector, in an activity...,” and Butler (1991, p17) who says privatization is “the shifting of a function, either in whole or in part, from the public sector to the private sector.”

To reiterate, this dissertation recognizes that privatization and outsourcing/contracting out, are not the same, and that the one subsumes the other. The former can involve a transfer of assets and work to an outside source. For example, a city

may transfer ownership of its buses to a company which then becomes the contractor, to provide bus transportation for the city. The latter involves no transfer of assets, just the transfer of functions. For example, a contractor will provide drivers to drive the city-owned buses. In either scenario, the city is still responsible for providing bus service to the citizens. As New York Governor Mario Cuomo once said, “It is not government’s obligation to provide services, but to see that they are provided (Osborne, 1993, p8).” Either way, the end result of “privatization,” “contracting out,” or “outsourcing” is the same, non-government workers doing work that was formerly done by government workers.

In general, the predominant reasons for governments privatizing include: 1) to reduce costs, thereby avoiding tax increases and cutting deficits without cutting services; 2) to improve service quality and efficiency through flexibility and innovation; 3) to obtain special skills or supplement staff for short periods of time; 4) to meet demands beyond current capacity; 5) to provide customers with more choices of providers and levels of service; and 6) to conform with the ideology that less government is better government (Buttarazzi, 1995, p5). The Department of Energy recognizes other objectives of privatizing such as: 1) to remove the agency from those activities that are not inherently governmental functions or core business lines; 2) to shift greater performance and financial risk to the private sector; 3) to reduce the costs of doing business; and 4) to improve the management of remaining activities (DOE, 1992, Chapter 1, p1).

Savas (1987) cites internal attempts to cut costs and external fiscal pressures as the primary reasons governments privatize followed by: unsolicited proposals from the private sector; the political climate; mandates tied to intergovernmental financing; concerns about liability; citizen groups; and others. These findings were confirmed by Chi and Jasper (1997, p6) who in a survey of state officials in 1997 found the reasons for privatization, ranked in descending order were: 1) cost savings, 2) greater political support for privatization, 3) more flexibility and less red tape, 4) faster implementation of service provision, 5) lack of state personnel and expertise, 6) increased innovation, and 7) higher quality service.

While these goals have been achieved in some cases, there have been situations where unintended and negative consequences resulted, such as increased costs, poorer service quality, and increased regulations. Consequently, some governmental organizations are rethinking privatization as a cost cutting strategy, and are even engaged in so called .reverse privatization.”

Statement of the Research Question

Outsourcing was chosen as the focus of this dissertation because it is the most common type of privatization in America and because it therefore, relative to other types of privatization, affords the most documentation regarding its effectiveness. Given that, to determine if outsourcing has been effective at the macro-level, it is necessary to integrate the research from relevant individual sources and to present those findings in a

coherent summary. Ultimately, the factor which should, but may not, given the intrusion of politics, determine the effectiveness of outsourcing is the variable that is most important to public managers and most often and easily measured, namely cost savings. Cost savings may determine whether it will remain a popular tool of public administrators or become another discarded management tool du jour. Another important variable is service quality, which is one of the few variables that is measurable through customer/public satisfaction rates.

As many of America's governmental organizations march down the path of outsourcing as a way to save diminishing resources while at the same time providing high quality services, there has been little attention focused at the macro-level on the following research question: After nearly a quarter century of intensive government outsourcing, across all levels of US government, and across all services, has contracting out been successful in terms of reducing costs and/or improving service quality?

Purpose of the Research

Whether or not outsourcing achieves the goals of saving money and improving service quality has been the subject of much writing at all levels of government, international organizations, and private for profit companies. Unfortunately, this literature tends to be comprised of localized anecdotes or limited to micro-level of analyses such as service-specific or government level-specific. Further, the literature that

is available has its problems with missing, unreliable, and biased data. Well-researched, well written studies that contain hard data demonstrating the before and after effects of outsourcing, and that have been vetted by panels of experts, are relatively rare. A further complicating factor is that many of these rare studies are not easily compiled into a format amenable to the vote-counting procedures of the meta-analysis methodology.

As Hebdon, (1995, p1) points out, “Because no comprehensive studies on the costs and benefits of privatization have been carried out, the debate continues based largely on untested assumptions.” Nightengale and Pindus (1997, p1) write about “the little empirical analysis comparing the effectiveness of public versus private service delivery.” Being more specific, Winston (2002, p29) reports that “no careful study has been conducted on the quality or cost effectiveness of welfare privatization.” Further, many of the individual accounts that are available use qualitative, not quantitative techniques, and/or inappropriate sampling techniques, which limit the transferability of their results to other organizations.

Even when data is available, it can be unreliable. For example, the General Accounting Office (GAO) in many reviews of the Department of Defense’s (DoD) outsourcing efforts decries the fact that limitations in baseline cost data from which to calculate savings, study costs, and other factors make it difficult to estimate savings precisely (GAO-01-20, December 2000, p4). In fact the GAO has a report titled “DoD

Competitive Sourcing: Savings are Occurring, but Actions Are Needed to Improve Accuracy of Savings Estimates (GAO/NSIAD-00-107, August, 2000).”

But perhaps the biggest impediment to finding data on the subject of outsourcing effectiveness is that what is available tends to be biased, depending on the political leanings of the writer. Despite their protestations that they are unbiased, independent, fair, and balanced, the many reports published by pro-outsourcing organizations such as the Reason Public Policy Institute and the anti-outsourcing American Federation of State, County, and Municipal Employees have to be taken with a grain of salt. In the end, this minimal, unreliable, and often biased record about the effectiveness of government outsourcing demonstrates a need for a more comprehensive macro-understanding of the subject.

To gain this macro-perspective, the vote-counting procedures of the meta-analytic method is used in this dissertation because it standardizes and combines research findings across studies, and evaluates results based on aggregated data. Vote counting is a standard, legitimate, accepted technique that has been in use since the early 1970s. Its main attraction is that it enables the researcher to look at many studies that are not precisely comparable in design, and to be able to determine the relationship between the dependent and independent variable. *Although vote counting has some severe limitations to be discussed later in Chapter Three*, it relieves the researcher of what Hunter and Schmidt (1982, p129) call an “information-processing task (that) becomes too taxing for the human mind.”

The vote counting procedure was also chosen because of feasibility. It would cost too much money and take too much time to gather primary data large enough to generate significant results that would help to answer the research question. Further, it seems more productive to try to make sense out of existing data than to add even more to the pile (Hunter and Schmidt, 1990, p34).

Contribution to the Literature

To reiterate, a review of the privatization literature reveals that it is replete with many voluminous politically biased narratives presenting interesting descriptions and prescriptions about privatization on a local, limited basis, and discussions of the types of privatization such as outsourcing, its history, and arguments for and against it. What the literature lacks is a methodologically defensible, fact-based, macro-assessment of outsourcing's successes and failures at all levels and services of United States government. This dissertation fills that void by contributing a better overall understanding of and simultaneously extending the privatization literature, and implicitly the public administration literature, by:

(1) Adding to the scarce existing body of literature that looks at the effectiveness of outsourcing at a macro-level, instead of the usual localized level.

(2) Providing managers of outsourcing activities additional information that can be used to contract out more efficiently.

(3) Accumulating, synthesizing, and analyzing research that has been done at various levels (e.g., federal, state, county, local), by service provided (e.g., prison management, garbage pickup), and by individual government organization. Consequently, the results of this research provide external, real life validity when compared with a laboratory study.

(4) Providing a compilation of forty studies of the effectiveness of outsourcing in Table 4.1 which is available for use in further research and/or for an improved understanding of outsourcing activities. This research, because of its increased, consolidated sample size gained through vote-counting, confirms and gives more confidence and reliability to the findings of the independent research concerning the effects of contracting out.

Scope of the Research

The basis for selecting an individual outsourcing source for this dissertation was whether it made a definitive yes/no statement as to whether or not outsourcing had saved money and/or improved service quality. There were other variables that were also addressed by these studies, such as number of jobs lost, and administrative costs, but the only variables consistently addressed were cost savings and service quality. These

sources are summarized in Table 4-1 displaying whether the outsourcing effort did not address savings (n/a), resulted in savings (+), or resulted in no savings or additional costs (-). Note that because the number one reason given by public administrators for outsourcing is to save money, for a contracting out effort to result in the same costs as before (i.e., no change) is counted as a failure (-) of that particular effort. The same scoring metric was used for service quality. The sources selected were not screened or evaluated based upon design, methodologies, scope, or limitations, nor were they selected because they either proved or disproved the research question.

Restrictions on What Was Researched

Even though research about outsourcing has been conducted in the private and international arenas, because this dissertation is about American public administration, only those studies dealing with American federal, state, county, and local agencies were included in the analysis. Some reports were excluded because they were more anecdotal or did not answer the research questions about cost savings and service quality in a way that permitted data to be synthesized and analyzed. Also, some studies were unobtainable, despite tireless efforts including e-mailing or calling the authors, searching the Web and libraries. Additionally, some of these studies were only attainable by paying an unreasonable fee. However, this option was quickly forsaken after a few documents which had been purchased proved to be less than useful.

Organization of the Research

This research is organized into six chapters. Chapter One is the introduction and includes a statement of the research question, the purpose, literary contribution, scope, limitations, and organization of the research. Chapter Two begins the privatization literature review by describing the various categories of material found within it, and defining outsourcing for purposes of this dissertation. Next it describes the philosophical underpinnings of outsourcing and then discusses the levels of analysis involved in the study, as well as its effects. Chapter Three introduces the vote counting procedures of the meta-analytic methodology by describing the collection of sources, the tabulation of the data, and the accumulation and summarizing of the findings. Chapter Four introduces the analysis of the data by providing a brief description of each source document and then sorting the data various ways. Chapter Five discusses the research findings in the vote count sources. Chapter Six gives an overall summary of this research and includes conclusions, and recommendations for further research.

Conclusion

Having provided a brief overview of outsourcing in general and describing the plan for answering the research question by using the vote counting procedure, the next chapter will discuss the review of the outsourcing literature. This review will give a sense of what types of material are available and what is lacking in the outsourcing field, and ultimately will produce the studies to be used in the vote counting procedure.