

CHAPTER 5

FINDINGS

Introduction to Chapter

This chapter presents the data obtained from the 40 outsourcing effectiveness documents used for this vote counting analysis. First the data is analyzed at the macro-level to determine if the 222 outsourced services indicated in the 40 documents resulted in cost savings overall and at what government level(s). Next, the data is analyzed at the macro-level to determine if these same outsourced services resulted in improved service quality. Finally, the data is evaluated by the 26 service groupings to determine if particular types of outsourced services were more likely to result in cost savings and better service quality. This is followed by a short conclusion.

Outsourcing Effectiveness Documents

As stated in Chapter 4, only 40 documents out of the hundreds reviewed as part of the literature search were ultimately deemed useful for this vote counting analysis. These 40 outsourcing effectiveness documents were from a wide spectrum of American government organizations at all levels (federal, state, local) engaged in a variety of functions, such as prison management, school bus transportation, and welfare program eligibility determination. From the 40 research documents analyzed, a total of 222 services were reviewed. That is not to say all 222 services were different. In theory, each service contracted for at each different place constitutes a different service, because, for example, custodial service at West Point may be different than custodial service provided at the Virginia Museum of Fine Arts. However, in order to preclude having to

analyze each service as a unique event, the 222 services were sorted by level of government to which the service was provided, and secondly, by one of 26 groupings of similar services. By way of a quick summary of the ensuing chapter, the following was found:

	Federal Level	State Level	Local Level	Total
Outsourced Tasks Resulting in Savings (%)	89% n = 62	81% n = 114	55% n = 33	79% n = 209
Outsourced Tasks Resulting in Improved Service Quality (%)	88% n = 8	58% n = 110	14% n = 22	48% n = 140

Analysis of Savings by Level of Government

Once sorted by government level, the data revealed that of the 222 services analyzed, a total of 69 were provided to the federal level, 116 to the state level, two to combined state and local levels, and 35 to the local level. The fact that there is a disproportionate number of state services in this sample may have affected the findings in ways that cannot be determined. Of the 69 outsourced services studied at the federal level, 55 resulted in money being saved, seven did not make an assessment, six resulted in increased costs, and one resulted in no change. Thus of the 62 services about which an assessment was made, 55 (89%) resulted in positive ends (saved money) and seven

resulted in negative ends (11%). For scoring purposes for this dissertation, if outsourcing a service resulted in no money being saved, then it scored as a negative event. Based on this vote-counting analysis, it can be said that outsourcing at the federal level has been a positive experience in terms of saving money.

Of the 116 outsourced services studied at the state level, 92 resulted in money being saved, two did not make an assessment, 21 resulted in either no savings or increased costs, and one resulted in no change. Thus of the 114 services about which an assessment was made, 92 (81%) resulted in positive ends (saved money) while 22 resulted in negative ends (19%). Based on this vote-counting analysis, it can be said that outsourcing at the state level has been a positive experience in terms of saving money.

Of the two outsourced services that crossed over two levels of government (state and local), one reported positive results and one reported negative results. No conclusions could be drawn from this data.

Of the 35 outsourced services studied at the local level, 18 resulted in money being saved, two did not make an assessment, nine resulted in increased costs, and six resulted in no change. Thus of the 33 services about which an assessment was made, 18 (55%) resulted in positive ends (saved money) while 15 resulted in negative ends (45%). Based on this vote-counting analysis, it can be said that outsourcing at the local level has been a positive experience in terms of saving money, although the degree of certainty is much lower than with the federal or state levels.

It is interesting to note that as the level of government grows smaller, the percentage of positive experiences with outsourcing with regard to saving money declines (federal 89%, state 81%, local 55%). This finding is corroborated by Graeme Hodge although he did not speculate as to why this is so except to say that “this observation has probably not arisen by chance (Hodge, p120).” This finding is counter to what was expected. The thought was that lower levels of government could better control their outsourcing efforts and therefore garner more savings because they are closer to the day to day management of smaller outsourcing efforts.

Four reasons for the greater reported success of outsourcing at the federal level could be posited. First, because the federal government is at a higher level, one might assume that the scale of the work being outsourced is also at a higher level meaning it is done more often by more people on a more routine basis, leading to a learning curve effect where more savings accrue. However, an examination of the federal data in this vote counting study shows that it is comprised of services spread over practically all of the 26 categories on a scale no larger than accomplished at the state or local level. For example, there is no reason to believe that refuse collection at Anderson Air Force Base in Guam is on a larger scale and requires more people or is more routine than refuse collection in Phoenix, AZ. In other words, the scale of the work of the individual services contracted out at the federal level is no greater than the scale of the work of the individual services contracted out at the state or local level.

A second reason for this success disparity gets back to the issue of the quality of the data being used to determine whether savings have been achieved. Some would argue that the quality of the data kept at the local level is better because it is gathered at a smaller, more manageable level, and therefore, its more pessimistic view of outsourcing is more accurate and reliable. But given the studies by the GAO (02-498T, p8) at the federal level and the survey done by the International City/County Management Association (Warner, 2000, p11) at the local level, it is painfully obvious that no level of government is doing a very good job of monitoring costs/savings accurately.

A third possible reason for the greater success of outsourcing at the federal level, one admittedly based purely on speculation and conjecture and with no data to support it, involves politics. Every presidential administration from Reagan onward has strongly been in favor of downsizing the federal government, including Bill Clinton's with his National Performance Review. Right or wrong, this is an issue that resonates positively with a large part of the voting public. Some would say whether it works or not is beside the point, as long as the perception is maintained. In fact, Paul Light in his book The True Size of Government argues that the federal government has actually grown in size if one counts the "shadow work force" it employs to accomplish its many missions. The same holds true with outsourcing, a corollary of downsizing. The cynics among us maintain that the cost efficiency of outsourcing has become an article of political correctness, regardless of any evidence to the contrary. At the federal level, this political correctness has worked its way into the reports issued by various politically appointed agency heads willing to toe the party line, no matter which party. At the local level, there

are too many governments with different party lines to generate an agreed upon answer. Hence, only 55% of local governments reported savings from outsourcing in this vote counting survey.

But the fourth and perhaps the best explanation of the greater success of outsourcing saving money at the federal level is that it is an artifact of the OMB Circular A-76 requirement that any private sector proposal to take over services currently provided by a federal government agency must be at least 10% or \$10 million less than the public sector's personnel costs for that service. This built in requirement automatically includes those contracts with greater likelihood of reporting savings and excludes those with less likelihood of savings and thus gives the federal government, relative to other levels of government, a leg up in reporting successful outsourcing outcomes.

In any event, overall, of the 211 outsourced services upon which an assessment of cost effectiveness was made, 166 (79%) resulted in positive experiences while 37 reported increased costs, and eight resulted in no change in costs, for a total of 45 (21%) resulting in negative consequences. Thus, on the whole, this vote counting analysis shows that outsourcing has been successful at saving money.

Analysis of Service Quality By Level of Government

With regard to the quality of service rendered by the contractors, of the 69 outsourced services studied at the federal level, seven resulted in higher quality, 61 did not make an assessment, and one resulted in poorer service quality. Thus of the eight services about which an assessment was made, seven (88%) resulted in positive ends (better quality) and one resulted in negative ends (12%). Based on this vote-counting analysis, it could be argued that outsourcing at the federal level has been a positive experience in terms of improving service quality. However, this conclusion is rendered somewhat specious given that it is based on only eight out of 69 possible observations.

Of the 116 outsourced services studied at the state level, 58 resulted in higher service quality, six did not make an assessment, twelve resulted in poorer service quality, and 40 resulted in no change in service quality from pre-outsourcing levels. Thus of the 110 services about which an assessment was made, 58 (53%) resulted in positive ends (better quality) while 52 resulted in negative ends (47%). Again, if outsourcing a service resulted in no change in service quality, then it was scored as a negative event. Based on this vote-counting analysis, it can be said that outsourcing at the state level has been a positive experience, in terms of service quality, although not with any degree of certainty. After all, a change of just three votes out of 110 (3%) would have reversed this finding.

Of the two outsourced services that crossed over two levels of government (state and local), one reported negative results and one did not render an assessment. No conclusions could be drawn from this data.

Of the 35 outsourced services studied at the local level, three resulted in improved service quality, thirteen were not assessed, nine resulted in poorer service quality, and ten resulted in no change. Thus of the 22 services about which an assessment was made, three (14%) resulted in positive ends (better quality) while 19 (86%) resulted in negative ends. Based on this vote-counting analysis, it can be said that outsourcing at the local level has been a negative experience, in terms of improving service quality.

Notably, as the level of government grows smaller, the same phenomenon occurs with service quality that occurs with dollar savings. Specifically, the percentage of positive experiences with outsourcing with regard to service quality declines at each level down the government hierarchy ladder (federal 88%, state 58%, local 14%).

Overall, of the 141 outsourced services upon which an assessment of service quality was made, 68 (48%) resulted in positive experiences (improved service quality) while 73 (52%) reported either poorer service quality or no change in service quality as a result of outsourcing. On the whole then, this vote counting analysis shows that outsourcing has not been successful at improving service quality. Thus, this analysis shows that while governments may be saving money through outsourcing, they are doing

so at the expense of service quality. Ramifications of this course of action are discussed in the next chapter.

Analysis of Savings and Service Quality by 26 Service Groupings

Having analyzed the data to get an overall picture of the effectiveness of outsourcing as disclosed by the forty research documents, it is now time to determine if there are particular services that seem to achieve the goals of outsourcing of interest to this dissertation, namely saving dollars and improving service quality. To accomplish this, the data was sorted by the twenty six types of service groupings outlined in Chapter 3 with the following results:

A = Administrative Tasks: This grouping of services included mail/postal services, payroll services, administrative support for medical records, delivery of computer reports, data dissemination by fax, and secretarial services among others. Of the 14 outsourced services reported, all gave an assessment of savings. Twelve (86%) reported cost savings while two (14%) reported either increased costs or no change in costs. Twelve of the 14 were at the state level, of which 11 reported cost savings. The one federal example (Andrews Air Force Base) reported savings as well, while the one local level reported no change in costs. With regard to service, ten (77%) reported improved service quality, one was not assessed, and the remaining three (23%) reported no change in service quality. In conclusion, this vote counting analysis shows that when it comes to

administrative tasks, outsourcing has been successful at saving money and improving service quality.

B = Bookstores: This grouping of services deals with the management of bookstores by the state of Virginia at the Virginia Community College System at Wytheville, Virginia State University, and Virginia Commonwealth University. Only Wytheville reported increased costs and no change in service quality, while the two universities reported positive results in both areas. This sample is too small to reach any meaningful conclusions.

C = Computers: This grouping of services generally includes the contracting out for information technology services. The General Accounting Office found that six of six federal agencies studied reported positive service quality results, but that a determination could not be made about whether money was saved because of poor upfront cost analyses and poor follow on monitoring of costs. The one local entity to report (San Diego County) was ecstatic about the dollar savings and the improved service quality. Seven state government entities reported (six from Virginia, one from Ohio). Of these, four reported cost savings and three reported cost increases. Of this same seven, three reported improved service quality, three reported worse service and one reported no change. Overall then, with regard to the 14 computer services studied, only eight were assessed in terms of cost effectiveness with five (63%) reporting savings. In terms of service quality, ten (71%) reported improved quality, while four (29%) reported either no change in service quality or worse service quality. In conclusion, computer services seem to be an

area where dollars can be saved through outsourcing, while the quality of service can definitely be improved through outsourcing.

D = Data entry: This grouping of services includes data entry and transcribing services. Although the sample size is too small (three) to reach any conclusions, all reported decreased costs, but no changes in service quality.

E = Employment services: This grouping was used to capture social services, substance abuse services, welfare eligibility determination, and employment services. Again the sample size is too small (four) to reach any conclusions, and the data is rather muddled. Two reported savings, two didn't. One reported better service quality, one worse, and two did not assess it.

F = Food services: This grouping included dining services at prisons in Ohio, food service at various military installations, and the managing of defense commissaries. Ten out of eleven (91%) reported cost savings resulting from privatization. Two reported improved service quality, one reported worse service, and eight did not assess it. On the whole, one can conclude that contracting out for food services can result in dollar savings, but the effects on service quality are unknown.

G = Grounds keeping: This grouping of services includes landscaping, turf maintenance, street tree maintenance, grass mowing, and traditional grounds keeping. Of the 15 services studied, 14 assessed cost effectiveness. Of these, 10 (71%) resulted in cost

savings, while four (29%) resulted in increased costs or no savings. Of the ten that assessed changes in service quality, three (30%) reported improved service quality, while seven (70%) reported worse service or no change in service. Thus, on the whole, one could conclude that the outsourcing of grounds keeping functions has saved money but at the expense of quality.

H = Hounding: This service grouping includes billing and collection services, and child support enforcement. Although the sample size (three) is too small to be meaningful, all three reported lower costs and two out of the three resulted in improved service quality, with the other not assessing it.

I = Infrastructure: Included among other things in this service grouping is family housing maintenance at military installations, HVAC maintenance at Norfolk State University, asphalt overlaying, and maintaining traffic signals. Of the nineteen services about which an assessment of cost savings was made, 17 (89%) reported positive results. Of the thirteen about which an assessment of service quality was made, four (31%) reported improved service quality, and nine (69%) reported either worse service quality or no change in service quality. Thus, on the whole, one could conclude that the outsourcing of infrastructure functions has saved money but at the expense of quality.

J = Janitorial: Custodial services, housekeeping, carpet cleaning, and janitorial services are included in this grouping. Of 15 services studied, 11 (73%) reported cost savings, while four (27%) reported the opposite. Data on the quality of service is not so clear.

Only ten addressed service quality and of those, only four (40%) reported better service, while six (60%) reported either no changes in service quality or worse service quality. Overall, one could conclude that the outsourcing of janitorial functions has saved money but at the expense of quality.

K = Keeping children: Only one data point was found for this service grouping (the Child Care Center at the Naval Medical Center, San Diego) so results are inconclusive. However, here too dollars were saved, although the quality of service was not addressed.

L = Laundry: This grouping included dry cleaning but unfortunately only three data points corresponded to it (one of which was Virginia Tech's laundry). The inconclusive results show that savings were achieved in both instances where cost was assessed, and quality improved in the one instance where it was assessed.

M = Maintenance: This grouping primarily included the repair of military equipment (other than some repair of boats for the Marine Resources Commission of the Commonwealth of Virginia). Of the eight privatized services, five (63%) reported savings while three (37%) reported either no savings or increased costs. With regard to service quality, only two assessed it, both negatively. Thus overall, it can be argued that the outsourcing of maintenance services can result in savings, although its impact on service quality remains unclear.

N = Nurture: For lack of a more appropriate term starting with ‘N’, this grouping of services deals with installation support and base operating support at military installations. Of the five services assessed, all reported cost savings. Unfortunately service quality was not addressed. This sample size is too small to reach any conclusions.

O = Other: This grouping is a catch-all for those services that would not neatly fit into one of the other twenty five groupings. It includes services such as pine cone picking, gypsy moth trapping, magazine subscription renewal administration, driver improvement clinics, etc. Despite a concerted effort to categorize these services with others, this grouping ended up being the largest of all categories (35 services). Of these, 29 (83%) reported cost savings, while only six (17%) reported cost increases or no savings. Of the 25 that reported on service quality, 15 (60%) reported improvements in service quality while 10 (40%) reported either worse service quality or no changes in service quality. Thus, overall, one could conclude that outsourcing has been cost effective and improved the quality of services of this grouping. However, the transferability of this conclusion to a general population has to be eyed warily because it covers nearly three dozen different services and is susceptible to the claim of mixing apples and oranges.

P = Prisons: This grouping covers the outsourcing of correctional facilities that run the gamut of incarceration from juvenile detention centers to maximum security prisons. Of the nine services assessed, five (56%) resulted in cost savings, while four (44%) resulted in either increased costs or no changes in costs. Quality of service was reviewed in only

four cases, with no changes reported in all instances. This appears to be another example of outsourcing resulting in dollar savings but no improvement in service quality.

Q = Quality Assurance: This grouping consists of maintaining the precision measurement equipment labs at two Air Force bases. One outsourcing attempt resulted in savings while the other did not. Quality of service was not addressed in either case. This sample size is too small to reach any conclusions.

R = Refuse collection: Included under this bailiwick are solid waste disposal, landfill operations, and recycling efforts. These are not to be confused with the custodial services listed under “J” above. Of the ten services that assessed cost savings, nine (90%) reported positive results while only one reported no change in cost. Of the five that assessed service quality, one (20%) reported improved service quality while four (80%) reported either no change in service quality or worse service quality. This appears to be yet another example of outsourcing resulting in dollar savings at the expense of service quality.

S = Security: This grouping includes the hiring of security guards and private fire fighters. Although the sample size is too small (four) to be conclusive, all four reported lower costs and improved service quality.

T = Transportation: Bus transportation was the focus of this grouping. Again, although the sample size is too small (four) to be conclusive, all four reported lower costs and the two of the four that assessed service quality, reported that it had improved.

U = Utilities: This grouping included primarily water utilities, but also some communications centers and power production plants. Of the fourteen that assessed cost effectiveness, only five (36%) resulted in lower costs, while the remaining nine (64%) resulted in higher costs or no changes in cost. With regard to quality, of the nine that assessed it, only one (11%) reported improved service quality, while eight (89%) reported either worse service or no change in service quality. Thus, overall, the outsourcing of utilities appears to be an area where neither cost savings nor service quality improvements were achieved.

V = Vehicles: This grouping includes vehicle safety inspections and car pool maintenance. The sample size is too small to be conclusive, but three out of four services reported cost savings. Of the two that assessed service quality, one reported improvements, and one reported the opposite (long lines, corruption).

W = Warehousing: Included in this grouping are supply management, storage, office supplies, etc. Of eleven services studied, nine (82%) reported cost savings, while two (18%) reported increased costs. Of the eight that assessed service quality, five (63%) reported better service while three (37%) reported no change in service quality. Thus,

overall, the outsourcing of warehousing functions appears to be an area where both cost savings and service quality improvements can be achieved.

X = Xeroxing: This grouping of services includes duplication and printing services. Of six services studied, all reported cost savings as a result of privatization efforts. On the other hand, only two (33%) reported improved service quality with the remaining four (67%) reporting no change in services. Overall, it appears that savings can be achieved through outsourcing Xeroxing, but improvements in service quality are uncertain.

Y = Youth Services: Only one data point was found for this grouping (regional youth and family services activity at the San Diego Naval Base) so results are inconclusive. However, savings were achieved, while service quality was unaddressed.

Z = Zoo keeping: Only one data point was found for this grouping (animal caretaking at Lackland Air Force Base) so results are inconclusive. However, savings were achieved, while service quality was unaddressed.

As a reminder, one of the major advantages of using the vote counting procedure is that it allows the integration of findings from disparate research studies as long as they all defined the independent variable (outsourcing) and the dependent variables (savings and service quality improvement) in the same way. The major disadvantage of vote counting is that it can result in the combination of apples and oranges. To mitigate that problem as much as possible, the data in this vote counting was sorted into 26 categories

of similar services. However, this division of data has resulted in some of the 26 categories having so little information in them as to be rendered useless on an individual basis.

Analysis of Savings and Service Quality by the Level of Physical and Mental Labor Involved

Another way in which the data was analyzed was by the amount of physical and mental labor that was involved in each outsourced task. To determine whether a physically demanding outsourced job was more or less likely to result in increased savings and/or improved service quality, the data in Table 4-1 was re-sorted according to whether each of the outsourced services required the individual performing that service to use more or less physical abilities, i.e., primarily his/her mental skills or his/her physical skills (see Table 7-1). Admittedly, all jobs require some of both, but most require more of one than the other. For example, it is safe to say that grounds keeping requires more physical than mental attributes, while providing legal aid to indigent arrestees requires the opposite. Using this as a guideline, an educated determination about each service’s attributes was made based on the title of the service and any other information provided by the original source document.

**Savings and Service Quality Improvements vs Job Attributes
(Observed Frequencies in Percentages)**

<u>Job Attribute</u>	<u>Resulted in Savings</u> %	<u>Improved Service</u> <u>Quality %</u>	<u>Overall %</u>
More Mental	81% (n = 54)	60% (n = 45)	72% (n = 99)
More Physical	76% (n = 153)	43% (n = 96)	63% (n = 249)

Based on this information, it appears that it really doesn't matter whether a job requires mostly mental or physical attributes in order for it to result in savings between 76% and 81% of the time. However, the difference between mental and physical jobs is more pronounced when it comes to improving service quality. While 60% of the services requiring more mental activities that were contracted out resulted in quality improvements, only 43% of the more physical services contracted out resulted in quality improvements.

Consistency with Other Findings

To reiterate, the purpose of this dissertation is to use the vote counting method applied to methodologically defensible, analytically based research to determine if at a macro-level, to include all levels of government and as many services as possible, whether outsourcing has been effective in terms of saving money and/or improving service quality. This approach is different from other research in its macro-scope and because it as much as possible has been based on hard data. In accordance with the concerns of Hodge, this vote counting methodology does differentiate between “rigorous and carefully controlled studies” and “the back of the envelope guesstimates or those announcements designed more as a good news corporate press release (Hodge, 2000, p99).”

Nevertheless, to see whether the findings of this vote counting are consistent with what others have found, it is worth taking a look at some findings that either have been

more localized in nature or been based on something less than research (such as anecdotes or opinions).

Overall, the findings of this vote counting study are consistent with the findings of other researchers who have studied outsourcing effectiveness over the years. For example, Savas (1995), one of the chief researchers (and proponents) of privatization found that, “Savings from competitive contracting of public services – the most thoroughly studied form of privatization – average roughly 25 to 30 percent.” Dehoog and Stein (p32) got responses from 104 cities of over 50,000 in population and found that 75% achieved savings due to outsourcing of public services. Hodge (p107) has found that, “There is little doubt that the weight of evidence appears to support the notion that on average the unit costs of services are reduced through competitive tendering of public services.” The Colorado Commission on Privatization, found that “Managers who used contracting as an alternative to in-house delivery reported successful private contractor performance more than 97% of the time. They found that increasing privatization leads to far reaching and highly desired improvements that are only indirectly related to the privatization itself.” Moore (1999) found “in almost 90% of the cases we examined, government officials indicated that privatization had saved the locality money.”

With regard to improvements in service quality afforded by outsourcing, many services do not lend themselves to easy assessment because defining and measuring outputs is imprecise (i.e., the “soft-services” where consumers/clients are helped directly through education, job training, drug rehabilitation, and prisoner services). As a result,

the data in this area is usually limited to “yes/no” answers to the question of whether or not service quality has improved. Straussner (1988, pp 53-55) and Mulka (1990, pp 31-46) found that in the social service area, the record of non-profit suppliers appeared to be slightly better or the same as the public sector’s. Dehoog and Stein (1999, p32) found just over half of the cities surveyed about service quality reported a gain in this area due to outsourcing. Hodge (2000, p156) found that on the question of the quality impact of contracting government services, “from the few sets of measurements existing, there is no discernable relationship one way or the other. In other words, as best we know at present, contracting does not reduce or increase quality as a general rule.” Moore (1999, p216-217) on the other hand found that “more than four out of five local officials rated service quality ‘very favorable’ or ‘slightly favorable’ with the contractor.

Conclusion

Since there were more positive than negative results reported in this vote-counting analysis, the conclusion is that outsourcing is a positive experience in most cases in terms of saving money. However, with regard to service quality, the opposite is true. Besides answering the yes/no research question, the individual documents also provide suggestions for implementing more effective outsourcing. These will be explored in the next chapter.