The Potentials and   Challenges of Outsourcing Public Services in Developing Countries: Evidences from a Tanzanian Public Sector Organization

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Abstract
Outsourcing has become a common feature of public service management in many part of world. This approach is being used by public organizations to strengthen their core competencies to ensure cost-effective management of resources. Besides the assumed potential benefits, the outsourcing can also bring a number of challenges. The purpose of this study is to assess the actual experiences of outsourcing of services in a public sector organization with the aim of outlining the benefits, challenges and lessons for future outsourcing initiatives. The study focuses on Urban Water Supply and Sanitation Authority (UWASA) unit in Tanga (Tanzania). Forty four employees of the UWASA were interviewed to record their perception about the benefits and challenges of using outsourcing methods in service delivery. The findings indicate the potential benefits of the outsourcing in terms of costs reduction, improved efficiency and greater accountability standards. The major challenges noted in outsourcing included negative attitude of staff, poor monitoring and evaluation, non-cooperation by staff and interference by community. It is hoped that the findings will be useful for further research in this subject area and also for the policy making.
Key Words: Service Outsourcing, Tanzania, Public Sector, Outsourcing Challenges

1. Introduction

Outsourcing is a contractual transfer of organizational activities and responsibilities to other (external) business entity (Ellram and Maltz 1997) and the volume of outsourced activities depends on their content and the needs of the parent organization. With emergence of 'core competency focus' view of the organizations, the scope of outsourcing has increased across sectors and type of activities, making it an integral part of operations strategy. Outsourcing is considered important in situations when organizations delegate non-core activities to outside organizations and continue to concentrate on core business activities. In other words, outsourcing helps in making focused effort in area of specialization and thus contributing towards performance improvement of the organizations. If performed well, it helps organizations in realizing optimum value for money by reducing operational cost and improving the quality. Outsourcing helps in improving both the functional effectiveness as well as the cost-benefit performance. However, despite the benefits, implementation of outsourcing is not quite smooth, as it involves shifting and delegation of activities to the other organizations and thus, leading to a number of process and behavior related issues.

The outsourcing strategy in African public sector organizations is not a new concept; however, there have been not many studies on the topic. In Tanzanian public sector organizations, the outsourcing of the non-core activities has been a common reform practice. The large public sector organizations and institutions in the country are engaged in the outsourcing of their activities. The Urban Water Supply and Sanitation Authority (UWASA) is also engaged in outsourcing substantial amount of their non-core functions. The importance of outsourcing in the organization can well be assessed from the fact that the just one unit (Tanga, Tanzania) of UWASA spent an amount of Tanzanian Shillings 1,085,929,306.00 (Equivalent US Dollars 678706.00 approximately) on outsourcing of different activities (mainly services) during the last two financial years 2011-12 and 2012-13 (Financial Report, 2012; Financial Report, 2013).

The cost of outsourcing tends to increase from year to year and this makes it necessary to find out whether the services or works outsourced are done satisfactorily or not or in words whether the benefits

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received from the outsourcing are up to expectation or not. Further, with the increase in the magnitude of outsourcing, the system and people related challenges also increases in the organization and, therefore, it becomes important to identify the current challenges in the organization. Given the increased scope of outsourcing activities in public organization in Tanzania, it is motivating to understand the actual benefits and challenges of this new management approach in public service management. This study is aimed at critically examine the benefits and challenges associated with outsourcing at UWASA. The study seeks to enrich our understanding on outsourcing issues in context of Tanzanian organizations. In addition, the findings of the study can also be used by the UWASA and other organizations in fine-tuning their respective outsourcing strategies as well as implementation systems.

2. Literature Review

The concept of outsourcing has strong knowledge foundation in terms of the knowledge drawn from different theories like resource theory, decision theory, transaction cost economics, agency theory, and core competency (Gottschalk and Solli-Saether, 2005). Outsourcing is a contractual transfer of organizational activities and responsibilities to other eternal business entities (Ellram and Maltz, 1997) argue that. It can also be defined as a contractual elimination and transfer of the activity, which the organization decides not to perform itself (Kubr, 2002). Greaver (1999) defines it as a contractual transfer of certain activities and business processes from the parent organization to the external contractor. It can be seen that most of the definitions have some elements in common: first, it involves contractual transfer of activities/ functions; and second, it involves the external party to whom the activities are transferred. Therefore, for the purpose of the study we define 'service outsourcing' as transfer of organizations' services activities to external service providers, which perform these activities on organizations' behalf for payment of money.

Hamel & Prahalad (1994) stressed that in order to improve the performance organizations should focus on their core activities and other services should to transferred to specialist organizations and by doing so all the service providers in the service supply chain can maintain their focus on the core competencies. Gilley and Rasheed (2000) also observed that acquisition of non-strategic services allows the organization to centre on what it really can do well and thus, helping in improvement of quality and reduction of cost. While making a decision about the outsourcing these benefits and risks must be carefully analyzed (Sang, 2010). The theory of transaction cost clearly establishes that outsourcing should have cost advantage as compared to in-house service delivery (Cheon, Grover and Teng, 1995). The effectiveness of outsourcing can be measured by its' contribution to accomplishment of the organizational objectives (Mlinga, 2006).

The effective outsourcing requires a number of factors. The outsourcing partner must have strong competence in the activities being outsources (Bourassa,1988). Internally, the coordination between different systems and processes can be considered an essential factor for consistency in outsourcing. This involves support from different levels and functions within the organization. Outsourcing and operational planning should also have strong coordination, as both are closely linked and operations planning decisions often influence the premises of outsourcing (Dobler, 1996). There are also some risks associated with the outsourcing which may include: over dependency on a supplier leading to high prices; fall of employee morale; loss of company information; and in some cases intellectual property rights related issues (Eyaa, 2006).

However, studies indicate that the performance and benefits of outsourcing varies across sectors and nature of organization and ,therefore, the outsourcing may produce different experiences depending on a number of context specific factors (Görzig and Stephan, 2002; Girma and Görg, 2004). This variation is quite evident as the effectiveness of any strategy is quite relative and accordingly, requires assessment in the given context. Keeping this in the view, the present study aimed to study the benefits and challenges of outsourcing at UWASA-Tanga with focus on the variables, as shown in the conceptual framework (Figure 1). It can be seen that that the perceived benefits is likely to trigger the service outsourcing process but at the same time the actual service performance is influenced by a number of context specific factors. The study is exploratory in nature and focused on identifying the perceived service benefits and context-specific factors.

3. Research Methodology

The study is exploratory in nature and utilizes a case research design. This study was carried in one of the Urban water supply organization, called Tanga Urban Water Supply and Sanitation Authority (UWASA), which is now a fully autonomous organization, was established in July 1996 as a semi-autonomous executive agency of the government. Its main aim is the provision of adequate, reliable and sustainable portable water and waste water management services in Tanga City, in Tanzania. It serves about 98% of the urban population with clean and safe water for an average of 24 hours a day. In general, the population it serves is only 17% of the urban population of Tanga city

The study population comprised of the staff of Tanga UWSA. The target population for this study consisted of officers from various departments at Tanga UWASA. These were the employees who are directly responsible in procurement management.

Figure 1: Outsourcing Framework
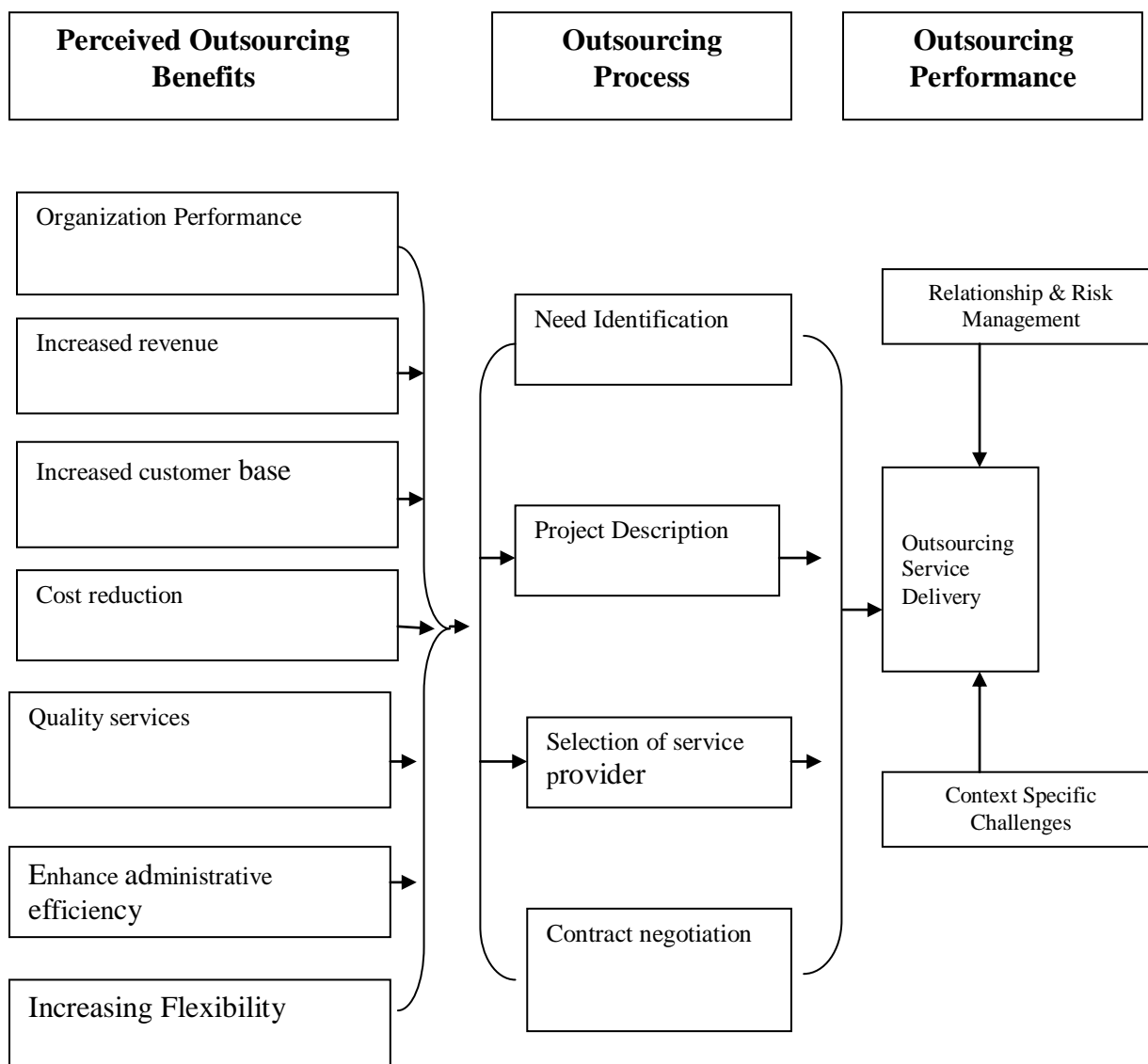
Source : Researchers' construct

The main factor considered in determining the sample size was to keep it manageable enough. Details of the samples presented in Table 1. The primary data was collected using questionnaires prepared for the employees. The questionnaire included both open and closed ended questions to enable for quantitative and qualitative analysis respectively. The Research instrument was pre–tested to increase the validity of the responses. The researcher used a panel of persons for both content and structural validity. Reliability was tested by giving out six questionnaires to three senior procurement staff and three junior procurement staff in Tanga UWASA. Split half method was used as a measure of reliability. The collected data or descriptive characteristics to qualitative phenomena were edited coded, classified then analyzed according to the factors by use of percentages, frequencies among others. As a result of the pilot test, changes in words selection and instructions made to the questionnaire. Regular cross checking and follow ups were done to ensure accuracy, relevance, completeness, consistency and uniformity of the data collected. Frequency tables, graphs and measures of central tendency were used to present the results

Table 1: Sample Size

Respondent	Frequency
Management	7
Purchasing	18
Accounts	7
Human resources management	2
Customer care	10
Total	44

Source: Primary data

4. Research findings

UWASA depends on outside suppliers for a number of services. Table 2 indicates activities outsourced by UWASA. It was found out that some of the providers render more than one service to UWASA. The rationale behind the outsourcing activities was to provide very effective means of reducing costs while enjoying a better quality service. It also reported that the UWASA has been outsourcing its logistics activities for more than five years but keeps on changing its providers' base. The change in the supplier is largely on the basis of technical and cost considerations.

Table 2: Outsourcing Activities at UWASA

Outsource Item	Number of company
Customer service	4
Transportation system	4
ICT	2
Cleaning	1
Security	1
Printing	2
Total	**14**

Source: Primary Data

Regarding the potential benefits of outsourcing the respondents were asked to identify primary benefits associated with this approach. As indicated in Table 3, below respondents admitted that outsourcing has actually helped them cut done cost and increasing profitability consistently over the past four years. Cost reduction seems be the primary benefit associated with the outsourcing of the services. Another important benefit was identified as considerable saving of time, which is largely due to increased efficiency. If we combine both the efficiency and the time saving factors, about 41% of respondents rate time or efficiency as primary benefit. Other important benefits of outsourcing were identified as quality and overall performance. Analysis of the findings in view of the available literature indicates that overall performance improvement can be linked to three major issues: quality, efficiency and cost savings. The findings confirm to this.

Table 3: Perceived Benefits of Outsourcing

Category	Frequency
Reduced Financial cost	12
Save time	10
Improve service quality	8
Improve efficiency	8
Increase performance	4
Increase profits	2
Total	**44**

Source: Field Data

The respondents were also asked about the different challenges they face in the outsourcing process. Major challenges were identified as under:

i. It was found that while management embraced outsourcing of services there was a lot of resistance from the union staff. It was reported that employees feared losing their jobs because of outsourcing.

ii. The study also revealed that sometimes, some of the contractors were encouraging double invoicing for the same service delivery. In absence of proper information and process control mechanism, this was identified a major challenge in the given context.

iii. Consistency in quality of services was identified another major issue, as most of the services are human process dependent and lack of standardization made it hard to realize consistency in the services.

iv. The lack of availability of professionally competent service providers was also cited as one of the major issues. Further the pressure of lobbying by the sub-standard suppliers often challenged the process of fair supplier selection.

v. Additionally, the contractors' usually stated competencies they did not posses in order to be prequalified.

vi. Lack of required human resources to monitor and evaluate contractors' performance, especially in 'out of station services', added to the challenges of effective outsourcing performance management.

5. Conclusion

In view of the increasing trend of services outsourcing in Tanzanian public sector organization, this exploratory studies was carried out at UWASA, Tanzania. Despite the time and resource limitations, the study indicates at some important trends related to services outsourcing. While the type of different outsourced services was profiled first, the benefit perception survey was also carried out. In line with the identified variables during literature review, most of the respondents saw either of cost reduction, quality improvement or efficiency increase as one of the primary benefits of the outsourcing. However, the process of outsourcing is also influenced by a number of context-specific challenges, which mainly includes employee resistance, lack of supply management human resources at UWASA and sometimes the fraudulent practices by the potential suppliers or suppliers. The study can be extended to different public sector organizations in Tanzania or in other similar contexts. Similarly, if being extended to other contexts, it may also lead to possible comparative studies with the aim of knowledge development in the subject area of service outsourcing.

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