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## The condition and perspectives of using outsourcing in public services

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# The condition and perspectives of using outsourcing in public services / Stan i perspektywy wykorzystania outsourcing w usługach publicznych

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### ABSTRACT

In Poland, the public sector is an important segment of the national economy. It consists of approximately 67 thousand entities, which spend budgetary funds or decide how to spend them. In the present state of organisation of public sector entities, the same functions are repeated in the same locations but they are organized and operate in a different way. As a result, the sector cannot take advantage of returns of scale, or apply best practice and its costs are higher than costs of private entities (Shared Services in Public Sector, 2014). Therefore, outsourcing or centralization within the Shared Services Center of selected auxiliary functions, among others, payroll, paper supply, maintenance of bills for electricity and telephone, occupational safety and health and security of classified information, could reduce these costs. In addition, Shared Services Centers as an example of insourcing should be considered as a first step towards outsourcing, in which an external supplier based on a long-term contract carries out certain functions. It is a solution, which systemizes organisational processes without introducing drastic changes in the employment struc-

ture and organisational culture. Thus, it can be a starting point for further actions, including selective outsourcing, for which public sector organisations are not prepared at the present. The main aim of this article is to determine a degree of outsourcing usage in the public sector in Poland and in developed countries and to define limitations in the use of outsourcing in public services as well as to determine perspectives of using outsourcing in the public sector, with taking into consideration in particular Shared Services Centers. The desk research technique was applied in order to prepare this elaboration.

Currently, Polish public sector organisations are not ready to implement the idea of outsourcing. Firstly, due to current legal regulations and moreover due to risk aversion, lack of knowledge or limited knowledge on outsourcing, lack of efficiency goals in public institutions, and difficulties in investing potential savings in the institutional development.

**KEY WORDS:** PUBLIC SECTOR; OUTSOURCING; SHARED SERVICES.

## 1. INTRODUCTION

Outsourcing is a form of predetermined co-operation with another entity in order to provide goods and services, which could initially be produced in a domestic company (Sharpe, 1997: 535–549). Outsourcing is regarded as a method of optimizing the use of resources and organisational means consisting in the realisation of functions and processes, being a part of entity's tasks, by external entities. Outsourcing is also understood to be

a process of transforming functions and restructuring organisations consisting in transmitting functions, processes and resources related to the realisation of these functions to external entities (Oleński, 2005). Scholars and practitioners provide evidence that outsourcing effectively translates into competitiveness of a particular organization (Rajabzadeh, Rostamy and Hosseini, 2008: 521–538). In service organisations, outsourcing theoretically covers the transfer of liability to suppliers. However, legal regulations binding in Poland do not discharge

managers from the liability for the outsourced functions, causing at the same time, an absolute asymmetry of liability. Historically, outsourcing is not a new concept. In the 15<sup>th</sup> and 16<sup>th</sup> century, Italian states used mercenary troops (Willcocks, 2011: 5–12). In 1700, the Continental Army commissioned a production of weapon to DuPont Company (Kissinger, 2004: 15). In the 1920s, Henry Ford suggested defining an activity as narrow as possible and dividing it into repetitive steps (Rosenbaum, 2007: 8). Ford was famous for the statement: if there is something you cannot do better, more efficiently, cheaper than competition, there is no use in doing it; we should employ someone to do the job, someone who will do it better than we can (Laird, Sherratt, 2010: 3–9).

Outsourcing is one of the fastest-growing and most important areas of business activity and is a good practice in a private and public sector. Outsourcing is successfully used in private sector organisations, but not only there. Since the end of 90's, a scientific attention of the necessity in public sector has increased (Gasparyniene, Remeikiene, Startiene, 2014: 203–210). A number of outsourcing models that take into account the approach that the State is, the enabling organization, responsible for ensuring that public services are delivered, rather than producing them directly itself (Deakin, Walsh, 1996: 33–48) were developed. An implementation of public services particularly takes place through a purchaser and provider split, which leads to a new principal–agent relationship. The various outsourcing criteria developed in these models can be grouped into three different categories of objectives: cost efficiency; effectiveness; and legitimacy (Schuppan, 2009: 811–831). Outsourcing is an important instrument for public management reform, therefore it is of high importance. The public sector in the Netherlands, the UK, Germany and Japan outsources 50–60% of their services (Andersson, Jordahl, 2011: 1–36). There are also some barriers in the use of outsourcing in public services.

Firstly, the article will investigate a concept related to outsourcing in the public sector. Secondly, the barriers of using outsourcing will be identified. Thirdly, the perspectives of using outsourcing in the public sector will be analysed.

Three scientific questions were formulated in this article: What is the condition of outsourcing usage in the public sector in developed countries and in Poland? What kind of barriers in the use of outsourcing in Poland can be encountered? What are the perspectives of introducing outsourcing in the public sector?

## 1.1 ANALYSIS OF LITERATURE

Public administration is considered too big, inefficient, and incapable of improvement, composed of structures, which often develop independent logistics, maximizing their own growth (Hecl, 1981: 137–180). Moreover, public administration and its employees are often perceived as being too slow, inflexible, extensively focused on procedures and indifferent to the results of their actions (Gurwitt, 2000). Partly for these reasons, and partly due to fiscal pressures the concept of the public sector reform, later known as the New Public Management, has appeared in the 1980s (Alonso, Clifton Díaz-Fuentes, 2011: 1–40). The main concern behind the reform was to achieve greater flexibility, reduction of costs, and focus on results (and not on procedures as it had been done previously). This involved adoption of a new management philosophy, using a new set of tools, so far reserved for the private sector (Pessoa, 2009: 1–30, Hawrysz, Hys 2013: 903–910). However, not all solutions used in the private sector could be potentially applied in public administration. It results from the nature of this sector. Public sector organizations have to serve a diverse group of customers whose expectations are strongly divergent and even contradictory, and their background is always the audience as a “hidden customer” with additional, often incompatible demands. Public organisations have to provide a service or product, which reflects a serious compromise (Swiss, 1992: 359). Another important aspect of applying private sector tools for the need of the public sector is differentiating the level of services depending on the customers' financial resources and customers' rights in the private sector, to enforce the service at the level satisfying a customer by means of a claim procedure – a customer who exercises this right can obtain a higher level of services. At the core of public services lies the assumption of an equal treatment of all citizens. However, this does not mean that an application of outsourcing in public services is ineffective. On the contrary, it is perceived as a tool for use of returns of scale, reduction of costs, greater use of IT tools, and access to new technologies, etc. (Antonucci, Lordi, Tucker, 1998:26–31). Nevertheless, given the nature of public services, it is not simple and requires a detailed analysis and meticulous preparation (Pessoa, 2009: 1–30).

Outsourcing in public services can be used in two ways. The first way is a purchase of goods and services from the private sector or non-governmental organisations by public sector entities. The second way is to contract goods and services to a final consumer that is a customer, citizen, taxpayer, etc. (Alonso, Clifton Díaz-Fuentes,

2011: 1–40). In literature, outsourcing appears in terms of benefits, barriers and recommendations for those who plan its introduction. An analysis of literature allows identifying the benefits of using outsourcing in the private sector in a form of (Pessoa, 2009: 1–30, Burnes, Anastasiadis, 2003: 355–366, Young, 2005: 25–36):

- Improving a quality and customer's service – in this area known for low customers' service standards, public sector organisations have lots to do and to compensate for. Therefore, demands concerning the application of outsourcing in public services concern mainly this area.
- investing in research and development – public sector organisations are perceived as reluctant to introduce changes and innovations. Instead of striving to improve, they celebrate the maintenance of the status quo. The engagement of private sector organisations could be a stimulus for the development of public sector organisations.
- improving management standards – according to statistics, managers in the private sector are better rewarded, highly motivated and management standards are higher, thus it is expected that private organisations will introduce important skills and a fresh perspective to public services through outsourcing.
- developing new services – the private sector is more responsive to change of customers' needs and is more flexible in adapting them. The mechanism of tracking customers' needs, assuming accessibility to all parties, could be an important asset in the public sector.
- filling the gap – outsourcing allows using highly specialized staff to render services on an occasional basis.

In addition to a number of benefits, the reduction of costs is often mentioned as an argument in favour of the use of outsourcing. In the case of public services, it is as unambiguous as in private services. Firstly, due to the public service specificity, public organisations have to be well prepared to select a service provider, conclude a contract and then to monitor its performance. Since communication with suppliers and service providers is a complex issue, transaction costs of these operations are usually high. Secondly, in the case of public services outsourcing, it is necessary to take into consideration social justice (Pessoa, 2009: 1–30). Resources cannot have an influence on the level of public services. Another argument, presented in literature, in favour of the use of outsourcing is a greater transparency of costs. Operating costs cannot be concealed in general internal costs

since their accurate estimation is required (Kulmala et al., 2006: 130–149). One of methods to reduce costs in public services is establishing Shared Services Centers. Shared Services Centers allow reducing expenses associated with the provision of services by means of outsourcing or centralising of selected auxiliary functions. Separating of these functions is connected with the necessity to regulate processes in an organisation, what is a preliminary stage to introduce outsourcing in public sector organisations.

Literature, which depicts barriers of using outsourcing, is much poorer than the one focused on its benefits, since outsourcing benefits are so obvious that they overshadow their costs (Hendry, 1995: 193–200). Only few studies are devoted to an issue concerning an asymmetrical relationship of an ordering party and a supplier. Studies argue that by outsourcing some of current organizations' activities, may put an organisation at risk and an organization may become dependent on other entities and their changing financial expectations. Therefore, when selecting the area, which can be eventually, a subject of outsourcing, an analysis of quality and costs is suggested. It is also important to monitor results; however, this increases outsourcing costs (Kulmala et al., 2006: 130–149, Hawrysz, Hys, 2013: 155–164). The risk associated with outsourcing can be a result of errors made both on the side of the commissioning organisation and on the side of the organization providing services. The most frequently repeated errors of organizations while outsourcing functions or processes outside, is a lack of broad knowledge, which in turn can lead to imprecise definition of a scope of outsourcing contract, reduced level of services, increased costs and problems with monitoring the level of work. It may also happen that due to insufficient knowledge of organizational functions, processes, certain areas are outsourced, and this causes a loss of key competencies and problems with a flow of information. Moreover, a decision to outsource is also associated with a loss of a part of staff and resignation of certain infrastructure, which in turn implies a lack of technological continuity. It is also important to verify prospect service providers carefully and properly in terms of knowledge and experience as well as any probable opportunistic behaviour. The outsourcing contract should be precisely prepared and should cover financial liability of a service provider. If a service provider loses little in case of failure to fulfill tasks, it may be more prone to failure to comply with the contract (Sullivan, Ngwenyama, 2005: 73–87). Establishing Shared Services Centers allow an organisation to be prepared for all activities connected with further outsourcing of its functions.



Recommendations on the implementation of outsourcing primarily include stages of decision-making process and coincide with above – mentioned sources of risk. Recommendations mainly consist of defining key organisational competencies followed by a detailed analysis of actual costs of operations, which are considered to be outsourced. Lately, literature refers to the following model of an efficient outsourcing implementation:

1. Careful identification of key competencies,
2. Reliable evaluation of abilities,
3. Careful selection of a supplier,
4. Detailed preparation of a outsourcing process,
5. Monitoring and evaluation of results (Rajabzadeh, Rostamy and Hosseini, 2008: 521–538).

## 2. METHODOLOGY

Secondary data analysis was used while writing the article. In the first stage of analysis, press articles published from 2005 to 2015 were analyzed. All documents published from 2005 to 2015 were evaluated. Content analysis was a research tool used at this stage. The research was performed from October 2014 to April 2015. In the second stage, legal acts with reference to optimization of business processes in entities financed by public funds were analyzed. Content analysis was a research tool used in this stage as well. The research was carried out from February 2015 to March 2015. The third stage involved evaluation of data from state agencies' websites. This stage was carried out from March 2015 to April 2015. During the scrutiny of documents, snowball sampling method was used.

## 3. THE STATE OF OUTSOURCING USAGE IN THE PUBLIC SECTOR IN DEVELOPED COUNTRIES

The issue of applying outsourcing in the public sector is selectively discussed. For example, the Plan for the Development and Consolidation of Finances of 2010–2011, provides for the optimisation of business processes carried out by entities financed by the State Treasury. In the draft of the “Efficient State 2020” (2011) strategy there was a statement concerning a permanent reduction of expenses related to the supply of services through outsourcing or centralising selected auxiliary functions within a Shared Services Center. In authorised and published document, the following statement does not appear. A potential use of outsourcing in order to reduce costs is rather significant, since in each of 16 regions there are 14 institutions dealing, among others, with construction supervision, transport supervision, and

commercial inspections, veterinary or alimentary inspections. Each of these institutions employs individual employees responsible, for remuneration, paper supply, maintenance bills for electricity and telephone, occupational safety and health, protection of classified information. They also have their own accounting departments (Offices will discharge employs, 2014). According to experts' calculations, employment of one employee in the public sector costs on average 15 per cent more than in a private company (The external companies enter to the Office, 2014). An analysis of public procurements for past several years, shows that public sector organisations most frequently outsource functions related to cleaning services, premises protection, provision of legal services, archiving documentation, media monitoring, translations, IT services, office equipment maintenance, certain financial and accounting services and professional evaluation (most frequently of a selected research problem). Shared Services Centers are also established but they are not as numerous. Generally, the use of outsourcing in public services in Poland is not so considerable and it is only now that office workers are discussing the idea of its implementation (Functions of the state, 2014). In public services, worldwide, outsourcing appears in the context of Shared Service Centers. These centers are institutions specialised in the performance of certain tasks (e.g. finance or purchase) for an ordering party company (The external companies enter to the Office, 2014). Seven percent of Shared Services Centers worldwide belong to public sector institutions, among others, government and self-government administration, public health or universities. Leading countries in the field of Shared Services Centers in Europe are the United Kingdom, Ireland, Sweden, Norway, Finland, the Netherlands, Belgium, and Denmark and outside Europe, the USA, Australia, New Zealand, and Singapore. It is estimated that if Shared Services Centers were introduced in polish administration, the public sector could save as much as 4 up to 15 billion PLN per year company (The external companies enter to the Office, 2014). One of the European benchmark in the use of outsourcing in the public sector is Great Britain. In recent years in Great Britain, private suppliers have provided a number of services for administration in the area of finance, IT, HR, training, counseling, projects management and many others (The outsourcing can reduce expenses of the administration, 2014). In Ireland, the Ministry of Agriculture, the Ministry of Education, the Ministry of Health and the Ministry of Justice use outsourcing, among others. Private companies manage documentation, report workplace accidents, service student loans, support the financial audit and even run prisons (Offices will discharge em-

plys, 2014). In Poland, initiatives on the use of outsourcing in comparison with a potential of its use would be purely accidental. The Chancellery of the Prime Minister, Customs, Social Insurance Institution (ZUS), and

Purchasing Center for Judiciary created few Shared Services Centers. The Table 1 presents key information concerning these centers and provides information about the unit responsible for their establishment

**Table 1.** Shared Services Centers in the public administration in Poland

| General characteristics of activity   | Initiator  | Detailed specificity of activity  | Date of creation |
|---|--|---|------------------|
| IT Projects Center  | Public Administration (government and self-government)         | Realization of IT projects, development of IT systems and networks  | January 2008     |
| Data Processing Center of the Ministry of Finance   | Government Administration- the public finance sector           | IT infrastructure for centralised IT systems of the Ministry of Finance.  | October 2010     |
| Vocational Training Center  | Government Administration- the public finance sector           | Training of personnel of the Ministry   | November 2010    |
| Shared Services Center – joint calls for the purchase of equipment and services   | Government Administration                                      | Preparation and tendering procedures  | January 2011     |
| Purchasing Center for Judiciary   | Government Administration- judiciary system                    | Central purchase for judiciary system units (common courts)   | January 2012     |
| Correspondence Service Center for Pension<br>(Centrum Obsługi Korespondencji w sprawach Emerytalno-Rentowych (CER))             | Government Administration- SOCIAL INSURANCE INSTITUTION (ZUS)  | Coordination and service of correspondence related to pension issues  | 2011             |
| Service Center for Exceptional Allowance (Centrum Obsługi Świadczeń Wyjątkowych (CSW))  | Government Administration - SOCIAL INSURANCE INSTITUTION (ZUS) | The records of claims for benefits in exceptional cases and analyze of decisions correctness  | 2011             |
| Call Center Service (Centrum Obsługi Telefonicznej (COT))   | Government Administration- SOCIAL INSURANCE INSTITUTION (ZUS)  | Providing telephone information for customers   | 2011             |
| IT Service Center (Centrum Serwisu Informatycznego (CSI))   | Government Administration- SOCIAL INSURANCE INSTITUTION (ZUS)  | Maintenance of constant technical efficiency of computer hardware and technical infrastructure  | 2011             |
| IT Support Center (Centrum Wsparcia Informatyki (CWI))  | Government Administration- SOCIAL INSURANCE INSTITUTION (ZUS)  | Maintaining and monitoring of an indicated level of IT services, users' support   | 2012             |
| Training Center (CSZ)   | Government Administration- SOCIAL INSURANCE INSTITUTION (ZUS)  | Coordination of training activity   | 2012             |
| Service Center for Bailiffs Requests (Centrum Obsługi Wniosków Komorników Sądowych (CWK))                                       | Government Administration- SOCIAL INSURANCE INSTITUTION (ZUS)  | Integration of bailiffs' request service, integration of providing information process, strengthening the process of debt recovery      | October 2012     |
| Allowance Support Center (Centrum Wsparcia Zasiłkowego (CWZ))   | Government Administration- SOCIAL INSURANCE INSTITUTION (ZUS)  | Service of factual incidents appearing in the allowance service   | 2012             |
| Service Center for Applications to establish the insurance (Centrum Obsługi Wniosków o Ustalenie Przebiegu Ubezpieczenia (COU)) | Government Administration- SOCIAL INSURANCE INSTITUTION (ZUS)  | Coordination of tasks connected with the service of local authorities' applications concerning getting to know the history of insurance | 2013             |
| Public Procurement Center (Centrum Zamówień Publicznych (CZP))  | Government Administration- SOCIAL INSURANCE INSTITUTION (ZUS)  | Organization and conducting on joint public procurement   | 2013             |
| Bridging Pensions Service Center (Centrum Obsługi Emerytur Pomostowych (CEP))   | Government Administration- SOCIAL INSURANCE INSTITUTION (ZUS)  | Bridging Pensions Service   | 2013             |
| Analytical and Consultative Center (Centrum Analityczno –Konsultacyjne (CAK))   | Government Administration- SOCIAL INSURANCE INSTITUTION (ZUS)  | An analysis of issues being subject to court proceedings; participation in the elaboration and verification of data                     | 2013             |
| Center for Commercial Customers (Centrum Klienta Dochodowego (CKD))   | Government Administration- SOCIAL INSURANCE INSTITUTION (ZUS)  | Providing support for local organizational units in matters relating to revenue   | 2013             |

**Source:** own elaboration on the basis of information available on websites (Draft bill about the law change about Civil Service, 2015), (Tasks and competences, 2015), (Articles of the Center of the Professional Education of the Department of Finance, 2015), (Legal status of Data Center, 2015), (Articles of the Data Processing Center, 2015), (Legal status of Purchasing Center for Judiciary, 2015), (Report on the activities of Social Insurance Institution, 2013), (Labor scheme of the Social Insurance Institution, 2015), (Report on the activities of the Social Insurance Institution, 2011), (Call Center Service, 2015).

## 4. FINDINGS

First steps related to optimization of business processes started in Poland in 2008. It concerned founding of IT Projects Center. In years, 2012–2013 the role of centers increased particularly dynamically. The vast majority was formed by entities representing government administration. Shared Services Centers focused mainly on joint procurement and IT service. However, basic functions recommended in the proposal of the strategy “Efficient State 2020” were not outsourced (e.g. accounting, HR services, etc.).

## 5. DEFINING BARRIERS IN THE USE OF OUTSOURCING IN POLAND

A significant problem in outsourcing of public services results from legal regulations, which do not allow placing responsibility for a service on a contractor. For example, at the basis of finance and accounting services outsourcing lies an art. 54 of the Act of 27 August 2009 on Public Finance, which states a wide range of responsibilities of the chief accountant of public sector entities. The manager who decides to outsource certain functions is still fully responsible for these functions. This phenomenon is described in literature as an “absolute asymmetry of responsibility”. A public administration entity cannot make the service provider responsible for failure to perform a task (Report on the activities of Social Insurance Institution, 2013). However, this is only one side of the problem. The second one is the lack of efficiency in public institutions, a difficulty in investing potential savings in the development of an institution since saved funds are transferred back to the budget. Added to this is widespread aversion to risk and lack or limited knowledge of how to cope with a demanding reorganisation project (Davidson, 2005: 31–37, Szwarc, 2014). This is partly a consequence of lack of process approach in public sector organisations, which allows to focus on the main aim which is the development for the common good, to which each process should provide added value (Grajewski, 2012). An introduction of a process approach in public administration is supported by more efficient management by appointing and supervising objectives and linking processes with public organisation “products” which in turn correspond to identify customers’ and stakeholders’ needs and marginalized thinking about own area of activity (fragmented in its nature) in favour of holistic thinking about the public organisation and interacting in its favour (Batko, 2011: 41–42).

Opponents of outsourcing in administration refer to an international research conducted by the Oxford and Missouri Universities, which claims that 35% of the largest outsourcing contracts with companies resulted in failure within the last eight years. It was mainly due to improper construction of contracts and wrong strategy. In 2002, JP Morgan Bank signed a contract with IBM covering IT services worth 5 billion dollars and terminated it two years later, what resulted in the payment of a huge compensation (Outsourcing in the administration, 2015, Shared Services already works, 2015).

### 5.1. DETERMINING PERSPECTIVES OF USING OUTSOURCING IN THE PUBLIC SECTOR IN POLAND

Experts estimate that establishing Shared Services Centers would reduce costs of rendering services in administration even by 20–50% compared to operational costs of support services in the distributed model. According to calculations of the Ministry of Finance, joint purchase, accounting, IT and HR services for groups of offices could result in savings amounting to several billion zlotys per year (Function of state- to lead out, 2014). Shared Services Centers as an example of insourcing should be considered as the first step towards outsourcing, in which an external supplier based on a long-term contract carries out certain functions. It is a solution, which mainly systemizes organisational processes without introducing drastic changes in the employment structure and organisational culture. Thus, it can be a starting point for further actions, including selective outsourcing.

## 6. Conclusion

Three scientific questions were formulated in this article: What is the condition of outsourcing usage in the public sector in developed countries and in Poland? What kind of barriers in the use of outsourcing in Poland can be encountered? What are the perspectives of introducing outsourcing in the public sector?

In most of European countries, the public sector outsources more than half of their services (Andersson, Jordahl, 2011: 1–36). In Poland, this is only a few percent of service, mainly by government administration. Polish public sector organisations are not prepared to implement the idea of outsourcing. Partly because of binding legal regulations and partly because of aversion to risk, a lack of knowledge or limited knowledge on outsourcing, a lack of efficiency goals, difficulties in investing potential savings in the development of institutions. A part of these limitations can be eliminated by establishing

Shared Services Centers. It will allow reduction of costs and, at the same time, it will allow to introduce changes in the employment structure and organisational culture and prepare the organisations to outsourcing of these areas. However, a mental and legal barrier will remain. The condition of efficient implementation of outsourcing in public services is to create legal possibilities to employ it, thus eliminating the liability asymmetry. It is also important to achieve a legal and organisational stability in a

long-term perspective. A mental barrier is hard to eliminate and requires a huge effort.

Conducted analyzes allowed for identifying a general trend in public sector organizations, which, however, requires clarification. Completed studies are in some way a snapshot of organizations' state and temporary reflection of situation. The presented results should be considered as a starting point for further, more extensive analyzes.

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