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## ***"Government Outsourcing and Organizational Performance: The Employee Perspective"***

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Usually, city or county services are provided by city and county employees. Police officers, librarians, kindergarten teachers, and building inspectors, for example, work for municipal governments to provide services to residents.

But sometimes local governments decide that they would rather hire a private company to perform municipal services. If you live in Hillsborough County, your garbage is picked up by a private contractor paid with your tax dollars. The Hillsborough County School Board is considering outsourcing custodial work to private contractors. With outsourcing becoming increasingly common, an understanding of its role in local government and management becomes an important research task.



Outsourcing in the public sector has been extensively used as an important policy tool employed in the name of greater efficiency and a decided preference for business-like practices. Government outsourcing has soared over the last few decades under the New Public Management (NPM) movement that had swept the globe, but its origination goes back to the American Revolutionary War: the U.S. Army outsourced supplies needed in the war. From both practical and scholarly perspectives, proponents of market-oriented reforms—in particular, government outsourcing—postulate that these market-oriented reforms will improve public organizations' performance through increasing administrative efficiency and effectiveness. While most of the scholarly interest has been outward on these economic values—efficiency and effectiveness—in evaluating the outcomes of government outsourcing, government personnel's perspective on the effects of outsourcing on organizational performance has been rarely evaluated. This renders fractional explanations of outsourcing outcomes.

Understanding how employees evaluate the impact of organizational performance is meaningful. As one of the key public sector constituents, government employees have different interests, thoughts, and values that set them apart from other constituents. In particular, public employees have witnessed the continued expansion of government outsourcing for several decades as an alternative tool for delivering public services, and therefore, hold certain expectations about the consequences of outsourcing—both good and bad—for themselves and their organization. What employees think and how they feel about their organization, its policies, and its leaders influence their motivation, behavior, and ultimately their performance. Therefore, to explore how government outsourcing influences employee perceptions and attitudes can foster a broader understanding of how this practice affects public organizations.

A review of the academic and professional literature reveals two contrasting effects of government outsourcing: government outsourcing can have both positive and negative changes in organizational contexts and conditions that will eventually affect organizational performance. As one of the potential positive changes, government outsourcing can bring the expertise both private and nonprofits organizations hold, and public agencies can utilize their expertise and experience in providing public services through outsourcing with these organizations. Government outsourcing can also offer learning opportunities to gain new knowledge and ideas to government officials. Next, it can also reduce red tape for employees to follow: the NPM movement highlights streamlining internal administrative and procurement processes in fostering efficiency and effectiveness, while leaving more discretion for employees in managing partnerships with contractors to agencies. Finally, given that contractors typically put a priority on customer satisfaction and responsiveness to the customer needs, government employees can witness increasing responsiveness of public services and programs if public agencies outsource those services and programs.

On the other hand, there exists a list of potential negative changes that government outsourcing may bring about to public organizations and employees. First, government outsourcing involves a potential issue of agency costs. Given the prevalent information asymmetry between a principal (public agencies) and an agent (contractors), the principal cannot always determine if poor results are a function of the agent's behavior or of other circumstances. Agency costs will eventually lead to failing the promise of improving the quality of public services outsourced to contractors. Next, outsourcing government functions or departments may also generate a threat on job security among employees since outsourcing generally entails eliminations or replacements of current positions and employees. Moreover, too much emphasis on market-oriented values (i.e., efficiency) by government outsourcing may conflict with traditional democratic values (i.e., equity) that public employees have been educated to pursue during their career.

With the aim to fill the current gap in the literature, I and my colleagues—Gyeo Reh Lee (Ph.D. Candidate), Deanna Malatesta (Associate Professor), and Sergio Fernandez (Associate Professor)—in the O'Neill School of Public and

Environmental Affairs at Indiana University have empirically explored governmental employees' perspective on the potential consequences of government outsourcing in organizational performance. Our findings do not support the traditional narrative that market-oriented practices improve organizational performance in the public sector. We rather report evidence of the negative impact of government outsourcing on employees' evaluation on organizational performance. Specifically, as government outsourcing activity increases, employees report lower agency performance. Further, fewer employees report job satisfaction as they observe an increase of outsourcing activity in their agency.

Our findings highlight the critical roles of managers in designing and implementing internal managerial practices to instill positive outcomes of government outsourcing. For example, given the critical role of organizational innovativeness in improving organizational performance, agencies can benefit from creating work environments which allow their employees to gain new expertise and methods from contractors. More importantly, agency leaders should frequently and openly communicate with employees to determine if they perceive government outsourcing as fulfilling its promises.

This research has recently been accepted for publication in *The American Review of Public Administration*. To access the full article, [email Dr. Shinwoo Lee](#).