

Outsourcing by Private and Public Organisations: How much Could Public Bodies Learn?

Outsourcing u soukromých a veřejných organizací – co se mohou veřejné organizace naučit?

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Abstract

Outsourcing is already for longer period used in private sector as a tool of rationalization of internal processes. As the result of New Public Management changes it was started to be implemented also in public organizations. The paper starts with brief introduction of the concept of outsourcing, both in relation to private and public sector practices. Its core parts are devoted to analysis of experience with outsourcing of internal services in private and public organizations in the Czech Republic and Slovakia.

Some interesting conclusions are derived from the research. First, outsourcing is relatively frequently used by private firms in the Czech Republic. Second, we may argue that the “quality” of implementation of outsourcing in the private sector in the Czech Republic is a bit limited.

Results from our analysis support general expectations that in conditions where the private sector is not able to deal with outsourcing perfectly (and risk of corruption is relatively high), the practice of outsourcing in the public sector is of limited quality.

Keywords

outsourcing, internal services, public sector, private sector, Slovakia, Czech Republic

JEL Codes

H41, H30

Abstrakt

V soukromém sektoru je outsourcing používán dlouhou dobu jako nástroj zefektivnění interních procesů. Jako výsledek změn v New Public Managementu začalo zavádění outsourcingu také ve veřejných organizacích. Článek začíná stručným úvodem do konceptu outsourcingu ve vztahu k praxi v soukromém a veřejném sektoru. Hlavní část je věnována analýze zkušeností s outsourcingem interně zajišťovaných služeb v soukromých a veřejných organizacích v České republice a na Slovensku.

Z výzkumu jsou vyvozeny některé zajímavé závěry. Za prvé, outsourcing je relativně často používán soukromým sektorem v ČR. Za druhé, lze říci, že „kvalita“ zavádění outsourcingu v ČR je částečně omezená. Výsledky předložené analýzy potvrzují očekávání, že v podmínkách, kde soukromý sektor není schopen dokonale provádět outsourcing (riziko korupce je relativně vysoké), tak kvalita zavádění outsourcingu ve veřejném sektoru má své limity.

Klíčová slova

outsourcing, interní služby, veřejný sektor, soukromý sektor, Slovensko, Česká republika

Introduction

To be able to achieve planned goals in our research projects, we have to realise many theoretical and practical tasks. For sure, one of them is to discover if the private sector practice could serve as the important benchmark for the public sector and to serve as an example of the good practices which should be implemented also in the public sector.

In this paper we firstly briefly introduce the concept of outsourcing (with focus on the public sector practice). Then we analyse the practice of outsourcing in the public sector (Czech Republic and Slovakia). The third step is the analysis of outsourcing in the private sector in the Czech Republic. The final is to compare situation and to draft conclusions on this base.

1. Outsourcing and Outsourcing in the Public Sector – Brief Theory Review

Outsourcing represents situation of delegating of originally own activities of an economic subject to an external supplier. Graever (1999) defines following purposes of outsourcing – organizational, process, financial, incomes, decreasing costs and employment. Other authors (like Fanta, 2005, Manning et al., 2008) add also other purposes for outsourcing, as (for example) the following.

Focus on Core Business — Resources (for example investment, people, and infrastructure) are focused on developing the core business. For example often organizations outsource their IT support to specialised IT services companies. *Cost restructuring* — Outsourcing changes balance of this ratio by offering a move from fixed to variable cost and also by making variable costs more predictable. *Improvement of quality* — to achieve steep change in quality through contracting service with new service level agreement. *Knowledge* — Access to intellectual property and wider experience and knowledge. *Operational expertise* — Access to operational best practice that would be too difficult or time consuming to develop it in-house. *Access to talent* — Access to larger talent pool and sustainable source of skills; in particular in science and engineering. *Capacity management* — Improved method of capacity management of services and technology where risk in providing excess capacity is borne by supplier. *Catalyst for change and innovations* — An organization can use outsourcing agreement as a catalyst for major change step that cannot be achieved alone. *Risk management* — Approach to risk management for some types of risks is to partner with outsourcer who is better able to provide mitigation.

Outsourcing is used in the private sector as a tool of rationalization of internal processes already for long time and experience with it is relatively well evaluated in existing economic, logistics and management literature.

Outsourcing in the public sector started to be introduced in larger scale as the part of New Public Management (NPM) initiatives during last two decades of the previous century. Its theoretical base - the issue of privatization and contractualisation in public services was

investigated by many authors (for example Cullis and Jones, 1987; Knapp and Missiakoulis, 1982; Stiglitz, 1997; Caves and Christensen, 1980; Weisbrod, 1988; Yarrow and Jasinski, 1996).

One dimension of NPM (see for example Pollit and Bouckaert 2000, 2004 and 2011; Lane, 2000; Cooper, 2003, and many others) is the introduction of market type mechanisms (MTM) into the public sector and marketization of public service. The marketization of public services aims at continuous increase in public expenditure efficiency, continual improvements in public services quality, implementation of professional management tools in the public sector, emphasis on devolution and delegation, emphasis on audit and inspection and, last but not least, plurality system of ownership forms in public service delivering and emphasis upon contracts and market. Introduction of compulsory competitive tendering and market testing lead to contracting-out of some in-house produced services in the public sector.

Contracting and outsourcing (we distinguish between these two terms in the following way: contracting = external production of public services, outsourcing = external delivery of internal services) represent one of the most prevalent types of privatization, mainly at the local government level. Under this arrangement, the government retains responsibility for provision of the service but hires private firms to produce the service. Contracting and outsourcing can also be explained as binding agreement in which public institution pays private firm or non-profit organization to produce specific level and quality of public service or of internal service in public organisations.

Contracting and outsourcing begin with the "organizational decision to make or buy a good or service" (Prager 1994, p. 176). As such, it is fundamental decision faced by both public and private sector organizations. "To make or buy?" is a question faced by public organizations when considering how public services should be delivered to their citizens. Public organizations must decide whether to produce goods and services internally or to acquire them from external sources.

To put contracting and outsourcing in perspective, it is necessary to consider pros and cons of internal and external forms of delivery. Possible positive results from outsourcing in the public sector are very similar to these in the private sector (see above), but the main focus is on optimising costs and quality. According to Prager, the general rule of public sector organization is to "internalize operations to the point where the costs of further expansion are perceived to be greater than the costs of acquiring the components or services in the market" (Prager 1994, p. 84). Important element of contracting and outsourcing is the process involved in establishing and maintaining legal contractual relationship with a private firm.

According to Shetterly (1998, p. 23), this process occurs in three phases; pre-solicitation, contractor selection and contract management. Two problems occur when action and information of private partner are not directly observable by public partner: "moral hazard or the problem of hidden action and adverse selection or the problem of hidden information" (Arrow, 1985, p. 37). Moral hazard occurs because behaviour of the private partner is imperfectly controlled. When behaviour is imperfectly controlled, it creates

situation where either shirking in performance of duties or inappropriate actions by the private partner adversely impacts the goals of the public partner. In the adverse selection problem, the private firm has some information that is not shared with the public sector organization and uses the information to make decisions that affect the public organization. The public sector organization in many cases has not enough information for ex ante evaluation of private offers.

Crucial issue for success of contracting and outsourcing are transactions costs that may overweight direct costs savings from switch to external delivery (Pavel, 2007).

From all above it is apparent that contracting and outsourcing may, but need not, improve the performance of the public sector. Final outcome depends on local conditions, including capacity of implementing body to execute the contracting process, as many empirical studies, like Brown and Potoski (2003), Brudney, Fernandez and Wright (2005), Romzek and Johnston (2002) and many other confirm.

2. Outsourcing in Public Organizations: Czech Republic

We map the situation in the Czech Republic via two different field researches in 2011 - 2012, but still some time is needed to process all obtained data. Because of this we have to rely on older data collected by our team. Table 1 provides first original data on small sample of public organisations.

Table 1: Frequency of use of contracting-out of internal services in Czech Republic

Services contracted-out						
Type of organization	Cleaning	Catering	IT systems	Accounting	Legal services	Other
Educational bodies – total 11 organizations	1	2	0	1	0	2
Hospitals – total 4 organizations	3	1	0	0	0	4
Culture – total 5 organizations	2	0	1	0	1	2
Local government offices – total 17 org.	3	0	4	2	6	1
State administration offices – total 19 org.	9	0	0	1	0	1

Note: figures describe number of organizations that contracted internal service.

Source: own research, 2000.

Table 2 provides more recent data from 2009 from bit larger scale with slightly different methodology. From 500 contacted public organisations 162 responded, frequently not to all questions.

Table 2: Frequency of use of contracting-out of internal services – the Czech Republic

Service	Number of responses	Percentage of outsourced services
Cleaning	158	6.96
Catering	25	31.20
Maintenance	132	11.36
IT	125	38.40
Transport	111	18.02
Security	92	26.09

Note: figures describe percentage of organisations that contracted given internal services.

Source: own research, 2009.

From both tables it is visible that outsourcing is relatively frequent solution in all types of public organisations in the Czech Republic. Unfortunately, precise data about outcomes from public sector outsourcing in the country would be available only in late 2012 or early 2013 and we can just show one problem, highlighted by 2008 research – non-competitive awards of contracts to external supplier (Table 3). From 162 organisations that sent their responses to the questionnaire, only 31 responses by public administration bodies can be used (indicating that many organisations do not want to show that non-transparent and non-competitive awards are very frequent).

Table 3: Methods of awarding contracts to external suppliers

Procurement method	Number of organizations	In %
Open tender	0	0
Restricted tender	0	0
Direct award	2	6.45
Small scale procurement	13	45.16
Unclear response	15	48.39

Source: own research.

3. Outsourcing in Public Organizations: Slovakia

3.1. General Characteristics of Outsourcing in Slovak Public Organizations

Because of temporary limited availability of “outcomes” data from the Czech Republic we decided to provide our data from the Slovak Republic. We argue that these data are very much representative also for the Czech Republic (because of joint history and similar approaches to the public sector reforms and management).

The research was realised by our team in 2008 and 2009 and focused on most important dimensions of outsourcing of selected internal services - cleaning, catering, maintenance, IT, transport, and security the scale of outsourcing, deciding about outsourcing and way of selecting supplier, costs and quality of outsourced services. On the base of data obtained, we tried to compare efficiency of outsourced and in house produced services.

Table 4: Final research sample

	Number of evaluated responses
Administrative bodies	30
Education	62
Health care	14
Social care/ services	13
Culture and sports	8
Total	127

Source: own research.

The calculation of efficiency is done by the multifactor analysis, with following main factors:

- unit costs per employee (weight 20%),
- unit costs per production unit (weight 20%),
- quality (weight 30%) – measured by satisfaction of users and
- method of awarding contracts to external supplier (weight 30%) – scale from 100 for open tender to 0 for direct award, in house production = 0).

The planned sample was 300 public organisations from main sub-sectors - education, health care, social care/ services, culture and sport, general administration; unfortunately only 127 organisations responded (Table 4).

Table 5: Selected production units indicators

Service	Indicator
Cleaning	m ²
Catering	Number of users
Maintenance	Number of actions
IT	Number of actions
Transport	Average km yearly
Security	m ² of protected area

Source: own research.

Because of the purpose of this article we do not provide all findings in absolute figures for all selected internal services (for details see Merickova et al., 2010). The summary data are presented by Tables 6 and 7.

Table 6: Weighted results – efficiency of internal versus outsourced services (all four criteria)

		Administration	Education	Health care	Social	Culture	Total
Cleaning	Internal	63.72	83.32	87.81	-	100.00	83.71
	External	100.00	100.00	100.00	-	94.85	98.71
Catering	Internal	57.65	50.40	100.00	40.65	55.50	60.84
	External	100.00	100.00	87.94	100.00	100.00	97.59
Maintenance	Internal	38.61	73.19	88.20	63.93	77.68	68.32
	External	100.00	100.00	100.00	100.00	100.00	100.00
IT	Internal	53.10	49.79	82.93	63.20	62.35	62.27
	External	100.00	100.00	100.00	100.00	100.00	100.00
Transport	Internal	98.38	55.20	66.66	-	-	73.41
	External	100.00	100.00	100.00	-	-	100.00
Security	Internal	59.88	48.34	72.54	-	51.60	58.09
	External	100.00	100.00	100.00	-	100.00	100.00

Source: own research.

Data obtained by questionnaires indicate that external delivery – outsourcing is more effective solution for most cases. Is this really true?

The first set of problem is, for sure, connected with our methodology, especially with the decision to evaluate in house production as fully non-competitive solution (value 0). To show the impact of such decision, we calculated results only for first three criteria (Table 7). Weights for both cost indicators were set to 30%, quality received 40%.

Table 7: Weighted results – efficiency of internal versus outsourced services (three criteria, award method excluded)

		Administration	Education	Health care	Social	Culture	Total
Cleaning	Internal	94.88	82.48	100.00	-	100.00	94.34
	External	100.00	100.00	70.33	-	94.85	91.30
Catering	Internal	90.09	70.91	100.00	56.50	78.60	79.22
	External	100.00	100.00	87.03	100.00	100.00	97.41
Maintenance	Internal	53.06	100.00	100.00	91.01	100.00	88.81
	External	100.00	90.52	70.01	100.00	85.61	89.23
IT	Internal	75.16	69.76	100.00	63.20	62.35	74.09
	External	100.00	100.00	76.27	100.00	100.00	95.25
Transport	Internal	98.38	51.06	100.00	-	-	83.15
	External	100.00	100.00	93.00	-	-	97.67
Security	Internal	84.94	67.84	100.00	-	51.60	76.10
	External	100.00	100.00	85.16	-	100.00	96.29

Source: own research.

The second even more important problem is the quality of cost data provided by public organisations. First, very few of them use accrual/full cost accounting and because of

this fact, it is impossible for them to know their real costs (normally only direct costs are calculated) – we react to this issue in the last part of this subchapter.

If we abstract from above mentioned limitations, the data collected seems to tell that outsourced internal services are more effective. The consequence should be that outsourcing is the primary form of delivery. The reality is described by Table 8 and may indicate that quite many public organisations do not assess their internal service delivery decisions.

Table 8: Scale of outsourcing (in %)

	Administration	Education	Health care	Social	Culture	Total
Catering	90.00	17.74	21.43	20.00	62.50	42.33
Maintenance	27.59	14.52	35.71	42.86	25.00	29.14
IT	25.00	27.59	42.86	25.00	37.50	31.59
Transport	3.70	15.15	7.14	0.00	0.00	5.20
Security	64.00	42.50	45.45	0.00	42.86	38.96

Source: own research.

3.2. Management of Outsourcing in Slovak Public Organisations

In the following text we investigate selected aspects of „outsourcing management“ – selection of external supplier, length of contract, payment methods and ways of monitoring contract. All our data indicate that quality of outsourcing processes is limited. Table 9 shows that non-competitive selection of external suppliers dominates (the same as in the Czech Republic – see previous subchapter).

Table 9: Methods of selecting external suppliers (in %)

	Administration	Education	Health care	Social	Culture	Total
Open tender	14.10	15.25	7.69	0.00	0.00	7.41
Restricted tender	10.26	0.00	0.00	0.00	0.00	2.05
Negotiations	6.41	1.69	34.62	0.00	0.00	8.54
Price bid	10.26	6.78	0.00	40.00	14.29	14.27
Direct award	11.54	10.17	34.62	20.00	0.00	15.27
No information = direct award	47.43	66.10	23.07	40.00	85.71	52.46

Source: own research.

For the competitive selection in the ratio of cases when criterion of the most economically advantageous bid compared to the lowest price criterion is approximately 50:50 (we do not feel that the lowest price is optimum criterion for service contract award).

Another interesting contract management issue is the length of contract – situation is described in Table 10. Proportion of contracts with unlimited length is “fascinating”.

Table 10: Length of contracts for outsourced services (in %)

Up to one year	24.03
1 – 2 years	9.30
Up to 5 years	13.18
Unlimited contracts	53.49

Source: own research.

Method of payment is also important aspect indicating quality of contract management. Data provided by Table 11 are again not very positive.

Table 11: Method of payment to the external supplier (in %)

Performance based payments	37.21
Combination of performance and fixed payment	6.20
Fixed payment	56.59

Source: own research.

The last issue is contract monitoring. Table 12 again indicates important deficiencies in contract management.

Table 12: Frequency of services delivery monitoring (in %)

Regular monitoring according to contract	23.26
Irregular monitoring according to need	51.94
No monitoring	24.80

Source: own research.

All data above indicate that there exist important problems connected with „outsourcing management“ in public organisations. To check the real situation we visited two public organisations in 2008 and we checked all 10 decisions (two organisations times 5 services). For sure, two organisations are not the representative sample, but results are depressive. All ten decisions to outsource or to keep in-house production were wrong, based on almost no ex-ante analysis and costs/quality calculations. The most visible case was IT maintenance in a local government office, where the yearly costs were higher than the market price for all computer stations in the office.

Table 13 provides calculations of selected versus optimum solution in one of these two bodies (several estimates, especially for overheads have been necessary, but the data should be close to reality).

Table 13: Estimated costs for selected versus optimum way of delivery

	Selected form	Estimated yearly costs thousands €	Optimum form	Estimated yearly costs thousands €	Inefficiency level (in %)
Catering	Internal	150.00	Outsourcing	93.00	38.00
Cleaning	Outsourcing	40.00	Internal	27.00	32.50
Security	Outsourcing	79.67	Internal	44.12	44.62
IT	Internal	350.00	Outsourcing	100.00	71.43
Maintenance	Internal	512.49	Outsourcing	300.78	41.31
Transport	Internal	113.84	Outsourcing	66.24	41.81

Source: own research.

Relatively comprehensive picture about outsourcing in the public sector in Slovakia (almost fully valid also for Czech conditions – as already visible from our new research data) may be summarised by following statements. Firstly, outsourcing is relatively frequent solution in the public sector in the Czech Republic and Slovakia. Secondly, global figures indicate that outsourcing should be more effective solution compared to internal delivery. Thirdly, “outsourcing management” processes in public organisations are of very low quality – ex-ante analysis is not regularly realised, unit costs are not known, suppliers are selected dominantly in non-competitive way, contract management is of very low quality.

Such findings are partly contradictory to results of another of our questionnaire (Table 14) – many municipal officers tried to respond in much more positive way compared to reality (for possible explanations see Nemec et al., 2011).

Table 14: Selected responses from municipalities (in %s)

	Strongly disagree /disagree			Agree/strongly agree		
	EST	CR	SR	EST	CR	SR
1. There is strong commitment in my municipality to seek continually improvements in service delivery	3	4.11	7.32	96	95.89	92.68
2. My authority reviews the need for the services we provide at least once every three years.	12	37.20	29.27	87	62.80	70.73
3. Municipal employees are encouraged to question the continued need for each service to be provided.	13	25.79	39.03	87	74.21	60.97
4. My local authority delivers high quality services.	7	18.32	19.51	93	81.68	80.49
5. My authority regularly compares the costs of internal and external delivery alternatives of internal services (cleaning, catering, etc.).	x	17.37	35.37	x	82.63	64.63
6. My authority compares the costs of its services with other local authorities.	5	51.41	45.12	94	48.59	54.88
7. My authority regularly compares the quality of internal and external delivery alternatives of internal services (cleaning, catering, etc.).	x	22.05	35.37	x	77.95	64.63
8. My authority compares the quality of its services with other local authorities.	7	45.98	39.15	92	54.02	60.85
9. In my authority there is a zero level of corruption.	x	5.43	17.07	x	94.57	82.93

Source: Authors' research for Czech Republic and Slovakia in 2008; Tonnisson and Wilson (2007) for Estonia.

4. Outsourcing in the Private Sector in the Czech Republic

To obtain information about practice of outsourcing in the private sector in the Czech Republic we decided to use standard questionnaire based on quantitative research. The questionnaire was sent in the beginning of 2010 to more than 1000 firms from ten selected sectors (agriculture + forestry + fishing, food production, textile production, building, manufacturing, other processing, retail trade, wholesale trade, IT+ telecommunications, other activity). List of firms to be contacted was created on the base of their size and their regional distribution with target to obtain representative sample. The response rate was relatively limited; total of 142 questionnaires are included into the final sample (minimum 14 per selected sector). Such sample is not fully representative, but still provides effective picture of the situation.

The first issue was to find proportion of firms that use contracting. From the total sample 108 firms at the time of research used outsourcing, the rest (24%) did not use contracting in given period, but some of them have had already previous experience.

Outsourced activities

The firms from the first group provided data about types of internal activities/services which are outsourced by external suppliers. Following is list of main categories for which outsourcing is used:

- Area protection – 12.4%,
- Cleaning – 11.5%,
- IT services – 10.6%,
- Work security, logistics, catering – each 8.8%,
- Maintenance, accounting – each 6.2%,
- Waste management, salaries administration – each 5.3%,
- Marketing – 4.4%,
- HRM – 3.5%.

Reasons for outsourcing

The questionnaire used semi-open questions to obtain information why firms outsource. Main standard reasons known from the literature were presented, plus there was open space for describing other reasons available. Listed factors were evaluated as follows: costs reduction: 41%, lack of qualified staff: 13%, transfer of responsibility to supplier: 23%, access to new know-how: 11%, outsourcing activity is branch general practice: 4%.

Especially small firms might be expected to cope with lack of qualified staff for some activities (accounting, IT), but the results of our research do not confirm this. Transfer of responsibility was mainly connected with waste disposal and security services. Very few other reasons for outsourcing were indicated by the sample (e.g. need to focus on core business as contracted firms are more specialized).

Deciding about outsourcing

Decision making processes for outsourcing were significantly correlated with reasons of outsourcing. Because the main goal of firms was costs savings, the core base for decisions was economic calculations of in-house versus external production (64%). Other non-economic parameters were used in 28% of cases. The data suggests that firms normally try to compare their own internal (full) costs with bids of external firms as the main decision making factor. From other methods risk analysis, quality analysis, disponibility of human resources and SWOT analysis were mentioned. If we summarize all responses, the findings are as follows: 39% of firms use only economic calculations to decide about outsourcing, 22% of firms use only non-economic calculations to decide about outsourcing, 37% of firms use complex (economic and non-economic) calculations to decide about outsourcing, 2% of firms do not use any ex-ante analysis to decide about outsourcing.

Structure of used methods for decision does not depend on size of a firm; all firms that do not use ex-ante analysis belong to small and medium enterprises group. The methods used also do not depend on type of the outsourced activity/service.

Some firms realize complex assessment of potential supplier already during ex-ante evaluation process (few of them as the main criterion for outsourcing decision). Main criteria are timelines, prices, volume of supplies and quality references. The open question is if such evaluations should be part of tender and not of ex-ante analysis.

Body making decision about outsourcing in firms differs significantly – owner, top management, delegated person, project team. Only in 15% of cases specialized project team was created. In many cases – 51% of firms (almost all small and medium firms) – did not designate any concrete person to be responsible for process of decision making.

Selection process

Tender of outsourced activities is generally compulsory in the public sectors and one might expect that this would be dominant strategy in the private firms too, dealing with their own resources. However, the results of our research do not confirm such assumption. Open or restricted tender was used only in 57% of cases (average number of competing firms was in majority of cases only 2-3, thus competition was not guaranteed), direct selection in 27% of cases and in 13% of cases the outsourcing was realized as the response to the concrete offer by external firm.

Contract management

Findings in this category are also relatively surprising. About 26% of firms stated that they do not sign contracts with external supplier. Most of contracts were signed for unlimited period of supply. The question is obvious – how to penalize non-compliance if the contract does not exist? Responses from firms also indicate that regular systematic control of results achieved by outsourcing is not always in place. Control processes during contract realization focus dominantly on costs analysis and supplies evaluation (timelines, scope and quality).

Opinion of firms about outsourcing

The firms were also asked to provide their global opinion about outsourcing, based on their data and experience. Results are as follows: outsourcing is economical decision – 60%, outsourcing is effective because of non-economic reasons – 34%, outsourcing is non-economic solution – 3%, outsourcing is not effective because of others (non-economic) reasons – 3%.

The results indicate that Czech firms have very positive opinion about outsourcing and also really positive experience with outsourcing (79% of firms evaluated their outsourcing experience as positive), and accept this method mainly as cost-containment tool. Main experienced pros and cons of outsourcing are summarized in Table 15.

Table 15: Opinion of Czech firms about pros and cons of outsourcing (in %)

Pros of outsourcing	Frequency of answers
Cost containment	28
Possibility to focus on “core business”	19
Savings – labour	11
Transfer of responsibility	11
Increased flexibility	6
Better access to information	6
Quality improvements	6
Fast recruitment of new employees	3
New technologies	3
Know how	3
Time savings	3
Cons of outsourcing	
Implementation problems	6
Information leaks	6
Delivery problems and difficulties to handle them	3
Misuse of internal information	3
Limited availability of representatives of supplier	2
“Human factor failures”	8

Source: own research.

Reasons for not using outsourcing

Second part of our questionnaire was for firms that do not use outsourcing. These firms were asked to provide reasons for their decisions. The most frequent argument was that outsourcing is non-economic solution (almost all firms answered in such way). The second important argument was that there are no activities/services to outsource (50% of responses). Other reasons mentioned were: limited information about outsourcing, limited supply, risks and lack of trust.

Only one firm with previous experience with outsourcing stated that the main reason is bad experience (supplier in IT area misused access to internal information). This firm does not plan any outsourcing in future.

5. Comparing Outsourcing in the Private and Public Sector

As indicated in our introduction, knowing that the public sector approaches to outsourcing include many reserves (highlighted by data provided in the analytical part of our text), we tried to check if the private sector practice can serve as the positive benchmark and learning source for public organisations. This can be only partly confirmed.

The data collected in the Czech Republic, despite of limited size of our sample, indicate two core facts. First, outsourcing is relatively frequently used by private firms in the country. Second, we may see that “quality” of implementation of outsourcing in the private sec-

tor in the Czech Republic is a bit limited. In comparison with more developed countries, most firms use outsourcing as cost savings method and are not aware of more complex (mutual) benefits connected with outsourcing. Many firms do not use fully systematic approach to outsourcing process. Ex-ante analysis, outsourcing project preparation are frequently very amateur processes, mainly in small and medium size firms.

Selection of supplier is not sufficiently competitive. Contract management failures are also visible. Despite of all realization problems, Czech firms trust outsourcing; important majority of them feels that outsourcing is positive tool supporting their global performance.

In brief this means that the situation in the private sector is only slightly better compared to public practices of outsourcing. Even private managers, especially in small and medium firms, do not have sufficient knowledge and skills to manage outsourcing decisions and operations. If we include the factor of much higher potential to corruption and “channeling” in the public sector, it cannot be surprise that such large reserves are highlighted by our data.

Conclusions

Our main goals are to improve the micro-economic theory about outsourcing in conditions of Central European economy with its important (post-transitional?) specifics and to draft management models for processes of outsourcing in public organizations, on the base of main factors identification influencing the efficiency of outsourcing in the respective branch (with focus on the Czech Republic).

The paper is based on analytical data about outsourcing in the public and private sectors in the Czech Republic and Slovakia. Its main conclusions are straightforward. Outsourcing in the public sector is frequently used solution, with obvious potential, which is significantly limited by large scale implementation/contract management problems and corruptive behaviour of some public officials. Unfortunately, private sector approaches cannot be commonly used as examples of best practice and direct learning source – private firms have very positive attitudes to outsourcing, but many of them are not sufficiently aware about the complexity of outsourcing processes and tools to deal with it.

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