

HOW OUTSOURCING CAN CONTRIBUTE TO THE EFFICIENCY AND EFFECTIVENESS IN THE PUBLIC SECTOR: SOME INDICATORS ABOUT PORTUGAL

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Abstract

Outsourcing is a practice used by different companies to reduce costs by transferring working with outside suppliers rather than performing them internally. Cutting costs are presented as a key benefit in hiring an outsourcing service. Besides to the overall increase efficiency by more rational and efficient allocation of resources, the management of the contract with the external provider allows organizations to adopt more stringent cost control mechanisms, as all components of the relationship with the provider are formalized and systematically evaluated. It also allows the organization to transfer fixed costs to variable costs, reducing the costs related to the acquisition, management, maintenance and updating of equipment, supplies and infrastructure, as well as reduce costs with the management and supervision of teams assigned to non-core activities.

The study presented here is an early stage of research to be developed on outsourcing in Portugal and its position in relation to public authorities in other countries. It aims to propose a theoretical model to explain the use of outsourcing in the public sector, as well as a set of variables that may improve understanding of the key determinants of the success of this research.

Key words: *exploratory research, new public management, public sector, outsourcing, qualitative research.*

Introduction

Within the public administration reforms, almost all governments have adopted and implemented some of the known concepts and tools of New Public Management (NPM) for inter and intra-organizational modernization of ministries and other government institutions, the following, somehow the logic of decentralization, management contracts focused on performance and results monitoring.

To evaluate the result of NPM in the size of the public sector (Hood, 1991 to 1995), there are two major policies associated with NPM for the study: the outsourcing and decentralization. The advantages of this selection based on two aspects. First, the effects of both policies can be measured quantitatively and, second, there is substantial theoretical literature that states that these policies may affect the public sector in size, expenditure and staff.

The outsourcing can assist in the conclusions about whether or not the reduction of public spending and workers led to greater efficiency and effectiveness in the public sector (Jensen & Stonecash (2005), whether the services provided improved or worsened or if there were effects on social welfare. Despite the limited objectives, this is still a valuable test for the

effects of decentralization, the size of the public sector, as outsourcing remains a popular tool for almost all governments around the world.

Even though outsourcing does not lead to a smaller public sector, if the working conditions and service quality improved and / or social well-being were enhanced, it can be said that the use of outsourcing can be interpreted as a benefit such a policy. If, however, the increase in government spending is not accompanied by this improvement, it may suggest the existence of high transaction costs, coordination and social appropriation of income by the private sector, or the private provision of public goods does not necessarily imply efficiency gains.

Outsourcing really has advantages to the public sector? Leads to efficiency gains? There are potential risks associated with the outsourcing process?

These are relevant questions that are intended to answer in this study. Although the phenomenon of outsourcing in Portugal is a relatively new procedure, we look to this study to obtain a deeper knowledge of perception of the different business areas about the phenomenon of outsourcing in the public sector.

Methodology of Research

This analysis focuses on the use of outsourcing by the Public Sector. The research method used was qualitative research and literature review in order to study the underlying complexity to the outsourcing problem, analyzing the interaction of certain variables and understand and classify dynamic processes experienced by social groups.

A literature review was made based on a survey of theoretical references, published by written and electronic media, such as books, papers and web sites pages. Proceeded to the literature on the most relevant definitions in these areas and made an analysis of the important documents published by international organizations such as the OECD and the United Nations, and other data sources on the subject at hand. In turn, the exploratory research aimed to provide greater familiarity with the issue, to make it more explicit in the construction of hypotheses.

Governance Models

The state's role has varied over time. In OECD countries highlights three types of public management models: The Max Weber Model (traditional), the New Public Management and the Governance Model.

The Max Weber Model

The liberal-oriented model was based on Adam Smith's view that the market is self-regulating concept which lasted until the 1st World War, so it was necessary to introduce market regulation mechanisms according to the Keynes theory.

With the reconstruction of Europe after the 2nd World War, there has been a strengthening of state intervention in the economy, as a producer of public services, through nationalization and the establishment of large enterprise public sectors.

In Portugal, the state intervention in the economy was recognized in the 1933 Constitution, as well as the protective principle of national economy, which led to the "corporatism and a capitalism of state direction", which lasted until the Revolution of April 25.

In the name of public service, in the 70s, state functions have widened in the social area and the planning and economic coordination. The 1976 Constitution came to establish, for the 1st time in Portugal an open economy, development-oriented and corrected by state intervention, ensuring the existence of a multi-sectoral economic system, and various types of economic initiative: public, private and cooperative.

The current Constitution establishes a model of balance between public interest and market economy, assigning different functions to the state in the organization of the economic process:

- The Entrepreneur State, as a producer of goods and services.
- The regulatory State, in terms of guidance and control of economic activity.

The New Public Management

With the emergence of globalization in the 80s, was observed in OECD countries a movement to reduce the state's role in economic and social life, which was accompanied by outsourcing of state functions in the provision of public goods and services, using several ways: privatization, outsourcing, public-private partnerships (concessions and licenses).

The outsourcing of state functions has two main objectives: restoring market mechanisms, and reduce the state role in the economy, which is no longer the direct provider of services and passes to the role of regulator.

For the mentors of the New Public Management (NPM), Osborn and Gaebler, there is a difference between political decision (leadership / direction) and provision of services (production): they defend the introduction of private management methods in the public sector (focus on outcomes rather than on inputs, management by objectives, etc.) and the corporatization of public services through partnerships between the public and private sectors.

In the NPM model, the allocation of resources is more efficient when resorting to markets where potential suppliers compete to attract consumers by reducing the price and improving the quality of services provided.

The NPM has become as a generic term covering a range of public sector reforms carried out from the eighties around the world and in most OECD countries (Hood, 1991; Pollitt, 2003 and Dan Pollitt, 2011). Most of the scholars agree on the approach that the NPM began as a phenomenon in Anglo-Saxon countries, and then absorbed and promoted by the OECD in a world-wide scale (Kettl 2000). Today, the NPM style reforms have been implemented in most of the Western world and beyond. However, setting up what it really means NPM, when translated into discrete policies, it is very difficult (Dunleavy and Hood, 1994; Flynn, 2002; Barzelay, 2002) and has made "hybrid" (Christensen and Laegreid, 2002).

The NPM is a standardized model for the reform of public administration. Originally appeared in Anglo-Saxon countries such as the UK, USA or New Zealand, currently the NPM is worldwide used. In Europe many municipalities are to start reforms within the NPM.

The Governance Model and the New Public Service

The governance model and the New Public Service appeared in the 90s appealing to the concept of democratic citizenship and political of Aristotle and organizational humanism.

This model, said of political rationality, based on the participation of citizens in the administration of Polis and shared notion of public interest through participatory management and accountability and shared responsibility. It is a cooperative and adaptive model, centred on partnerships between the public sector and the private sector, these partnerships that emerge from the social-political context to resolve common problems.

According to this model, the resolution of certain problems resulting from market failures or coordination failures is not feasible by the public sector without the involvement of a broad partnership with other stakeholders, public and private.

Governance becomes the network management, defined as sets of various interdependent actors in the provision of public services.

As the competition for the price is the central mechanism to coordinate the markets,

cooperation and trust are key factors in the articulation of networks, as well as reputation, reciprocity and mutual interdependence are essential to its success.

The Outsourcing

Framework

The purpose of this research is to determine whether the reforms resulting from the NPM implemented in the public sector make it smaller. Clearly, the comprehensive response would require at least quantification of all major practices associated with NPM. The problem here, as noted by the OECD (2010) is twofold. Firstly, some of the policies related to NPM are difficult if not impossible to quantify. Lead, for example, to the issue of league tables of the public sector. Set up a league table of the public sector would be very controversial in one country but would cause an outcry if implemented on a regional or international level, as each government would state the purpose of your audience. This sector would be different from their peers, making futile comparison. For many of the other policies, the main problem is the lack of data. For example, it would be interesting to quantify the effect of the use of "pay-for-performance" in the "performance budget" or "agentification".

What is Outsourcing

The government outsourcing can be defined as the provision of public services by other actors than those government officials (Minicucci and Donahue, 2004). Governments may outsource the provision of public services in two ways: they can buy goods and services from the private sector or non-governmental organizations in order to include them in their own production chain, called intermediate consumption, or can hire a company to provide public goods and services directly to the final consumer or citizen, called social transfers in kind via market producers (OECD, 2011).

There is no one definition of outsourcing. Let us then see some definitions. Outsourcing is a practice used by different companies to reduce costs by transferring portions of work to outside suppliers rather than performing them internally. Or an effective cost reduction strategy when used correctly. Sometimes it is more affordable to buy goods to a specialized company that produces them internally. Outsourcing is a way to add value to a business, becoming a centre of internal costs in an external service through subcontracting, allowing the release of the organization's resources and managers to focus their attention on the business areas of high strategic importance¹.

Outsourcing functions can take various forms, from the corporatization of function, to outsourcing and public-private partnerships, where the private sector is responsible, in whole or in part by financing, implementation and service management, and compensation based on standards quality or availability (service levels) agreed between the parties.

Outsourcing ("out" means "outside" and "source" or "sourcing" means resource) denotes the action that exists on the part of an organization to obtain resources / services from outside the company, i.e. resources / external services.

Various definitions of outsourcing were advanced by several authors, however, they seem to converge on the notion that outsourcing is associated with the procurement of services, which the organization itself to develop, but who chooses to hand over to a third party, to better focus in its core business.

Outsourcing, a term that often refers to the use of outsourcing is a strategic management mechanism that organizations use and that is usually made for a specific period of time and may

1 <http://www.knoow.net/cienceconempr/gestao/outsourcing.htm>

represent a partial hiring or even all services. The paid contract may also involve the complete or partial transfer of human and technological resources, in which the supplier shall assume responsibility for the same.

However, the concept of outsourcing is often confused with simply hiring a service to a supplier. However, some authors try to define the concept a little further, defining it as the strategic use of external resources to perform tasks that have traditionally been developed internally (Jensen & Stonecash, 2005). There is clearly a difference between outsourcing and the outsourcing of resources, that lies in the fact the latter involve a significant restructuring of certain activities, often including transferring people from parent company to another specialized company, generally smaller, with the necessary skills the development of these activities.

Outsourcing began to have a greater expression within the Information Systems and Technologies. The small companies resorted to outsourcing as a way of supporting the data processing costs, which involved the purchase of expensive equipment as well as the allocation of specialized personnel. Later, larger companies have chosen to adopt the strategy of transferring the data processing department, including the said department workers for an outside company that would undertake to provide the service.

Outsourcing, the result of increasing profitability as evidenced by some companies that use these services has been growing significantly over time. The business model that began to be established based on a simple trade deal between two entities, was evolving into other forms of relationship where the prospect of sharing cost / benefit came to be present.

In line with what is happening elsewhere in Europe, also in Portugal the demand for outsourcing services has been growing. The economic environment requires organizations to adapt structures to make them more flexible and to focus the internal know-how in innovation in core areas of the business. Simultaneously, the support areas have to be managed with increased levels of efficiency and productivity. The need to integrate new technologies and restructure operating systems and processes, generates costs and requires access to skills and expertise which are not always within organizations.

Faced with these challenges, the use of the outsourcing of services to manage, optimize and innovate systems and support processes, through external partners with expertise and specialized technology, has been showing increasing financial benefits, operational and technology for organizations. More and more organizations establish comprehensive and long-term strategic partnership with external partners who take on the operational processes of the organization.

Typologies and Outsourcing Models

So, raises the question of what level or depth with which it will promote outsourcing in an organization. Determining the level and depth with which it will operate this implies the adoption of the following types or outsourcing models:

Table 1. Outsourcing definitions.

Whole outsourcing or pure	Partial outsourcing, selective or hybrid	Traditional outsourcing	Strategic outsourcing	International outsourcing	Transformational outsourcing
In this case it resorts to outsourcing to completely externalize a particular function and in this situation all inherent functions to this activity are transferred to companies outside the organization, including the specific needs of human resources.	In this case it resorts to outsourcing, for example, in the case of information systems, only for programming a new application, and the system maintenance will continue to be made within the organization with the human resources and organization materials.	Traditional outsourcing consists of moving non-core services from one organization to another, that is, organizations are more focused on its core business and choose to hire other external entities for the management of services considered non-strategic (distribution, security, food, cleaning, etc.).	The strategic outsourcing consists in moving the strategic services to an outside organization, namely services related to the core business of an organization. External entities responsible for these services have evolved from the main factor, (reducing costs) to a trust relation between the entity that hires and the supplier (subcontractor).	International outsourcing is used when we talk about a subcontracting relationship, but internationally, i.e between organizations from different countries. Sometimes it is possible to obtain lower costs and a greater exchange of knowledge and experience with this type of subcontracting.	The transformational outsourcing is defined as an association with another organization with the aim of achieving together a development to obtain a faster and more sustained performance. Today, this type of outsourcing is considered the most advanced and effective.

These models can still add up the **outsourcing processes** - a new typology that, in recent times, has been extended to some areas of business. In this typology the contractor is responsible for the development of an entire business function. It is also possible to identify other types of outsourcing, which is associated with the benefits to the business of the organization. The typology relates to contracts that are established based on contributions from external entity to the company. The contract is indexed to the gains that the external organization can get to the company, and financial compensation is dependent on these capital gains. The peculiarity of this typology is that it provides a breakdown of risk both for the organization that resorts to outsourcing, as by the provider of the services or products target of outsourcing. The main difficulty relates to the identification, at the outset, both the benefits and potential risks.

In the case of Public Sector outsourcing can be differentiated into two types:

- The external outsourcing (contracting out), which is defined as subcontracting existing external entities in the market.
- The internal outsourcing, whose definition is the subcontracting of other Public Administration bodies.

Shared Services Outsourcing

This type of outsourcing is distinguished from others in that, in general, the provision of goods and services, although no longer be made directly by the body, remains in the same business group or, in the case of Public Administration, the same legal entity (State). It is the creation of common structures and cross to the various bodies concerned with the realization of non-integrated activities and tasks, generally, in the organization's core-business and which therefore can be transferred to shared service centres. These tasks, although they mostly an

administrative nature or logistics, are vital to the smooth running of the organization. Areas such as the following may be included in shared services outsourcing:

Table 2. Activities.

Activity	
Human resource management	Transport Services
Financial management and accounting	Car fleet management
Negotiation and procurement of goods and services	Help desk and customer call centres
Building management	Legal advice
Security services	Information systems and communication, including the technical support
Cleaning services	

If, in principle, the concept of outsourcing appears not to show the difficulties of interpretation, and even often used as a generic term, the different types of outsourcing remit the concept to more complex conditions that require further analysis, in deciding to adopt it. It should therefore be considered a set of factors when assessing the possibility of using the outsourcing, namely: (1) What services or products will be subject to outsourcing? (2) It will resort to outsourcing of core services and / or products or non-core to the business? (3) What outsourcing typology to adopt? (4) There will be an asset transfer of ownership? (5) What responsibilities can be demanded? (6) Which degree of reliance that will be? (7) What are the risks involved and what their distribution? (8) There is a possibility of loss or breach of confidentiality?

These and other questions should be evaluated in advance and weighted together with the advantages and disadvantages of using this instrument management in both the private management, such as in public administration and in particular on the latter because it is publicly funded.

As the **outsourcing advantages** we can enumerate the following: access to new technology and human resources; clear and objective control schedules; objectivity in trading; flexible management; highest concentration in business; access to skills and expertise; acceleration of modernization processes; risk sharing; release of resources and respective redirection; reduction and control of operating costs; potential gains derived from economies of scale resulting of the subcontractor have access to an aggregate of enterprises, optimizing costs and services; association of the organization to the performance of contractor (which can also be considered a disadvantage).

Cutting costs are presented as a key benefit in hiring an outsourcing service. In addition to the overall increase of efficiency by more rational and efficient allocation of resources, the management of the contract with the external provider allows organizations to adopt more stringent cost control mechanisms, given that all components of the relationship with the provider are formalized and systematically evaluated. It also allows the organization to transfer fixed costs to variable costs, reducing the costs related to the acquisition, management, maintenance and updating of equipment, supplies and infrastructure, as well as reduce costs with the management and supervision of teams assigned to non-core activities.

The existence of an outsourcing contract with clear identification of the fixed and variable cost structure can ensure better financial control and cost forecast. The possibility to benefit from the scale effect through access to more competitive services, allows a more efficient management of investment that can be channeled into the core areas of business.

Outsourcing of processes allows the organization to optimize its internal resources and simultaneously rationalize, automate and simplify them, enhancing efficiency and productivity

gains. The contract with the external provider allows promote continuous improvement by establishing demanding service levels, aimed at increasing the availability of services and improving response times by the organization to its end customers.

The configuration and outsourcing contract management are also an important aspect to ensure maximum benefit to the organization. Therefore, it is necessary to take into account:

- a) A clear definition of the strategic objectives to be achieved;
- b) A proper structuring of the contract between the organization and the provider and the strict compliance with the rules of the relationship between the parties;
- c) The adequacy of the implemented service model;
- d) Assessment indicators and results.

The relationship of partnership with the service provider must ensure access to resources and valences needed to ensure the stated objectives and the commitment to innovation on a going concern perspective, considering the overall growth of the organization in its market segment.

The use of cloud services has grown in recent years and allowed to add flexibility to outsourcing contracts. The high flexibility that characterizes the management of outsourcing services in cloud computing environments allows increasing speed of access to services and enables a more flexible cost management. Enables organizations, for example, use additional computing power as required without any initial investment in infrastructure. Organizations can thus combine the advantages of outsourcing and cloud services, promoting agility and the ongoing adjustment of its operational processes to changing business needs.

However, outsourcing can also have disadvantages, such as: inability to control the entire production cycle / provision of goods / services; dependence on other entities / suppliers, in particular if there is no competition between suppliers; Subject to the supplier instability risks; subject to human resources management policies of third parties; potential breaches of confidentiality in respect of internal processes; potential breaches of confidentiality regarding customer or citizens data; loss of material property and / or intellectual; transaction costs (associated with trading, maintenance and accountability of good service provider or contractor); decreased productivity associated with internal discontent; potential reduction of public values of neutrality and impartiality; the organization may be associated with the performance of the contractor (which can also be considered an advantage).

In the case of the public sector, the use of outsourcing may involve risks such as high costs, service provider dependency, loss of control and confidential information, decreased level of quality, loss of capacity for innovation in processes and loss of skills and resources strategically.

Outsourcing as Efficiency Factor in Public Sector

General strategies to achieve more flexibility, transparency and guidance for targets in the relationship between different agencies and levels of government are well known.

With regard to funding, there is an evolution of hard and detailed budget of subsidiary bodies for more comprehensive and flexible budgets. It is expected that the management of human resources to leave the classic and uniform system of payments, career and promotion and move to support more individualized and specialized solutions for each type of industry, agency and personal. Finally, the main objective is to replace the traditional bureaucratic mechanisms to enforce the rules and highly hierarchical, for network systems and peer relationships that demonstrate flexibility, focus on results, and the ability to learn.

The main reason for the choice of outsourcing by the organizations, it is because they want to bet on their core activities, subcontracting external entities for the remaining services. In this way, organizations can free up internal resources to carry on its core business. These

resources can be both financial and human, depending on the purpose of each organization; it is a cost savings or a release of personnel in outsourced activities. The processes that should be applied to outsourcing are the low strategic importance of processes for business and simultaneously low risk.

Therefore, the processes that outsourcing is most often applied are: accounting, payroll, economic and financial consulting, strategic consulting, billing services, freight transport, legal advice, recruitment and selection of personnel, training, equipment maintenance, cleaning services, market research and advertising, among others.

Outsourcing, by itself, is no guarantee of benefits; needs to be framed in the correct models and with the necessary capabilities. Despite the outsourcing potential performance it does not always meet expectations, with a number of issues to consider, such as: (a) confidential information held by the outsourcer, (b) business premises activities provided in outsourcing, (c) outsourcer staff contact with the end customers of the client company, (d) processing of personal data, (e) contractual guarantees of level and quality of service, (f) reputation for competence and service integrity, (g) adherence to good habits.

It is usual the organizations resort to outsourcing analyzing only the advantages associated with them, disregarding the disadvantages or the very context that surrounds them. If for some organizations the gains from the adoption of outsourcing were very positive, for others brought terrible problems. Outsourcing is not an effective solution for every organization.

Only after a detailed evaluation of the advantages of outsourcing and a thoughtful reflection about the disadvantages and the context in which the organization operates, it will be possible to make a correct assessment of the viability of the use of this instrument. Even in cases wherein is assumed to be advantageous to adopt outsourcing, should be designed carefully the use of this tool, evaluating between different types that best respond to the organization's objectives.

In the context of public administration outsourcing is understood as a practice by which the government hires the provision of goods or services from the private sector. It is important to understand that this contract differs from traditional purchases of goods and services, in that it is based on a temporal contractual relationship of medium / long term. In this context the term implies the outsourcing of some operations that had previously been made public within the organization and that, by using market mechanisms such as outsourcing, have been made by other organizations. Although initially it had been mostly used by private sector companies, outsourcing came to the Public Administration in the context of reforms relating to management undertaken in the public sector all over the world in the last decades of the twentieth century. These reforms have favored a state setting dwindling, assuming delivery to the private sector of a growing set of activities that until then were in the public sphere.

The Partial Outsourcing in Public Administration

Considering the application of new doctrines in administrative reforms, it is not surprising that from the 80's, intermediate consumption held by governments has increased considerably. Intermediate consumption represents the set of goods or services that a government hires and consumes during a production process aimed at the production of public goods or services. In this case, the main activity continues to be developed in the public organization, but some activities, generally supportive, are contracted abroad, by resorting to outsourcing.

According to an OECD study, Portugal was until very recently among the countries that have a lower intermediate consumption in the government. The same study concluded that in this context, among the activities that were more outsourcing target are the cleaning, security, catering, maintenance of spaces and buildings, transportation, waste disposal and systems or information technology.

The Total Outsourcing in Public Administration

In a completely different perspective of the former, we have the option to outsourcing as a management tool, which completely transfers the production activities and / or provision of public goods and services to the market. In these cases the state continues to fund public services, but refers back to the private sector to its provision. Portugal resorted to the total outsourcing moderately, with near a fourth provided by the private sector.

Analyzing the type of service that was target total outsourcing, we could verify that the public transport service and waste collection had higher values than the social services such as hospitals, kindergartens and rehabilitation facilities, nursing homes or homes for the elderly.

As for education, which usually absorbs a considerable share of the resources of government budgets in the case of primary and preparatory education, Portugal was not one of the countries that resort to the private sector. Still in the education sector, but at the secondary and tertiary level, Portugal was one of the countries that resort to the provision of the private sector.

Outsourcing has emerged as a response to pressures to obtain a state dwindling. Functions that were traditionally performed in the public sector began to be performed, in whole or in part, by private sector entities. This decrease in the functions developed by the State was based on the doctrines of managerialism, particularly the NPM (Pollitt & Bouckaert, 2003). The outsourcing focused mostly on services not included in the entity's core business such as cleaning, security, catering services, maintenance of spaces and buildings, transportation, waste collection systems or information technology. The reason why these services were the most chosen has to do with the lower use of public values, more present in services and goods such as health or education and the possibility to identify, in the contract, the expected outputs.

If on the one hand the use of outsourcing appears to have had a positive impact in a significant part of the services or goods provided, registering gains in efficiency while maintaining, or even increasing, the quality of goods and services provided, by another there were somewhere the use of outsourcing corresponded to a complete failure (Jensen & Stonecash, 2005). The use of outsourcing has made the State was concerned with issues that were not previously foreseen: the State had to negotiate a posteriori with the private sector the protection of employees in the public sector which are now managed under different rules and methods of work of those who had before.

Although outsourcing has matched to an increase of efficiency, must not be overlooked important aspects such as the increase in administrative costs for the management and supervision of contracts and the costs of the consequences and impacts on human resource management, along with a possible loss quality by the absence of sufficient monitoring mechanisms to assess the goods and services provided. Should not be a target for outsourcing goods or services whose standards of efficiency and quality are not possible to accurately measure. The transfer itself or risk sharing should be planned and safeguarded in the contract at the time of decision making.

It is therefore important that the decision to adopt the outsourcing be preceded by a thorough analysis, first the nature of the good or service target of outsourcing, and second the type resorting to outsourcing. Simultaneously, and thirdly, it must be made a proper planning of contracts and monitoring mechanisms of contract enforcement, considering at the same time, and at each stage, the advantages and disadvantages of adopting this solution. Furthermore, in each of these phases there shall be traditional public values of impartiality, transparency and neutrality, universal access, in addition to the values of efficiency and effectiveness that usually drive the outsourcing decisions.

According to Ribeiro (2014, p. 87) in a study conducted at the municipal level, the results have shown that the population variables, population density, income of municipalities, municipal debt and civil servants influence outsourcing decisions of municipal executives.

Financial issues are also important issues in deciding to outsource public services. Finally, the lobby groups / stakeholders, including civil servants emerge as factors that have a strong opposition to outsourcing decisions involving entities with a strong emphasis on business management.

Production Costs and the Outsourcing of Government

In the opinion of the OECD (2013, p. 84), production costs are the share of government spending dedicated to producing goods and services. While some governments generate most goods and services, other entrust a third party a big part of the production, especially to the non-profit organizations or private entities. Government decisions on the amount and type of public goods and services to produce, and the best way to produce them, influences how they are delivered to citizens. Outsourcing has been used as a way to get external knowledge about providing products and services to more efficient costs, although actual results can vary. In addition, the use of outsourcing increases the role of government as a source of demand for employment in the non-governmental sector. The government outsourcing is measured by the amount of expenditure on goods and services purchased by the state, central and local governments.

According to the same source, in 2011, the production costs of government goods and services amounted for nearly a quarter of GDP on average among OECD member countries. Between 2001 and 2011, the share of government production costs in GDP increased on average by 1.6 percentage points among OECD member countries. However, this trend reversed itself after 2009, resulting in a contraction of 1 percentage point. About 56% of the adjustment took place through a reduction of salaries of civil servants.

Table 3. Production costs as a percentage of GDP (2001 and 2011).

		2001				2011			
		Total production costs	Compensation of general government employees	Costs of goods and services used and financed by general government	Consumption of fixed capital	Total production costs	Compensation of general government employees	Costs of goods and services used and financed by general government	Consumption of fixed capital
PRT	Portugal	22,2	13,9	6,4	1,9	23,0	11,4	9,4	2,3
ESP	Spain	18,3	10,1	6,7	1,5	22,3	11,6	8,7	2,0
GBR	United Kingdom	20,8	10,1	9,7	0,9	24,6	11,1	12,5	1,1
OECD	OECD	21,6	10,8	8,9	1,9	23,2	11,0	10,1	2,0
USA	United States	18,5	9,8	7,3	1,4	21,5	10,7	9,2	1,6

Source: OECD (2013, p. 82-83)

In terms of the structure of production costs, almost half (47%) is the remuneration of civil servants in 2011, while a lower percentage (44%) corresponded to outsourcing (used goods and services financed by the government). The remaining 9% of production costs represent fixed capital consumption. In 2011, in OECD member countries, outsourcing of government represented on average 10% of GDP, although its importance varies greatly between countries.

Table 4. Structure of production costs (2011).

	2011	Compensation of employees	Costs of goods and services used and financed by general government	Consumption of fixed capital
PRT	Portugal	49,4	40,7	9,8
ESP	Spain	52,2	38,9	8,9
GBR	United Kingdom	45,1	50,7	4,3
OECD	OECD	47,4	43,6	8,9
USA	United States	49,8	42,7	7,5

Source: OECD (2013, p. 82-83)

Taking into account the data from the OECD (2013, p. 82-83), Belgium, Japan and Germany, less than 40% of expenditure correspond to intermediate consumption, which implies that resources are spent primarily as provision delegated to third parties. In contrast, Switzerland, Denmark, Finland and Estonia are spending about 80% of outsourcing resources in intermediate consumption and therefore the government remains responsible for the direct provision. In relation to the outsourcing data, Portugal has a balance between providing handed over to third parties and the direct provision.

Table 5. Expenditures on general government outsourcing as a percentage of GDP (2011).

2011	Goods and services used by general government	Goods and services financed by general government
Portugal	4,7	4,7
Spain	5,9	2,8
United Kingdom	12,5	0,0
OECD	6,7	3,4
United States	9,2	0,0

Source: OECD (2013, p. 82-83)

Conclusions

Outsourcing has emerged as a response to pressures to reduce the state. Functions that were traditionally performed in the public sector began to be performed, in whole or in part, by private sector entities. The reduction of state functions was based on managerialism doctrines, particularly the NPM. Existing studies on outsourcing occurred in countries which earlier applied these doctrines and, for this reason, they showed early results.

It cannot be forgotten that the NPM has pursued not only a leaner public sector, but also a more efficient and effective public sector, to increase consumer satisfaction and choice. Though outsourcing has not led to a smaller public sector, if the working conditions of public sector and the quality improved or welfare has been strengthened, this could be interpreted as a benefit of such a policy.

If, however, the rise in government spending was not accompanied by such an improvement, this may suggest the existence of high transaction costs, coordination and ownership of social performance by the private sector, or the private provision of public goods does not imply necessarily efficiency gains. The use of outsourcing measures in public

administration must be well-considered and evaluated, it is necessary to ensure that the values of efficiency and effectiveness that usually drive the outsourcing decisions are safeguarded.

In respect of the outsourcing, Portugal is well positioned as it awarded to the third parties substantial part of supplies of goods and services; however, there are still not enough data to assess whether this measure has resulted in benefits to the state and if should be strengthened or decreased.

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Received: September 21, 2016

Accepted: November 25, 2016

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