

Outsourcing vs decentralisation: A comparative analysis in Central and Eastern Europe,

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Abstract

Outsourcing and decentralisation are two of the major practices associated with New Public Management. While applied differently, similar objectives are pursued in both cases, including reducing the size of the public sector in order to generate public savings, creating a competitive behaviour at the local level with a customer orientation approach, increasing the efficiency of the public sector or reducing red tape. On top of all, both practices imply that a one-size does not fit all. There are continuous debates in some parts of Central and Eastern Europe on whether outsourcing and/or decentralisation could be considered viable solutions for ensuring a smooth transfer of responsibility for delivering certain public services, from the central level of administration to sub-national institutions or non-governmental entities without, however, challenging the ultimate authority of the central government. These discussions are particularly sensitive in those unitary states that are facing strong demands from the sub-national level for more devolved power, authority or responsibilities. Scholars have frequently analysed outsourcing and decentralisation either separately or together with other practices associated with New Public Management. Consequently, there is a limited amount of comparative research in relation with the two. The research focus in this paper is twofold. In the first part of the research we thoroughly analyse the concepts of outsourcing and decentralisation. Building on this, in the second part of the paper we compare the two practices against each other focusing on their economic and financial impact, their qualitative impact and their political impact. The research aims to complement previous studies which have assessed these two practices either individually or against different criteria. After an in-depth assessment of both practices, we propose to answer three questions related to the possible effects of outsourcing and decentralisation on the public budget, on the quality of the public service and on the political dimension. The results of the research suggest that outsourcing can generate a reduction of public spending and a quality increase in the public sector only when the state follows transparent and competitive public procurement procedures. Decentralisation on the other hand can generate public savings in the long term without, however, guaranteeing an increase of quality in the public sector delivery. Finally, results suggest that especially in the unitary states neither decentralisation nor outsourcing can significantly lower the demands for more autonomy transferred from the central level. Consequently, if planned thoroughly and implemented transparently, both processes could be viable solutions in Central and Eastern Europe.

Keywords: decentralisation, NPM, outsourcing, privatisation

JEL Classification: A10, H10

Introduction

Ever since the New Public Management (NPM) reforms started in the early twentieth century, a myriad of scholars have become interested in assessing their expected outcomes. Each policy of this new framework has been duly scrutinised over the last three decades or so and many papers presenting both pros and cons have been issued. Nonetheless, there have been rather few studies comparing these policies and suggesting which works better and where. This study aims to fill in a part of that void. Out of all the policies NPM managed to promote, decentralisation and outsourcing proved to be among the most popular. Due to the communist centralised system, both have been inaccessible in Central and Eastern Europe until the beginning of 1990s. After the fall of the Iron Curtain, international actors such as the European Union, the World Bank or the IMF have urged the ex-communist countries to undertake relevant measures for reforming the administration. In this regard, decentralisation and different forms of contracting-out to private companies have started to top the political agenda. While incipient steps have been taken, most governments continue to be rather centralised fearing that a delegation of responsibilities might reduce their authority and increase the demands of some sub-national actors for self-administration. This paper aims to assess whether these fears are realistic and whether the use of these two policies can lead to better governance.

Mostly used in the private sector, outsourcing has also been pushed in the public sector through various forms, including direct contracting for the delivery of specific public services, different forms of PPPs and outright privatisation. Historically, left-wing governments have been more reluctant to outsource public services, while right-wing governments have been more inclined to do so (Bel and Fageda, 2007). Outsourcing supporters, who often have roots in public sector economics, promote contracting as a way to reduce service costs through competitive efficiencies and economies of scale. Outsourcing critics, who often have roots in traditional public administration fields, counter that contracting tends to sacrifice public interest values and to reduce service delivery capacity. One-size-fits-all judgments are nonetheless unrealistic since outsourcing can either improve service delivery or it can reduce it, depending on the market conditions and the applied management (Brown, Potoski and Van Slyke, 2006).

While looking for a responsive, responsible and accountable governance, countries have started to re-examine the roles of their different levels of government and embarked in different decentralisation processes (Shah, 2006). Thus, decentralisation became one of the central elements in changing the public sector, especially in places where public administrations were characterised by excessive centralisation and lack of flexibility (Hope, 2001; Osborne and Gaebler, 1992). Its primary objective has been the improvement of the responsiveness of governments to public concerns followed by an increase in the quality of services by providing tailored localised support (Borins, 1994; Hope 2002; Silverman 1992). It also aims to maintain the size and the cost of the public sector at affordable levels and to lower the budget deficits (Chemengich, 2013).

While these policies have similar aims in terms of benefits, policy makers may need to apply them differently. Outsourcing is usually a temporary arrangement which can be reshuffled, if needed. Decentralisation, on the other hand, is usually a process designed to last years, if not decades. Therefore, it has to be prepared thoroughly. Moreover, there are services that can be decentralised but should probably not be outsourced. Conversely, some

activities could be outsourced to private providers, but are unlikely to be decentralised to lower layers of government.

In the first part the article reviews briefly the NPM framework before starting a full assessment of the two policies including the reasons for undertaking them, expected benefits, criticism and potential risks. Based on all these, it aims to answer three questions related to the possible effects of outsourcing and decentralisation on the public finances, on the quality of governance and on the political dimension. The study concludes by discussing some potential good practices which could be of interest for policy makers in Central and Eastern Europe.

Methodology

The current paper provides a theoretical overview following an extensive literature review. The secondary data used in the research is both qualitative and quantitative covering a wide geographic area. The authors have focused mainly on data from Europe but also used information from other regions, where relevant. Apart from the articles and the books of renowned scholars with a high degree of validity and reliability, data was also collected from databases made available by EUROSTAT and the World Bank.

1. New Public Management (NPM)

For many citizens, as well as for academics and practitioners, good governance has become as imperative to poverty reduction as it has become to development more generally (Grindle, 2004). In this regard, the traditional model of organisation and delivery of public services, based on the principles of bureaucratic hierarchy, unaccountability, planning and centralisation, direct control and self-sufficiency, has been challenged by a market-based public service management or enterprise culture (Chemengich, 2013).

Furthermore, in recent decades, major changes in politics, economics and society have challenged the traditional model of public administration expressed as “an unresponsive but invasive state, overextended state, or private interest state captured by privileged groups” (Cheung, 2005:258-259). NPM questioned this perspective and promoted a new framework focusing on management, not on policy, on performance appraisal and efficiency, on monetary incentives and on the freedom to manage. It brought forward a new set of interrelated principles applied to reduce the costs of government by encouraging contracting out services to private providers and managed competition of government services. NPM was built on a long history of business practice usage in government and a resurrection of old ideas about governmental form and functions. Started in the early twentieth century when reformers demanded greater accountability in government (Judd and Swanstrom, 1994), the framework developed over the decades by promoting managerialism and market orientation as its two main principles. Managerialism is defined by Pollitt (1993) as a continuous increase in efficiency, the use of ever-more-sophisticated technologies, a labour force disciplined to productivity, a clear implementation of the professional management role and the idea that managers should be given the right to manage. Market orientation implies indirect control rather than direct authority and is characterised by a continual improvement in quality, emphasis on devolution and delegation, appropriate information systems, emphasis on contract and markets, measurement of performance, increased emphasis on audits and inspection (Walsh, 1995).

NPM has aimed to increase the efficiency, effectiveness, and economy of the public sector through the introduction of private sector tools and principles in which performance indicators form the basis of enforcement, leading in many countries to processes of

outsourcing, privatisation, decentralisation, downsizing, debureaucratisation or managerialisation (Hood, 1995; Pollitt, van Thiel and Homburg, 2007; Pollitt and Bouckaert, 2011). The framework suggests the exclusive reliance on public bureaucracy for service delivery should be replaced with a policy focusing on an increased use of the private sector and non-governmental organisations as alternative mechanisms of service delivery. It advocates empowering rather than serving, public participation, citizen empowerment, innovation, use of modern information, communication technology and e-Government. It promotes debureaucratisation by cutting red tape, shifting from systems in which people are accountable for following rules to systems in which they are accountable for achieving results, treating citizens as customers, empowering employees to get results, and producing better government for less (Hughes, 2003). Re-engineering (Hope, 2002) or invigorating (Klitgaard, 1997) public institutions is enforced through a refocus of the public-sector functions by decentralising central government functions to local governments or outsourcing to the private sector, by introducing competition in service provision, by using explicit standards and measures of performance with an emphasis on outputs and by enhancing greater transparency (Therkildsen, 2001). NPM requires a separation between policy and administration, an enhanced attention for public managers and their management skills and new management techniques for the public sector like professional human resources management, benchmarking and results orientated planning and control (Pollitt, van Thiel and Homburg, 2007).

The NPM literature is extensive and covers many areas. However, there is no unanimous empirical evidence on the effective achievement of efficiency and cost reduction that NPM advocates (Simpson, 2009; Andrews, 2011, Andrews and Van de Walle, 2012; Hood and Dixon, 2012). Interpretations of its origins and evolution, in particular, have split the academia. The advocates of NPM argue that pressing demands for change have changed the historical traditions of public administration (Kumara and Handapangoda, 2008). Sceptics, however, link the principles of the NPM directly to long-standing administrative traditions and contend that recent changes in government are rather incremental and less universal (Lynn 2001). Frederickson (1997), a critic of NPM, argued that a business-like government could become more corrupt and more unethical. Likewise, Hvidman and Andersen (2014) suggest that private management methods are not always successfully transferred to the public administration. Accountability and capacity are also seen as shortcomings of NPM (Chemengich, 2013). The core of these criticisms was partly due to the observed economic rationalism and lowering standards of public service, in fields like public health care and education (Haque, 2001).

Despite some differing views on NPM, many developing countries in the 1990s have experimented some of its accepted components (Polidano and David, 1999). Most scholars coincide that the framework began as a phenomenon in Anglo-Saxon countries, and was then picked up and promoted by different international actors on a global scale (Kettl, 2000). Currently NPM-like reforms have been implemented across most of the Western world and beyond. The 'core NPM' countries tend to be unitary states with majoritarian political systems. Other countries have been more selective and adaptive.

2. Outsourcing public service delivery

2.1. Defining Outsourcing

Outsourcing in the public sector is defined as the process of contracting a private company to provide a service previously performed in-house by the government. In many

cases, it involves a transfer of management responsibility for delivery of service and internal staffing patterns. Subcontracting, contracting out, staff augmentation, flexible staffing, employee leasing, professional services, contract programming, consulting, and contract services are all terms which refer to outsourcing (Sarpin and Weideman, 1999). Service contractors available in the market include organisations ranging from private providers, to charities and organisations from the voluntary sector. The interest of all these non-state sector in contracting is usually to secure a regular source of revenue and gain enhanced recognition and credibility (Siddiqi, Masud and Sabri, 2006). Nonetheless, public sector organisations retain the financing of the outsourced activities and bear the overall responsibility for performing the service delivery (Jensen and Stonecash, 2005).

Outsourcing is the most common market-type mechanism used by governments. It allows governments to design and control contract implementation and to hold the providers accountable for management and performance (Sevilla, 2006). It can also be seen a form of privatisation because the private firm gets residual gains from the service delivery process, even though government retains control over aspects of service delivery (Vickers and Yarrow, 1991). Even though the policy is not new to administration in government, the extension of the practice to activities that have traditionally been carried out by the government, including various activities within public health and water services, is a novelty of the NPM (Engida and Bardill, 2013). Consequently, there has been considerable interest in recent years in the notion of ‘the contract state’ (Dunleavy et al., 2006; Hambleton, 1994; Le Grand, 2007; Mintzberg, 1996; Osborne and Gaebler, 1992; Sorabji, 1994). For reasons of openness and accountability, outsourcing is usually done by way of a competitive tender which should allow the government to retain control over the specification of the service, the management of the contract, and the evaluation of the service provider’s performance (Jensen and Stonecash, 2004).

Public sector outsourcing is currently a well-established mechanism for government service provision. Nevertheless, despite a great deal of practical experience by governments of all levels, in many countries, there is still relatively little agreement about whether outsourcing is uniformly beneficial or what the magnitude of reductions in government expenditure might be (Pollitt and Bouckaert 2011). This debate has intensified recently as outsourcing has moved from peripheral tasks such as cleaning and garbage collection to more complex tasks such as military and defence.

Frustration with pure public production of local services during the 1970s and 1980s and terms such as “government is too big” or “the need to cut red tape” (Ascher, 1987) were used to promote outsourcing, especially in the UK which became one of the countries with the highest rate of public expenditure in outsourcing over public expenditure for in-house production (OECD, 2005; Cepiku, 2006). The “Next Steps” initiative intended to reduce the size of the central bureaucracy from 550,000 to less than 100,000 (HMSO, 1988) by transferring personnel to quasi-governmental agencies, or quangos, which could run former activities on more business-like lines with a new senior management brought-in from the private sector (Parker, 1992). Ever since, subsequent governments started pushing outsourcing even in fields which were traditionally considered the state’s preserve. For example, the British Ministry of Defence planned in 2000s to outsource their entire training, logistics, and supply-chain operations to private service providers (Kakabadse and Kakabadse, 2005). In the United States outsourcing started at the beginning of the 1900s and has focused on services ranging from port operations to highway maintenance to data centre management. In recent years, toll roads, parking meters, and human services have emerged as the latest trend (Indiana University, 2014). Nonetheless, available data shows that outsourcing is actually higher among municipalities in many European countries. For instance, outsourced solid waste collection or water distribution is used more in countries like

Sweden, Norway, Finland, Denmark and Spain. In 2011, government outsourcing represented on average 10% of GDP in OECD member countries. However, its importance varied greatly from 2.8% and 5.4% of GDP in Mexico and Switzerland to 14.2% and 19% of GDP in Finland and the Netherlands, respectively. As regards the Central and Eastern European countries members of the OECD, the figures are similar, ranging from 8.9 in Estonia to 11.8% in Czech Republic (OECD, 2014). All in all, outsourcing public service delivery has become commonplace across most EU countries. In their assessment of 18 European countries, Alonso, Clifton and Diaz-Fuentes (2013) find that in 2010 the Netherlands, Germany, Finland, UK, Belgium and Luxembourg had the highest outsourcing ratios with figures above 50% of the final government consumption, whilst Greece and Denmark had the lowest numbers at below 40%. The only two Central and Eastern European countries including in the study, Estonia and Hungary, had ratios of 45, respectively 49%. Outsourcing has emerged as a policy in other parts of the world as well. Afghanistan, Egypt, Iran or Pakistan have outsourced primary care services, Jordan, Lebanon and Tunisia extensively contracted out hospital and ambulatory care services and Bahrain, Morocco or Syria outsourced mainly non-clinical services (Siddiqi, Masud and Sabri, 2006).

Over the past three decades, public sector organisations have been subject to a far-reaching restructuring towards the outsourcing of tasks in a wide range of services (Mori, 2014). Therefore, the topic drew wide attention from scholars and practitioners mostly concerned about, on the one hand, the financial implications on the state budget (Domberger and Rimmer 1994, Domberger and Jensen 1997, Savas 2000) and on the other hand, by the effects on the size of public employment (Donahue 2002, Greene 2002, Fernandez et al. 2007, Alonso, Clifton and Diaz-Fuentes, 2013).

2.2. Reasons for Outsourcing Public Service Delivery

Under the pressure of increasing public debts, shifting consumer preferences and the demand for higher service quality, public entities started outsourcing public services to external providers (Mori, 2014). The rationale for outsourcing is to encourage competition between service rendering organisations in the belief that competition will promote cost-saving, efficiency, flexibility and responsiveness in the delivery of services (Chemengich, 2013). Organisations are increasingly considering and deploying outsourcing decisions in an effort to maintain high standards of care while addressing current economic realities (Sarpin and Weideman, 1999).

The motivation behind outsourcing mostly lies on an economic basis which make entities decide to outsource services in sectors where they lack skills or expertise. It also allows them to delegate some peripheral and non-core functions in order to focus on the activities in which it holds the key resources and tools (Brunetta, Giustiniano and Marchegiani, 2014). In this regard, Williamson (1999) pointed out that public bureaucracy is better suited to some transactions and poorly suited to others depending on a range of circumstances. Thus, there are services more probable to be outsourced than others because of their nature and their financial needs (Brown and Potoski, 2003). For example, the outsourcing of taxing and health services in the UK was undertaken due to financial and political motivations (Willcocks and Currie, 1997). Another reason may have been the belief that private firms are more efficient and provide better service than their public counterparts. Other factors mentioned in the literature include the unwillingness to invest in new facilities and service infrastructure, the political agendas of elected officials, public opinion, and national or international trends (Avery, 2000). Lack of internal human resources might also contribute as public entities are usually more restricted in their employment and termination practices than private-sector businesses due to the strict guidelines on the number of civil

servants that can be employed, promoted or trained. Political pressures, the views of the trade unions or the opinions of influential people within the organisation may also influence whether a function should be outsourced (Kremic, Tukel and Rom, 2006)

2.3. Expected Benefits of Outsourcing

NPM introduced outsourcing as one of its key tools to improve efficiency of public services assuming that it generates greater cost savings than direct provision (Palleesen, 2011). It can provide flexibility, enhancing the capability of the organisation to face changing environments, as adaptation does not require reconfiguring internal resources (Roberts, 2001). With the outsourcing of public services, the public institutions retain the ownership and the financing of local service but transfer the delivery task to private entities which enter into a competition with each other (Warner, 2012) bringing better efficiency levels, due to the lower production costs and more flexible and innovative structures of private sector (Wassenaar et al., 2010). Thus, it can lead to increased citizen satisfaction with regard to the respective public service (Chemengich, 2013).

Outsourcing can generate new ideas about how to perform work more efficiently and effectively using skills and resources that are in short supply in the public sector. At the same time, it allows the government to focus more on strategy, planning, and core functions it performs best. In some cases it can even lead to fundamental changes in the organisation structure and culture that can facilitate improvements in performance. It can work best in areas like research and development since many governments do not have the financial or human capacity to invest in innovation, in infrastructure or in public health (Indiana University, 2014; Brunetta, Giustiniano and Marchegiani, 2014). For the political organisation, additional expected benefits may include better accountability and management, and a better political posture (Kremic, Tukel and Rom, 2006). There also appears to be an expected benefit from expanding competition or by getting rid of troublesome functions (Willcocks and Currie, 1997) and gaining a better public image (Anttiroiko, Bailey and Valkama, 2013).

Teece's (1986) notion of "complementary assets" reveals benefits of partnering with organisations whose resources complement one's own (Mowery, 1988; Doz, 1987). Some observe that as suppliers may be significantly more advanced, outsourcing to them allows the governments to take advantage of their technologies and skills (Lamming, 1993; Venkatesan, 1992; Greaver, 1999). Others suggest that outsourcing improves flexibility to meet changing business conditions and demand for products, services and technologies (Greaver, 1999) by creating smaller and more flexible workforces (Patterson and Pinch, 1995). It can also help the government move away from its existing sluggish internal processes, cultures or taboos, in favour of fresher and more agile approaches. In this regard, government outsourcing policies are often motivated by the assumption that contracting out public sector activities and functions will foster a reform of the public administration along the lines of private sector business organisations management techniques and that less bureaucracy in public administration will improve the quality of government action (Cordella and Willcocks, 2010).

There is considerable evidence that outsourcing can generate cost savings and improvements in governance efficiency. Borcharding et al. (1982) found that in 40 of their 52 studies, applied on 19 economic sectors from five OECD countries, private supply was clearly more efficient and only in three cases was public supply less costly than private. Lundsgaard (2002) and Bailey (2002) found that competitive contracting of services traditionally supplied by the public sector, such as waste collection, office and street cleaning, water supply, printing, and road and park maintenance, produced significant savings often of 20% or more. Overall, the majority of empirical research on the subject supports the

conclusion that outsourcing results in reductions in government expenditure (Jensen and Stonecash, 2004).

2.4. Criticism and Potential Risks of Outsourcing

The major criticism against delivery of public services by the private sector is that, unlike the public sector whose stated objective is to serve the interest of the public, the priority and mandate of private companies are to ensure profitable and growing businesses. Private entities only answer to their shareholders and are not accountable to the taxpayers. Thus, some see them focusing too much on profitmaking, to the detriment of essential public services, and being mostly interested only in short-term benefits (Carmona et al., 2011).

The failure to distinguish between core and noncore functions within the government may lead to inappropriate outsourcing while the failure to design appropriate agreements with service providers or monitor their work may lead to ineffective outsourcing. Both these outcomes lead to a reduction of governmental control over those specific outsourced services which would make insourcing difficult, especially if the government has lost in-house technical knowledge. Consequently, in the long run, all these malfunctions generate rising costs and a deterioration of the service quality (Anttiroiko, Bailey and Valkama, 2013). Overdependence on specific suppliers may also pose a significant risk (Kremic, Tukel and Rom, 2006) and generate discomfort since outsourcing may enhance the segmentation of the labour market, accordingly leading to a fragmentation of employment in both public and private sector (Marchington et al. 2005). Furthermore, outsourcing enhances tendencies towards deregulation and fragmented decentralised bargaining since external providers are rarely covered by collective agreements (Mori, 2014).

A minority of scholars believe that there is not enough evidence on real cost savings that outsourcing presents (Brudney et al., 2005; Bel and Warner, 2008; Girth et al., 2012; Hefetz and Warner, 2012; Warner, 2012). Some suggest that even if outsourcing is initially associated with a reduction in public sector expenditure, in the long-term, these positive effects may be reversed due to the dynamic nature of contractual relationships between governments and those private companies which provide the outsourced services. Thus, the potential cost savings from outsourcing may diminish or disappear over time (Williamson, 1979; Schmalensee, 1979). Furthermore, others do not particularly support the view that public organisations are genuinely less efficient than private entities (Megginson and Netter, 2001; Borcharding, Pommerehne and Schneider, 1982; and Boardman and Vining, 1989). Additionally, some provide reasons why private participation in some public services like prisons would not be effective (Cabral, Lazzarini and Azevedo, 2011) since the profit-oriented culture of private entities conflicts with the outcomes expected in the provision of these complex public services. In this regard, past experience showed that private firms also have difficulties in delivering high-quality public services such as water, public health, and transportation at affordable costs (Carmona et al., 2011).

2.5. Defining Privatisation

Although privatisation and outsourcing have many common characteristics, the former is generally a single-transaction sale of a state-owned asset while the latter is understood as a temporary arrangement which does not foresee any asset transfer (Jensen and Stonecash, 2004). Privatisation involves the sale of shares or ownership in a company or the sale of operating assets or services owned by the public sector. As explained by Hope (2001) privatisation can have several forms including: commercialising of government services, joint ventures between the government and private entities, sale of government services or

functions, management contracts for the private sector to manage specific government functions or services, leasing of government assets that are used to provide public services, and granting of concessions to private entities to operate. When services are privatised, the government's role is limited to regulation within the scope of the regulator's powers (Carmona et al., 2011). In countries with many state-owned enterprises, including many in Central and Eastern Europe, privatisation understood as the transfer of enterprise ownership from the state to the private sector is also known as denationalisation or destatisation (Savas, 2005).

Large scale privatisation programmes are typically implemented by right wing parties in power, in order to increase the spread of ownership and build political support for pro-market platforms (Bortolotti, Fantini, and Siniscalco, 2001). The process began in the late 1970s, with the Thatcher government in the United Kingdom, and spread across countries and continents to become a distinguishing trend at the end of the century. Privatisations are now common in many countries and occur across geographical regions and sectors. From 1977 to 1999, 2,459 deals in 121 countries worth approximately US\$1,110bn were reported and global state-owned enterprise value added decreased on average from 9% to 6% of GDP in the 1978-91 period (World Bank, 1995).

Early empirical studies suggested significant cost savings under privatisation (Domberger and Rimmer, 1994; Domberger and Jensen, 1997) and led to the expectation that privatisation would rapidly extend in all directions. However, meta-analyses such as those compiled by Hirsch (1995), Boyne (1998a, 1998b) and Hodge (2000) find mixed evidence on cost savings and raise both methodological and theoretical concerns about such expectations. In a wide review from Europe and other continents, Bel and Warner (2006) could not find a direct and systematic relationship between savings or productivity and private production.

2.6. Defining Public-Private Partnerships (PPPs)

Public-private partnerships (PPPs) refer to the private sector financing, designing, building, maintaining, and operating infrastructure assets traditionally provided by the public sector. PPPs, also known as private finance initiatives or projects for public services, have been mainly used in the provision of transportation infrastructure, building of schools, hospitals, offices, prisons and water and sewage treatment facilities (Sevilla, 2006). It starts from the assumption that the public and private sectors each have certain advantages when it comes to performing specific tasks (Carmona et al., 2011). In some countries PPPs are seen as an opportunity to reduce government's tasks, the fiscal pressure and administrative burdens. In other countries, PPPs are considered an instrument to achieve a joined-up government where the state works with other organisations to achieve new solutions for existing problems (Pollitt, van Thiel and Homburg, 2007). PPPs provide an important illustration of how both public and private sector organisations can benefit from working together in partnership relations (Grimshaw, et al., 2002).

3. Decentralisation

3.1. Defining Decentralisation

Decentralisation can be defined as the transfer of authority or responsibility for decision making, planning, management, or resource allocation from the central government to the regional, county or municipal level (Falleti, 2005). The NPM scholars promoted the process on the basis that more decentralised organisations can achieve better results by offering a more personalised service (Boyne, 1996). According to Bangura (2000), the main

dimensions of decentralisation include breaking up monolithic bureaucracies, devolution of budgets and financial controls, promotion of quasi-markets in public sector transactions, separation of provision and provisioning functions and development of new forms of governance.

Decentralisation is generally broken down into three different but related processes – deconcentration, delegation and devolution (White, 2011). Deconcentration is a process in which the central government disperses responsibilities for certain services to regional branch offices without any transfer of authority. This is not a genuine process of decentralisation, but rather an establishment of governmental field offices. Delegation refers to a situation in which the central government transfers responsibility for decision-making and administration of public functions to local governments. Unlike the regional offices mentioned above, local governments are not fully controlled by central governments but are accountable to them. Devolution takes place when the central government transfers authority for decision-making, finance, and administrative management to the sub-national levels. According to scholars, this process is seen as the most extensive form of decentralisation. The generic term of decentralisation is further categorised as political, administrative or fiscal. Political decentralisation is defined as the extent to which political institutions track and collect citizen interests and turn them into policy decisions. Administrative decentralisation concerns the ways in which political institutions turn policy decisions into allocative outcomes through fiscal and regulatory actions. Fiscal decentralisation regards the extent to which local entities collect taxes, undertake expenditures, and rectify imbalances (Rondinelli, Nellis, and Cheema, 1983; Mosley 2003, 2009a; Sevilla, 2006). In such complex multilevel governance the relationship between central and regional or local authorities is inherently less hierarchical and more negotiated (Mosley, 2011).

In many cases, it is difficult to measure the level of autonomy and capacity of a local entity and to make comparisons about its political, administrative, and fiscal status because, empirically, decentralisation rarely exists in pure form. For example, a local entity may have fully devolved administrative authority without having a similar fiscal authority, leading to a mismatch of its decentralised capabilities. Moreover, different local entities providing public services may be decentralised in different ways and to different degrees (White, 2011). The most used comparison between countries to assess the degree of the decentralisation is in terms of the decentralised expenditure measured as the share of sub-national government expenses in general government expenses excluding transfers and social security funds. In this regard, in 2012 (European Commission, 2013), a high share of local government expenditure is observed in Denmark, Sweden, Finland, the Netherlands, and Italy. Belgium, Germany, Austria and Spain also have a high ratio when both local and regional government expenditure is cumulated. At the other end of the spectre, central government accounts for, by far, the largest part of expenditure in Cyprus and Malta. In Central and Eastern Europe, Slovakia and Hungary are the countries with the lowest share of local government expenditure out of the total GDP. Poland, the most decentralised country in EU12, and Croatia are at the other end of the spectre.

3.2. Expected Benefits of Decentralisation

Decentralisation reflects efforts to promote government responsiveness and economic competitiveness. While decentralisation is presented as a mean to enhance citizen access and involvement, it also helps justify the transformation of the social welfare state. Its justification relates to the desire to make governments more responsive to citizen demands, a concern for society's interests whose philosophical basis can probably be traced to Alexis de Tocqueville's warnings against the dangers of centralised public power (Hays and Kearney,

1997). Two broad approaches to decentralisation are evident in most reform efforts. The first focuses on providing employees the authority they need to perform their jobs with limited interference. The second involves the delegation of authority to lower levels in the hierarchy. According to Pollitt and Bouckaert (2011), decentralisation facilitates downsizing through the elimination of unnecessary layers of middle management. It also enables staff empowerment in that their jobs are enriched by devolved responsibilities.

Some of the most common benefits mentioned in the literature suggest that decentralisation can limit the size of the public sector, can have a negative effect on corruption, can be more responsive to citizen preferences, can limit conflict and protect ethnic, linguistic or religious minority rights, can force intergovernmental competition, can increase accountability or it can improve delivery of public services (White, 2011). According to the Mosley (2011), decentralisation may also lead to better information, tailor-made policies, innovation and local accountability. Most advocates of decentralisation argue that these positive outcomes are related to the fact that regional and local decision-makers know the local problems and can design more tailored policies for local needs, in contrast to the standardised national policies. As Tiebout (1956) suggested, decentralisation leads to greater variety in the provision of public goods, which are personalised to better suit local communities. It can also facilitate more specialised public management, provide a faster answer to social demands, improve the taxpayer's capacity to identify the entities in charge of public service delivery, and facilitate a more performance-oriented approach (Sevilla, 2006).

There is evidence that decentralisation can also be an effective antidote to corruption because it increases the accountability of the empowered public authorities towards their citizens (Gurgur and Shah, 2002; Shah, Thompson and Zou, 2004). The process of devolving authority helps to break the monopoly of power at the national level by bringing decision making closer to people and strengthens government accountability to citizens by involving citizens in monitoring government performance and demanding corrective actions. Localisation, as a means to making government responsive and accountable to people, can help reduce corruption and improve service delivery (Shah, 2006). On the other hand, while decentralisation can contain it, Ahlin (2001) has argued that deconcentration has the potential to increase corruption.

Several studies argue that decentralisation can lead to better governance. Huther and Shah (1998), using international data, find that fiscal decentralisation is associated with an enhanced quality of governance as measured by citizen participation, political and bureaucratic accountability, social justice, improved economic management and reduced corruption. Arikian (2004) reconfirms the result. De Mello and Barenstein (2001), based on cross-country data, conclude that fiscal decentralisation is positively associated with improved quality of governance. Fisman and Gatti (2002) find a negative relations between fiscal decentralisation and corruption, while Crook and Manor (2000) conclude that decentralisation may lead to enhanced transparency.

Since decentralisation involves delegating greater authority to the officials who are working in the field closer to the problems, it can overcome the severe limitations of centrally controlled planning (Cheema and Rondinelli, 1983). Moreover, it can allow greater representation of various political, religious, ethnic, and tribal groups in public decision making that could lead to greater equity in the allocation of government resources. Hence, decentralisation can improve allocative efficiency through matching services with citizen preferences. The cost of public sector organisations could also be lowered by reducing redundant or irrelevant personnel in the process of delegating responsibilities (Ferlie et al., 1996).

Decentralisation can also offset specific problem caused by the dissatisfaction with the centralised system. After a national crisis, such as a conflict or a natural disaster,

decentralisation is often recommended as a tool to build or rebuild an effective government and ensure the efficient allocation of resources. Decentralisation is also viewed as an indispensable part of sustainable development efforts for reducing poverty (White, 2011). It can also broaden the reach of national governments towards remote rural areas (Carmona et al., 2011).

3.3. Criticism and Potential Risks of Decentralisation

Pollitt and Bouckaert (2011) warned that decentralisation is set up distinctively by different parties and is far easier to plan than to put into practice. This is mostly linked to the trade-off issue between management flexibility and accountability but also to issues related to weak coordination, lack of clarity regarding roles and accountability, lack of top governance capacity or lack of transparency in management appointments (Laking, 2005). Thus, more and more scholars started to look into the negative outcomes of the process. Some suggest that it does not reduce the size of the public sector, it cannot mitigate local-level corruption, it is not responding to the needs of ethnically or culturally heterogeneous populations, it can become inefficient due to multiple intergovernmental transfer, it can be associated with slower economic growth and lower foreign direct investment and it cannot improve public service delivery (White, 2011). Other critics argue that localised knowledge is an asset but not a sufficient basis for analysing local needs and developing appropriate local policies or strategies, especially with an unexperienced local administration. Decentralisation can generate difficulties in achieving national policy objectives related to equity and macroeconomic stabilisation (Mosley, 2011).

Carmona et al. (2011) believes that decentralisation has failed to deliver all its promised benefits, and has so far been unable to fix the problems it was expected to resolve. While it has been seen as a strategy for improving the quality of governance, in many cases no significant improvements have been observed and service delivery has actually worsen. In some cases, decentralisation appears to have generated conflicts between the central government and sub-national layers. In addition, because local government officials may be under the influence of special interest groups, accountability, efficiency, and equity in service delivery may even deteriorate (Carmona et al., 2011). On the other hand, the local governments may be less efficient than the central administration, primarily due to latter's greater investment capacity in technology, research, development, promotion and innovation. Moreover, the central administration is more likely to offer good careers and better promotion opportunities and, thus, to attract more qualified staff (Prud'homme, 1995). Consequently, decentralisation is sometimes asymmetrical. In other cases it can be blocked at mid-level government levels due to the lack of administrative capacity at the lower layers (Kahkonen and Lanyi 2001; Bahl and Martinez-Vazquez 2006).

Decentralisation can create hundreds of new public authorities, each having powers to tax, spend and regulate. Since all these are liable to being abused in environments where governance is weak, Triesman (1999, 2000 and 2002) argues that decentralised federal systems tend to have higher corruption ratings due to their larger size. Using cross country regression analysis he presents empirical evidence that when there are more tiers of government, decentralised entities will perform less well in delivering goods and services. Moreover, the smaller the jurisdictions of the lower tiers of government, the worse these entities will perform. Dreher (2006) also warns against too many tiers of government. Shah (2006) suggests that decentralisation in the absence of rule of law may not prove to be a potent remedy for combating corruption. Enikolopov and Zhuravskaya (2007) note that decentralisation may affect economic growth, quality of governance, and the service delivery

in different ways depending on the strength of the party in power and whether local and state executives are appointed or elected.

A couple of articles conclude that introducing decentralisation in developing countries might not have the same results as the ones seen in the Western society. Litvack et al. (1998) caution against decentralisation in developing contexts, arguing that arrangements could be difficult to achieve. Kaiser (2006) points out that the distributional impact of decentralisation in developing situations depends heavily on the specific design and implementation of decentralisation measures in a particular country. Iqbal and Ahmed (2009), in their comparative analysis of 46 countries presenting qualitative data about people affected by disasters, suggest that more people were killed or affected by disasters in systems that were more decentralised than in those that were more centralised. Crook (2003) notes that while decentralisation can mitigate conflict, it cannot do so when there are multiple heterogeneous groups and it cannot alleviate conflict when the central government is using decentralisation as a way to cut across different cultural units. Fox (2007) found that decentralisation enhances the possibility of conflicts when local taxes become high or where regional autonomy grows too much. The chance of conflict is also greater where the central government has limited control over security or where there is a high degree of dependency on natural resources.

4. Decentralisation vs outsourcing public service delivery

While there are many studies undertaking individual assessments, a limited number of studies focus on comparisons between the policies under the NPM umbrella. In this regard, there are hardly any papers comparing decentralisation with outsourcing. In the most recent study of this kind, Alonso, Clifton and Diaz-Fuentes (2013) used a panel data model for eighteen European Union members, including two Eastern European countries, over the period 1980 to 2010 to assess the relationship between outsourcing, decentralisation and public sector size. Unlike some other studies, they found that outsourcing did not reduce the public sector size as regards expenditure and employment. In contrast, fiscal and administrative decentralisation seems to reduce public expenditure although it cannot reduce the size of the public sector.

In this paper, based on the literature review undertaken in the previous chapters, we tried to compare outsourcing and decentralisation from a Central and Eastern European policy maker point of view. We base our comparison on three different aspects. Firstly, we assess whether all public services can be decentralised or outsourced and which services are better suited for each of the two policies. Secondly, we review the effects generated by the two policies and aim to see which might potentially generate higher cost savings and reduce the size of the public apparatus. Finally, we evaluate whether any of the two has any significant impact at a political level.

It is rather clear from the review undertaken that not all public services can be decentralised and not all of them can be outsourced. As regards the former, some policies like defence, foreign affairs, the judicial system, intelligence and national security, immigration, border control and citizenship matters or the monetary policy are unlikely to be decentralised. This does not mean that the sub-national levels cannot have a say in some of these matters. In foreign policy, for example, many regions have established overseas representation offices in order to promote trade and tourism. In others, like border control, the central government needs to work closely with the sub-national layers. Other policies, while observed in some federations, are rarely decentralised by the central governments, particularly in the unitary states from Central and Eastern Europe. These can include social security matters (unemployment, pensions, child benefit and health insurance), macroeconomic policies or

substantial parts of the home affairs and law enforcement. On the other hand, education, local police, local hospitals, public works, urban planning, parks and recreation are policies which have traditionally been devolved from the central government to the regional and local levels. In Central and Eastern Europe devolution was rather incremental. Furthermore, history shows us that decisions to decentralise or recentralise are based mostly on political agendas which might be reversed when new governments with different views come in power. All in all, the decision to decentralise the delivery of a public service should be based solely on the subsidiarity principle. In that sense, the central government should retain only those functions which cannot be performed effectively at a more immediate or local level.

When outsourcing was promoted towards the end of the twentieth century, advocates suggested that governments should focus on the important and strategic tasks and contract-out peripheral and non-core activities which could be done just as effectively, if not better, by the private sector. Nonetheless, as practice showed, many government opted to go beyond that course of action by pushing contracting even in fields which were traditionally considered the state's preserve. Defence and national security are the best examples. While these are still exceptions seen mostly in Western Europe, some core activities are gaining momentum in Central and Eastern Europe as well. Private companies given responsibility over waste collection, water distribution, sewage plants maintenance, railway infrastructure or highway maintenance, airport security and operations have been rather common in the past decades. The way the terms of reference are drafted and the way the contractor is selected can influence decisively the success of the process. While the decision to decentralise a service should be based on the subsidiarity principle, the decision to outsource should be based on whether a private company is more capable of undertaking that certain task and the delivery of the service would satisfy the citizens better. This should be assessed thoroughly before the processes is initiated. The same principle goes for privatisation as long as the respective services are not sensitive and the role of the state as social provider is not jeopardised. Therefore, the state should exclude correctional services, hospitals or schools from privatising. Since privatisation, unlike outsourcing, is a one-way process, the government should assess very closely each case and the effects on the medium and long term. It should also inform the citizens in a transparent matter why privatisation is better suited than outsourcing. This has rarely been the case in Central and Eastern Europe, especially in the 1990s when many state-owned companies were privatised.

Going further to the second question, we aim to assess the potential effects of these policies. Since each policy is applied differently in different places, it is difficult to come with a single conclusion. As regards the benefits of decentralisation, almost all scholars agree that bringing some decisions closer to the community can be more effective than applying them from the capital city. Thus, due to their increased accountability, sub-national governments can become more responsive to citizen demands by applying tailor-made policies. Decentralisation can be beneficial in plurinational and pluriethnic societies where a certain level of self-administration can reduce potential conflicts. Full political decentralisation, however, needs to be carefully assessed before being applied as this could lead to increased secessionist demands from certain ethnic or national groups. Decentralisation has also proven to be effective in case of national crises, such as conflicts or natural disasters. Finally, while not unanimously agreed, decentralisation might lead to reduced corruption, enhanced transparency and increased quality of governance as local governments are becoming more accountable to their citizens. Similarly, there is not a unanimous agreement regarding the costs generated by decentralisation. While some suggest that it can reduce governmental expenditure, other believe that it actually generates additional costs. On the negative side, decentralisation might also lead to a weak coordination between the different layers of governance which most likely will remain just as large since

decentralisation cannot really reduce the size of the public sector. In addition, the central governments tends to employ the most qualified personnel while many local governments struggle in this regard since they cannot offer the same career development prospects. In some specific situations, in their quest for resources, decentralisation might even lead to conflicts between the central and the sub-national governments, especially in those cases when the latter are captured by local interest groups. Finally, decentralisation in developing countries, especially those with a shaky rule of law, has shown not to have the same positive results as in those countries with a high human development index.

The effects of outsourcing are strongly connected to the way the contracting processes were conducted. Outsourcing is supposed to bring increased efficiency with reduced production costs using the more flexible and innovative methods of the private sector. Consequently, the citizen satisfaction is increased as the state is supposedly doing a better job with less money. This is particularly important in sectors where the governments lack the needed skills and personnel. The flexibility and innovation shown by the private contractors may also influence the organisational culture of some public institutions and therefore improve the bureaucracy within. Still, in order to outsource successfully the delivery of a public service, the state needs to follow a transparent and competitive public procurement procedure. Furthermore, the state needs to be careful about the services it decides to outsource and should try to avoid over-dependence on a single supplier. It also needs to take care of the civil servants in charge of delivering the public service before it was taken over by the private sector who may need to be given new tasks or be laid off. Some of the critics of outsourcing suggest that contractors focus too much on short term profits without conducting a sustainable work on the long term. Also, in certain cases, practice showed that private companies have not been more efficient in the service delivery when compared to the government. Finally, if the competitive procurement procedure is not respected or the state becomes over-dependent on certain contractors, outsourcing might even prove to be more expensive than in-house delivery. As regards privatisation, the state needs to ensure that the revenue gained from selling its shares or even its ownership in a public company reflect the real value in the market.

Finally, the third question relates to the political dimension of the two policies. Outsourcing and PPPs have a rather minor influence since in the citizen's perception there is barely any visible modification in the way the governance is organised. Still, a successful outsourcing process with an increased efficiency of the public service and reduced costs can increase the approval rates of the central or local government in power. Conversely, an exposed rigged procurement might generate a backlash towards the government which might also be faced with a judicial proceeding. Privatisation can generate different reactions since a significant sale of shares or the entire ownership is covered extensively by the national media. Thus, selling major public companies, especially to foreign consortia, might enrage some citizens and most likely provoke the trade unions. The state should also ensure that the rights of its former employees are respected once the change of ownership is finalised. Thus, the process needs to be thoroughly planned so that the transition can be as smooth as possible.

Unlike outsourcing, decentralisation is strongly connected with the political dimension. In order to devolve responsibility and authority to the sub-national levels of governments, a political consensus is needed. Big scale devolutions most likely require a referendum which in some cases is transformed into a political competition between the parties rallying behind one side or the other. Furthermore, if the decision to devolve is not approved in the referendum, most likely it will be repeated after a certain period of time. Conversely, a couple of decades after devolution is granted, some regions might request additional responsibilities and authority to deliver new public services as in the case of

Scotland or some autonomous communities in Spain. Thus, especially in the plurinational and pluriethnic states from Central and Eastern Europe, the central government should not expect the sub-national layers to lower their demands for more autonomy even if some form of devolution is granted.

The analysis undertaken in this article shows that these two policies are not mutually exclusive. Both can be seen as available tools in the hands of the government which can be applied wherever and whenever are needed. Some countries in Central and Eastern Europe have discussed the possibility of applying an asymmetrical decentralisation, as seen in Spain for example, by devolving power only to those regions which were seen as capable of handling the devolved responsibilities. In the regions that are not yet prepared for empowerment, the state is free to use outsourcing, especially in those sectors where the local governments do not have the needed skills and personnel. Outsourcing could also be applied in the decentralised governments which encounter problems in handling the newly acquired responsibilities. Once the local governments are fully functional they are free to insource the delivery of the respective services. Nonetheless, the governments should refrain as much as possible from outsourcing policies where only the state has the required expertise. As much as possible they should focus on contracting only non-core activities which can be performed just as well by the private sector.

There is no best practice available on how decentralisation should be performed. Thus, apart from Poland and to some extent Czech Republic, most countries in Central and Eastern Europe remain rather centralised. The process should, nonetheless, start from the principle of subsidiarity which should be then tailored taking into account the geopolitical situation of each country. The situation might be more straightforward in homogenous countries. In heterogeneous states, however, the process is much more complicated. If applied, decentralisation might hold the country together as each ethnic group could self-administer their territory under the supervision of a national government which retains only a limited number of responsibilities. In a less-likely scenario, it might generate a break-up of the country as regions might realise that they are better-off as autonomous states.

Outsourcing, on the other hand, can be applied successful almost everywhere if governments apply transparent procedures and have the adequate regulation mechanisms in place. The most difficult part is making sure that the public standards are respected and the accountability of the service provider is ensured. As regards the former, it is unlikely that private contractors will ever be subject to strict public standards like transparency since too much insistence on public service values will tend to discourage private companies from tendering for public services and will erode the positive benefits that derive from employing more flexible private providers (Mulgan, 2005). Therefore, the government should be specific on what is expected from those providers. The nine recommendations proposed by experts from Indiana University (2014) could come useful especially to governments without a history in the field, like the ones in Central and Eastern Europe. Firstly, the state should determine the initial motivations for outsourcing. An informed outsourcing decision requires a broad skill set, which will depend in large part on the initial rationale and scope of the project. Secondly, the feasibility, the costs and the potential benefits should all be thoroughly assessed. The views of all stakeholders should be taken into account and all options available should be investigated (including in-house delivery). The outsourcing project should be planned way in advance so that all associated costs can be identified before the specific contract requirements are developed. The full cycle of the process (inputs, processes and technologies, outputs and outcomes) has to be duly scrutinised and then reflected in the contract. In order to identify the best provider, the government should encourage competition at all stages of the project in order to attract the highest number of qualitative bidders. In this regard, the scope of the contract should match the market and the availability of the suppliers.

Too narrow contract specifications might exclude potential qualitative providers and could also lead to corruption while too long contracts might reduce performance in service delivery. During the evaluation phase, the decision should be taken based on clear and objective criteria. Once the best supplier is selected, the governments should allow enough time to negotiate and craft the contract as the document must establish clear expectations, roles, and responsibilities. Once the contract is signed, the public institutions should monitor actively the developments of the process until the contract is concluded. Finally, the governments should minimise service disruptions and other difficulties associated with transitioning at the end of the contract. If the government decides at some point that a better approach makes sense like switching suppliers or insourcing the delivery, it needs to have the possibility to undertake such a change.

Conclusions

Outsourcing and decentralisation are two of the policies brought forward by the NPM framework. Both of them contest the excessive bureaucracy and centralism of the government and promote the idea that public services should be provided by those who can perform them better and, if possible, cheaper. The current paper attempts to provide an objective description of the two policies including both the potential benefits and the criticism drawn from different empirical investigations undertaken by representative scholars in the field. After completing the individual assessment the paper compares the two practices focusing on three major aspects: their economic and financial impact, their qualitative impact and their political impact.

Decentralisation and outsourcing are not mutually exclusive. Both can be seen as available tools in the hands of governments which can apply them successfully if the right procedures are followed. While outsourcing can be applied where governments lack the expertise or want to focus on more strategic policies, decentralisation should be applied where the sub-national layer of governments can deliver a particular service more efficiently due to the localised knowledge. While conventional wisdom might suggest that the two policies can only be applied in different scenarios, outsourcing could actually be combined with decentralisation especially where newly empowered local governments lack experience in handling the new responsibilities and require the expertise of the private sector in delivering those public services. Nonetheless, we argue in the paper that some public services should not be outsourced and others should not be decentralised. The reason is connected to the fact that some policies like foreign affairs or defence should be handled only by the central governments while others like the management of correctional services should not be handled by private contractors. Nevertheless, some public services that cannot be decentralised could be outsourced and the other way around. Thus, in some aspects, decentralisation and outsourcing can complement each other.

While criticised by some for not delivering the expected results, decentralisation and outsourcing are among the most popular tools of NPM. Practitioners in Central and Eastern Europe have many case studies available from where to observe good practices. Nonetheless, transposing them might not be enough. A successful process is reliant on their capacity to tailor these practices based on local needs and resources.

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