

CHAPTER 6

ANSWERS TO RESEARCH QUESTION, CONCLUSIONS, AND RECOMMENDATIONS FOR FUTURE RESEARCH

Introduction to Chapter

This chapter answers the research question posed at the beginning of this dissertation, provides some overall extrapolations about outsourcing effectiveness from the data, and makes recommendations for further research to broaden the understanding of the effectiveness of outsourcing.

Answers to Research Question

The purpose of this research is to provide a better understanding of the effectiveness of outsourcing and its implications for public administration. It uses the vote count procedure of the meta-analysis methodology to analyze 40 documents that quantify whether or not the outsourcing of 222 services has been effective in terms of cost savings and service quality.

With regard to the research question, “After nearly a quarter century of intensive government outsourcing, across all levels of US government, and across all services, has outsourcing been successful in terms of reducing costs and improving service quality?,” the answer is yes and no. Yes, in terms of saving money, because 79% of the 222 outsourced services resulted in lower costs. This finding is consistent with what such noted outsourcing experts as Savas and Hodge have found, which adds an additional confidence level to the findings of this dissertation. In terms of improving service

quality, the answer to the research question is no, because only 48% of the 222 outsourced services achieved this goal.

Reasonable Extrapolations From The Data

After conducting this vote counting analysis, the following insights and reasonable extrapolations can be drawn from the data. One, outsourcing, despite some evidence of reversing in some instances, continues to grow. Two, the amount of evidence upon which to base an assessment of outsourcing effectiveness is minimal, confusing, and highly subjective, depending on the viewpoint of the author. This is complicated by the fact that the data used in this vote counting procedure did not lend itself to more rigorous meta-analytical statistical procedures. As a result, if only 51% of the 222 services outsourced in this vote counting study had resulted in savings (instead of the actual 79%), outsourcing would still have been, by definition, successful. This is the nature of the vote-counting methodology which ultimately leads to somewhat inconclusive answers. However, the findings of the vote counting study are what they are and can't be ignored. Three, what evidence there is demonstrates that while outsourcing may save money, it does so at either the expense of service quality, or at least without improving quality. Four, given these findings, just because outsourcing can save money and is popular, does not mean it should be used blindly. Five, where outsourcing has been effective, it has been implemented in certain ways. Six, outsourcing does not spell the end of public administration. Keon Chi (1998, p1), a noted outsourcing expert, states optimistically, and one could argue incorrectly, that privatization, to include outsourcing, "has now become a less ideological, less partisan, and a more pragmatic approach for

policy makers in government to consider.” However, he is absolutely correct when he says, “privatization has proven to be neither a cure-all/panacea for ineffective government nor a dangerous concept harmful to government operations.”

1) Outsourcing Continues to Grow in Popularity: Clearly there is some evidence of ‘reverse’ outsourcing where functions formerly contracted out have been brought back in house by a government agency. For example, Agron (2001, p24), reports that 23% of school districts in the United States do not contract out any services compared with 21.7% in 1999 and only 12.3% in 1997. At colleges and universities, the percentage that did not outsource any services went from 5.3% in 1999 to 6% in 2001. The percentage of school districts that contracted out five or more services dropped from 15% in 1997 to 9% in 1999, and for colleges and universities, the decline was from 44% to 34% in the same period.

However, overall the amount of outsourcing in the United States is large and growing. Warner and Hefetz (2000, p2) report that while approximately 60% of all local government service provision since 1982 has been provided by public employees, with about 15% provided through inter-municipal cooperation (which also is provided by the public sector), the amount of outsourcing has increased from 22% to 24% between 1982 and 1997. Eighty-five percent of the 158 state agency respondents in an Apogee survey indicated they expect outsourcing will be a major tool over the next decade. A National Association of Comptrollers study found 90% of state survey respondents felt that legislators in their states were receptive to contracting out. Hebdon (1995, p1) reports in

a recent survey of 82 cities, 100% reported outsourcing major construction and food service in public facilities; 70% janitorial services, and 50% solid waste management. Other services that are rapidly being outsourced include auto towing, parking garages, data processing, street maintenance, and bill collection.

The drumbeat for further outsourcing is getting louder, especially at the federal level. Even our nuclear facilities at Los Alamos are outsourced (currently UCLA runs them). DoD is planning to review 226,000 positions by fiscal year 2008, half of the total 453,000 commercial activity positions that will ultimately be competed (GAO-03-818, 2003, p2). In conjunction with this and under the guise of “making government more business-like,” Secretary of Defense Donald Rumsfeld is proposing revamping the whole DoD personnel system, as well as skipping the economic analysis portion of A-76 programs. Not surprisingly, potential contractors are in favor of these proposals (see testimony of EarthData Holdings before the GAO Commercial Activities Panel as noted in Ancell, 2001, p4). The Bush administration is now using the phrases “strategic sourcing” and “strategic competition” instead of the more common “A-76 program” to describe their outsourcing efforts, although the intent is the same: better services, faster, at lower costs.

Interestingly, the field of conducting outsourcing studies for the government also continues to grow and at quite some expense. The General Accounting Office (GGD-99-52R) reports that the Department of Defense sought private-sector help in conducting 2,391 of 2,989 privatization and outsourcing studies since 1996. A look at

'privatization' on the Internet reveals web pages of companies touting their expertise at conducting outsourcing studies. The Marine Corps has estimated that for each position studied as a potential outsourcing candidate, the cost is \$6,700. Eighty percent of that amount goes to contractor support. Despite these costs, understaffed DoD components continue to call for outside help because the two to three years it takes to currently conduct a cost comparison is too long for all parties involved.

The reasons for this increase in outsourcing are many. One reason is because outsourcing, relative to raising taxes or cutting services, is a politically attractive solution to budgetary shortfalls. Another reason is that outsourcing is part of the most serious conservative effort of our time to formulate a positive alternative to the size and expense of government. Not only do proponents of outsourcing aim to return the provision of some services back to the private sector, they promise superior results compared to public programs while creating new kinds of market relations. Starr (1988, p19) maintains that, "Privatization (including outsourcing) can be argued to be an effort to alter the conditions of political competition by breaking up the coalitions supporting public provision and by promoting more market oriented political values. In other words, it is an attempt to fix in place the conservative orientation that has emerged forcefully in the 1980s."

Outsourcing is also an attempt to break up government monopolies such as the General Services Administration which since it was created in 1949 has been providing support services (e.g., building leases, supplies, computer equipment, telecommunications) to other federal government offices. Because of their overhead

costs and their bureaucracy, GSA charged \$2.21 for a dozen BIC pens that a private sector firm sold for 89 cents (Utt, 1995 p1).

Interestingly, this increase in outsourcing comes despite some contractors calling the federal government's A-76 program an unwise investment. They argue that private companies only have a set amount of money to engage in bid and proposal (B&P) activities. Because the federal government is notorious for issuing vague requirements, the B&P process gets extended and costly. For example, providing various services to Pensacola Naval Air Station started out as a single, multi-functional opportunity, then was split into thirds, then eighths. The period of performance waffled between three and five years. The federal government is also known for changing requirements or multiplying them. The Guam Naval Station had twenty seven amendments to their request for proposal (RFP). Additionally, government employees at the installations didn't want to share workload metrics. When a proposal is finally prepared, the contractor faces serious competition against usually three to five other contractors, which means each contractor has about a 30% chance of winning the opportunity to face-off against the government's Most Efficient Organization (MEO). GAO has found that the MEO wins nearly 60% of the time, helped in large part by the requirement that a contractor has to show at least a 10% or \$10 million savings before a service can be contracted out. So with only a 30% chance of beating other contractors and a 40% chance of beating the MEO, each contractor has a 12% chance of winning the overall competition. But that is not the end of it, because once a winning contractor is selected, oftentimes that contractor is faced with protests and appeals from government employee

unions that eat up any profit the contractor might have made. Thus it is very apparent that a competition can be a long, drawn out process. The Center for Naval Analysis has found that the average length of a federal competition is two years (Kleinman, 2003, p3) and according to a representative of the Federal Managers Association, it is 2-3 years (Armstrong, 2001, p4). Ergo, given the 12% likelihood of success, and the long, torturous process itself, it is a wonder any contractors bother bidding at all (Wright, 2001, p2).

2) The amount of evidence upon which to base an assessment of outsourcing effectiveness is minimal, confusing, and biased. Despite 30 years of experience, and volumes of literature about it, amazingly little hard ‘before and after’ data regarding the costs and benefits of outsourcing is to be had. For example, the Center for Naval Analysis put together a nice compendium called “A Survey of Privatization and Outsourcing Initiatives” (Stafford, 1996). Unfortunately, the document was filled with estimates and ‘would haves, should haves, and could haves, but no real data was to be had. A survey done by John Hilke (1993) called “Cost Savings From Privatization: A Compilation of Study Findings” was equally disappointing with its lack of data.

Further complicating the available data is that those for and against outsourcing use it to arrive at polar opposite conclusions to support their positions. This is due at least partially to the fact that the data supporting or disputing various claims comes from different accounting systems being used in government agencies and the private sector, inevitably leading to different answers (Moore, 2000, pp27-29).

For example, the CNA says that lack of monitoring is particularly true of government organizations that win competitions (Kleinman, 2003, p3). In one incident, CNA started conducting their own review of outsourcing effectiveness by reviewing 24 competitions won by the government, but had to drop 22 of them (83%) for lack of data (RPPI, 2002, p1). On the other hand, the Federal Managers Association says that “Under current government contracting rules, when the government wins a contracting competition, we are periodically audited to determine if we remain the most cost effective providers of a service. Ironically, no similar rule is applied to contractors that win competitions. As a result, the biggest criticism of government contracting is that once the work moves to the private sector, there is no way to know if Americans are still getting the best deal for their hard earned tax dollars (Armstrong, 2001, p5).” Interestingly, the same CNA report cited above showed that 44% (11 of 25) of the competitions won by the private sector also could not be reviewed due to lack of data.

The effectiveness of outsourcing will in large part be based on public perceptions, because the data that is available is oftentimes contradictory and confusing, and inevitably spun by biased interpreters. For every item in favor of privatization, another document exists to refute it. Even ‘facts’ are not agreed upon. For example, the National League of Cities in 1997 reported that “one quarter of responding cities and towns are increasing outside contracting, down from almost forty percent in the early 1990s, and very comparable to the percentages reported a decade ago (Kodrzycki, 1998, p39).” Thus while 25% of the cities surveyed were still increasing their amount of outsourcing,

because this was less than the 40% who were increasing their usage of outsourcing in the early 1990s, the authors used this data to argue that the outsourcing movement has lost some of its momentum. For those in favor of outsourcing, in order to win the perception battle, it is important that they repackage contracting out as a public management tool that improves efficiency, not a method to just save money and to get rid of government jobs.

Besides data being confusing and minimal, the bulk of the outsourcing material that is available tends to be biased based on the ideological perspective of the author(s). Before reading anything, one would do well to read the author's biography to determine if they are representing a union, a business association, a political party, etc.

The Heritage Foundation indirectly offers an interesting way to try to improve the accounting for outsourcing savings. They suggest that one way to encourage enthusiastic participation in outsourcing is to allow a portion of the savings realized through competitive contracting to be used "as a financial reward for employees and managers of the program (Utt, 2001, p3)." The problem with this approach is that it encourages government employees to play with numbers to make outsourcing efforts look better than they actually are. Perhaps a better way to encourage agencies to more accurately monitor actual costs would be to allow the agency to keep some of the savings they generate through outsourcing instead of turning it all back to the general fund.

3) What evidence there is demonstrates that while outsourcing may save money, it does so at either the expense of service quality, or at least without improving quality. As this vote-counting analysis has shown, contracting out of 222 services resulted in cost savings 79% of the time, but improvements in service quality only 48% of the time. As discussed at the end of Chapter 5 of this dissertation, these findings are consistent with what other researchers have found.

Given the circumstances of contracting out, this finding about savings should not be surprising. Presumably the primary reason a state, local, or federal government agency would contract out in the first place is because the contractor has promised to deliver the services at a lower cost than the government organization currently providing the service. Additionally, many government agencies require a contractor to be able to provide at least a 10% savings before they will even be considered as a potential provider of services. At the federal level for example, Office of Management and Budget Circular A-76 dictates that a private sector proposal must be at least 10% or \$10 million less than the public sector's personnel cost.

When addressed in the vote counting studies, the common way that savings were achieved was through labor cost reductions by cutting salaries, increasing worker productivity, hiring fewer workers, or a combination of these factors. As usual with any discussion about outsourcing, there is little agreement on how savings are achieved. Government employee unions (AFSCME, 1986) maintain that lower wages is the only way contractors save while others such as Stephen Moore (1999, pp215-216) in his study

of 17 services contracted out in various localities found “On balance, no significant pattern of lower wages paid by private firms. In fact, there were more cases where wages rose than cases where wages fell after privatization.”

With regard to the lower level of improvements in service quality, the finding should not be surprising either. Government managers when asked why they outsource, cite improving service quality as a reason much less often than saving money. In other words, service quality improvement is an afterthought and therefore doesn't receive as much attention as some might say it ought to.

4) Given these findings, just because outsourcing can save money and is popular, does not mean it should be used blindly. Politicians are predisposed to like outsourcing because they are forced to be change agents. They cannot run for office promising to maintain the status quo. They have to promise to make things better, thereby implying that government, public administration, is not nearly as good as it could or should be as it currently exists, and that outsourcing is the way to make things better.

Under pressure from these politicians, public administrators need to be careful how they utilize privatization and that they don't change for the sake of changing. According to Wessel (1995, p7), “Privatization (to include outsourcing) for its own sake will not stand the test of rational resource utilization or business profitability. Satisfactorily operating public enterprises should not be disturbed or threatened with this

step (outsourcing), although the knowledge of potential private competition is always a stimulant to more efficient operation.” For example, former Governor Whitman of New Jersey and former New York City Mayor Rudolph Giuliani nudged turnpike workers, sanitation workers, school custodians, and school bus drivers to agree to “major modifications in their work rules to stave off private competition (Palley, 1995, p21).”

However, half-hearted, not well-thought out attempts to contract out as a politically symbolic way of demonstrating that government is getting smaller, staying out of private markets, and working more efficiently can lead to a lose-lose-lose situation for the government, taxpayers, and contractors. As Kodrzycki (1998, p1) reports, “the major benefits of privatization are realized only by the introduction of competition, not by substituting private monopoly providers for public monopoly providers.”

Outsourcing is not a cure all for everything that ails government. It is a legitimate management tool (not a substitute for management) for sharpening the focus of government on certain activities, but it is not the only tool. One size does not fit all. Government should be interested in more than just efficiency and getting the job done. As Osborne and Gaebler (1993, p45) say, “Privatization is one arrow in government’s quiver. But just as obviously, privatization is not *the* (italics in original) solution. Services can be contracted out or turned over to the private sector. But governance cannot.....” Put another way, governments who rely too heavily on privatization may find their “panacea around their ankles.” And further, as the Center for Public-Private Enterprise points out, outsourcing should not be viewed as indicating the superiority of

the private sector. “It (outsourcing) is not a question of the government work force being in any way inferior to a private sector one – it is a question of different systems and which is more appropriate for the oversight and conduct of commercial activities,” according to Else (2001, p2).

Anderson, McGuinness, and Spicer maintain that government agencies should recognize that the “drive to the bottom line” as they call it may in fact result in lower costs but not necessarily the best value. The objective of outsourcing should be to “garner the most performance for every dollar spent rather than spending the least amount of dollars,” according to their analysis (Anderson et al., 2002, p101).

5) Where outsourcing has been effective, it has been implemented in the following ways:

a) openly, transparently; and corruption free; b) with clearly defined standards; c) with full participation by government workers without undue influence from politicians; and d) with costs closely monitored as well as the quality, and quantity of work provided.

A) Outsourcing needs to be transparent, and open, and, according to Singh (2000), conducted by “efficient, accountable, adequately paid and well motivated civil servants for combating corruption.” There should be no non-competitive bidding in smoke-filled backrooms. What has happened in much of the rest of the world needs to be avoided. In 1999, the US Commerce Department reported that in the preceding five years, bribery was believed to have been a factor in 294 foreign commercial contracts worth \$145 billion. According to Singh (2000, p2) “Eight out of 15 countries in Africa

actually increased their wage bills after downsizing (i.e.,outsourcing) because of payoffs to retrenched workers. In 40% of cases, laid off civil servants had to be rehired.” Charges of corruption are not foreign to US privatization efforts. According to Bruce Wallin of Northeastern University, Governor Weld’s administration in Massachusetts bragged of its outsourcing efforts resulting in tax savings; increases in quantity, timeliness, and quality of services; public employee involvement; bipartisan support; a large number of bidders; and minimal job losses to state employees. There was no documentation for any of this and the Attorney General charged four contractors with violating prevailing wage laws. Unions charged that outsourcing under Governor Weld was another word for patronage, citing alleged favoritism with connected individuals and firms (Wallin, undated, p17). The point is that if this type of corruption vis a vis outsourcing becomes too common in the United States, the political pendulum could swing back to the point where outsourcing is greatly diminished.

Because private contractors’ accounting records are closed to the public, outsourcing by definition gets away from public openness, and into the domain more closed to scrutiny and access. Complicating this is what the Project on Government Oversight (POGO) says is the downsizing of the taxpayers’ eyes and ears that ensure the public is getting its money’s worth. In their 1999 report entitled “Defense Waste and Fraud Camouflaged as Reinventing Government,” they concluded that the effects of acquisition reform efforts to date were to reduce the number of oversight bodies, auditors, and investigators. “Not surprisingly, waste and fraud in defense spending increased as oversight decreased (Brian, 2001, p1).”

Finally, Dudley has rightly noted the lack of citizen involvement in what she calls “third party governance.” She argues that outsourcing (as part of privatization) has been seen as merely another management decision, and that the “debate has been confined to either the arguments of academia or the palaver of practitioners. The few exceptions of community involvement have centered around acrimonious debate between unions and government. Both voices are certainly important, but the creation of a different way of governing – through third parties – should have involved more citizen participation” (Dudley, 1999, p49). It is interesting to note that citizen involvement does become more pronounced when governments start trying to contract out the “commons,” such as public water management in Stockton, California (Allen, 2003, p1).

B) In order for outsourcing to work, the effort to be competed must be clearly defined and standards of performance must be without question. According to Markusen (2001, p2), this is especially difficult with DoD goods and services, “many of which involve long-term relationships and a great deal of back and forth experimentation.” Without it, there can be “contract creep” where services that were meant to have been included in the offer were not factored in originally. Consequently, slowly but consistently the cost goes up to at least what the government was charging to provide the service, thereby resulting in minimum or no savings, and usually increased costs (Cruz, 2001 p2).

Next, there must be sufficient open competition if there is going to be substantial cost savings. If the “yellow pages test” doesn’t work, that is if one looks in the telephone book and can find only one private provider of a service (or worse yet, none) then that service should not be outsourced because a highly developed and competitive market does not exist for that service. “Creating and maintaining competition is a formidable and expensive task,” according to Markusen (2001, p2), “but unfortunately, except for the most routine of services, full scale competition is unlikely to exist or persist beyond a single round of competition.”

Creating a level playing field for public-private competitions is another critical element also necessary for outsourcing to be effective. Martin identifies 13 major level playing field issues that confront governments when implementing these competitions. Of these, he identifies the method used by governments to compare the costs of service delivery by the two sources to be the most important. He discusses how the “fully allocated cost approach” of providing a government service is comprised of the direct costs of the government providing that service along with an allocated proportion of indirect, or overhead costs. This then is compared to the private sector delivery cost as spelled out in their proposal. This approach tends to favor the private sector. On the other hand, the “avoidable cost approach” begins with the “fully allocated cost” but then subtracts out the unavoidable, indirect costs (those costs that will be incurred by a government regardless of whether the service is provided by the public sector or the private sector). This approach tends to favor the public sector. Martin favors the State of Texas approach which forces the private sector bid to include the unavoidable costs,

because its logic appears sound. As Martin (1999, p15) notes, “**If**, as the government managerial texts state, the full cost, or total cost, of any government service is the sum of its direct costs plus an allocated portion of indirect or overhead costs, **then** the proposition should hold regardless of the service delivery mode (public or private).” Unfortunately for public employees, most government organizations are still using the fully allocated cost approach and may be losing competitions unnecessarily as a result.

A corollary of this is that outsourcing works best when the private company is providing to a clearly identifiable population a service with which the contractors are familiar, not a new service with which they have no experience (McMullin, 1998, p1). If a contractor, just because there is money to be made, wins a contract to take over a government service with which they have little or no experience, negative consequences can occur for all involved, the government agency, the customers (taxpayers), and the contractor. Another corollary is that outsourcing seems to work best when the service to be performed is not part of the government’s core mission. For example, outsourcing of police services is less desirable than outsourcing microfilming. Contracting out seems to work fine with jobs that are not complex but success here is in the eye of the beholder. For example, inmates at a New Mexico women’s prison say private prisons do not work, while the bureaucrats argue that they do.

Additionally, governments need to make sure that they reserve enough of a capacity to be able to provide a public service should a contractor fail to do so. Unfortunately, in many instances, governments have gotten out of a service, “load

shedded” and then found that they would have to undertake huge capital expenditures to get back into that business. For example, if a city sells off its fleet of public transportation buses, it will be hard-pressed to come up with the funds to reenter the market should the contractor currently providing the service not perform up to snuff. One way to avoid this dilemma is to divide a service area into several districts, with the city performing the service in one of the districts in order to maintain the capacity to replace a non-performing contractor. Other recommended measures include using short contract periods and not renewing any contracts without competitive bidding (Adler, 2001, p3).

The loss of physical capital is not the only danger. An exodus of highly experienced and qualified government workers can lead to a “brain drain” of corporate knowledge that can also debilitate a government agency should a contractor fail to work out. This can be caused by “privatization by default.” Congressman Silvestre Reyes of Texas argues that DoD is putting the cart before the horse. In anticipation of future savings, “budgets are slashed and employees are eased out of their jobs as soon as the A-76 study begins (Reyes, 2001, p1).” By the time a competition has been completed, the agency has lost the capacity to perform the service any longer, and the contractor wins by default. According to the National Military Fish and Wildlife Association, the A-76 and FAIR Act process “is shrouded in secrecy, bogged in bureaucracy, and cloaked in uncertainty about actual money saved (National Military Fish and Wildlife Association, 2001, p1),” and is all part of an attempt by the Bush Administration to “achieve arbitrary conversion goals for the federal workforce.” This is seemingly substantiated in the

Office of Management and Budget's Fiscal Year 2002 President's Management Agenda, where President Bush writes, "Nearly half of all federal employees perform tasks that are readily available in the commercial marketplace – tasks like data collection, administrative support and payroll services. Historically, the government has realized cost savings in a range of 20% to 50% when federal and private sector service providers compete to perform these functions. Unfortunately, competition between public and private sources remains an unfulfilled government promise. By rarely subjecting commercial tasks performed by the government to competition, agencies have insulated themselves from the pressures that produce quality services at a reasonable cost (National Council for Public-Private Partnerships, 2002, p21)."

Occasionally, a winning outsourcing contractor will try to provide service to only those citizens that can pay for a service. The research for this dissertation found almost no evidence of this so called "cherry picking" where services are provided to the wealthy by government paid contractors with the rest of society having to receive lesser services from their local government. Despite its relative rarity, public administrators can learn lessons about what not to do from these few examples.

C) Governments need to allow the existing public department to bid on the work to establish a baseline against which bids can be assessed, and to ensure the government workers' inclusion as one of the alternatives. If the government loses the bid, even the private sector acknowledges the right of first refusal to former public employees to newly created jobs. If none are available, these excess government employees should be

retrained, retired, or fill jobs left through attrition. If the MEO loses, it should be allowed to file a protest. Unfortunately (and unfairly), at the federal level, currently neither the courts nor GAO will entertain MEO protests whereas private sector competitors are routinely granted such access (Sorett, 2001, p4). This is fundamentally unfair, undermines the competitive process, and needs to be changed

It must be acknowledged that part of the reason that government agencies sometimes have difficulty performing efficiently is the control that politicians exercise over agency heads. The reasons government agencies lose bids as Rainey (1991, p1) notes include the fact that “the nature of public organizations, their public character, often subjects them to more external intervention and constraint. In turn, this often imposes on them greater challenges in trying to perform efficiently and effectively.” Starr (1988, p18) says another reason for the inefficiency of U.S. government is what he calls the “rampant credentialism and proceduralism that hampers the ability of managers to hire and fire, reward, and motivate their subordinates. Ironically, many of these rigidities result from previous reforms, passed in the name of curbing corruption.” Barriers to unitary control are so entrenched that legitimate attempts to get better management are thwarted. For example, the appropriations processes with their long lead times prevent quick responses to change. Maybe, instead of outsourcing, giving public administrators more flexibility and independent authority is the answer out of the self-imposed procedural thicket. But, as long as the private sector acts with a profit motive, this flexibility could be overly utilized. As the DOE states, “it is neither possible nor desirable to completely mirror private sector decision making. The social contract

between government and the people most affected by government actions ... is rightly considered more binding than the relationship between private sector entities and consumers (DOE, undated, p3). Congress even recognized this special relationship through Section 3161 of Public Law 102-484, the National Defense Authorization Act for FY 1993.

D) Finally, in order for government to reap the benefits of outsourcing, it is crucial that public officials closely monitor the price, quality, and quantity of the work provided. While it is true that the costs of government are hidden and hard to calculate, outsourcing efforts have to be carefully managed competitions, with good accounting, and checks and balances. This in turn requires governments to be ‘smart buyers’ which necessitates “personnel with contract management experience, policy expertise, negotiation, bargaining, and mediation skills, oversight and program audit capabilities, and the necessary communication and political skills to manage programs with third parties in a complex political environment (Kettl, 1993, p3).”

Unfortunately, at least in the Department of Defense, this expertise seems to be lacking. Dr. Markusen (2001, p2) maintains that monitoring and evaluating outcomes is complicated and extremely expensive.” According to Beeks, “The DoD accounting system is just simply not up to the task of capturing the numbers with the kind of precision we would demand in the business world – and the same kind of precision you rightfully demand of companies who contract with the government (Beeks, 2001, p2).” This sentiment is furthered by GAO which says, “considerable questions have been

raised concerning to what extent DoD has realized savings from its A-76 studies. In part these concerns were exacerbated by the lack of a reliable system (database).... DoD savings did not take into consideration the costs of conducting the studies and implementing the results. Savings become more difficult to assess over time as workload requirements or missions change (GAO-02-498T, 2002, p8).” This perennial finding of the GAO regarding the DoD cannot become part of the general outsourcing experience of US governments. If it does, the validity of outsourcing claims will always be in question.

Even if governments get their financial houses in order and develop reliable data bases, there is still the issue of monitoring. Using national survey data from the International City/County Management Association for the period 1982 to 1997, Warner and Hefetz (2000, p11) found that “although 95% of governments report some level of contracting, less than half report any monitoring activity at all. Cost was the most commonly monitored item but it was only monitored by 40% of responding governments. Similarly, contract compliance with service delivery standards was only monitored by 38% of governments. Citizen satisfaction was monitored by less than a third of responding governments. Only 11% of governments reported keeping the service complaint mechanism in house.” Not surprisingly, poorly implemented strategies, or just plain poor strategies, that don’t include the four lessons learned listed above, have led to increased costs, lower quality, and a black eye for some government agencies.

6) Outsourcing Will Not End Public Administration. There are those who contend that ultimately, if and when all services are contracted out, outsourcing could lead to the end

of public administration. To the contrary, as the results of this vote counting analysis have demonstrated, the lack of improvement in service quality should give enough public administrators and citizens pause to prevent the complete take over of government services by outsourcing. Secondly, there are some functions that are inherently governmental that will (one would hope) never be outsourced. National defense is an example of a function that would seem to be inherently governmental, although the history of the world does show some countries have hired mercenaries in the past, including the United States when it hired Native Americans and the British hired German Hessians to fight during the American Revolutionary War. Third, there will always be a need for government workers to negotiate and monitor contracts with the private sector, and there will always be differences between the public and private sectors. The Colorado Commission on Privatization (1997, p2) found that the private sector tends to be better at performing economic tasks, innovation, replicating successful experiments, adapting to rapid change, and abandoning unsuccessful or obsolete activities. By contrast, the public sector tends to be better at policy management, regulation, enduring equity, preventing discrimination, and fostering social cohesion.

Recommendations for Future Research

As this vote counting analysis has demonstrated, it is amazing how few legitimate, methodologically defensible studies seem to have been made and how little follow up there has been in the area of outsourcing effectiveness. Promises are made, contracts are signed, but then no one seems to come in after the fact and demonstrate

whether savings were actually achieved without denigrating services. Until such research based on hard, substantiated data becomes available, public administrators will be relying on instinct, past experience, and politics to tell them how to proceed.

If future researchers want to contribute to the outsourcing literature, they could take one of two approaches. First, they could analyze outsourcing cost and service quality effectiveness at a lower level (i.e., a city, a county, a state, a federal office). This research should use standardized outsourcing definitions and terminology to help make more studies adaptable for use with vote counting methodologies. Over time, these individual studies could build up to the point where they form a critical mass upon which another vote counting study at the macro-level could be made.

A second approach of further research would be to determine if those services that pass the “yellow pages test” (i.e., more than one provider of such services can be found in the phone book) result in higher levels of savings and service improvement than those services that do not pass that test. The thought is that providers of services that are more routine and that do not require as much discretion in performance will be more prevalent in the yellow pages and the competition between those service providers will inspire savings. Also, if the research survey could be sent out under the auspices of a government organization, response rates probably would be higher than they would be when the researcher is identified as a doctoral candidate from Virginia Tech.

Finally, recommended for further research is conducting an original survey of government agencies. While this vote counting analysis has added to the body of outsourcing and therefore public administration knowledge, it is not nearly as definitive as it might have been had there been more data available. Of all the documents found, the report by the Commonwealth of Virginia's Department of Planning and Budget was the most informative. How much easier and reliable would this vote counting analysis have been if more state and local governments had followed Virginia's example. Should anyone want to follow up on the research in this dissertation, if they have the time and the money, they might consider putting together a questionnaire about outsourcing costs and service quality effectiveness and sending it out to all fifty state government offices (perhaps comptrollers, budget offices, or competition advocate offices), as well as maybe fifty of the largest cities in this country. To make this a longitudinal study, this data should be returned at a service by service level, with dollar figures before and after, over an extended period of time, and include service quality indicators.