

**EFFECTS OF OUTSOURCING ON PROVISION OF PUBLIC SERVICES
IN MALAWI**

M.A. (PUBLIC ADMINISTRATION AND MANAGEMENT) THESIS

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**University of Malawi
Chancellor College**

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By

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February, 2018

DECLARATION

I, the undersigned, hereby declare that this thesis is my own original work which has not been submitted to any other institution for similar purposes. Where other people's work has been used, acknowledgements have been made.

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CERTIFICATE OF APPROVAL

The undersigned certify that this thesis represents the student's own work and effort and has been submitted with our approval.

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DEDICATION

To daughter Nthambi

To Gladys *Nasoko* Chimbenje, my (late) mum

You are the inspiration for my struggle.

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ABSTRACT

This thesis aims at assessing the effects of outsourcing on provision of public services. Specifically, the thesis dwells on the effects of outsourcing on cost and quality of public services, the major goals of outsourcing. However, the thesis further analyses the effects of the conduct of officials engaged in making outsourcing decisions on the outcomes of outsourcing. The study uses the transaction cost theory and the quality shading hypothesis to analyse the effects of outsourcing on public services. It adopts the qualitative research design in collecting and analysing its data. The study, therefore, finds that outsourcing has a positive effect on the direct costs of providing public services with evidence of costs reduction of ranging from 18% to 54%. Nonetheless, the study has established that there are transaction costs relating to outsourcing which are ignored when computing the cost of outsourcing. These include the cost pertaining to advertising for bids, evaluating the bids, and enforcing the contracts. These may affect government's outsourcing decisions if they are to be taken into consideration. The study has also established that the effects of outsourcing on the quality of public services is mixed, mainly because the definition of quality is highly subjective. This is exacerbated by lack of predefined measures of quality. Finally, the study established that public officials receive financial incentives to influence outsourcing decisions. These incentives are either solicited or offered by the private sector employees. The study, therefore, concludes that for outsourcing to be more successful in the public sector, there is need for government to develop a universe of all outsourcing related costs, financial and non-financial, and work to minimize them. Further, service contracts should have objective and clearly defined expectations, responsibilities, and sanctions between government and the outsourced companies.

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LIST OF ACRONYMS AND ABBREVIATIONS

ADMARC	Agricultural Development and Marketing Corporation
BWB	Blantyre Water Board
CEO	Chief Executive Officer
CSAP	Civil Service Action Plan
DIPP	Desk Instructions for Public Procurement
EC	Evaluation Committee
IMF	International Monetary Fund
NPM	New Public Management
OECD	Organisation for Economic Cooperation and Development
PE	Procuring Entity
PPA	Public Procurement Act
MPPR	Malawi Public Procurement Regulations
PSCSRID	Policy Statement on Civil Service Reform and Institutional Development
RA	Roads Authority
RFB	Request for Bids
RFP	Request for Proposals
RFQ	Request for Quotations
UK	United Kingdom
UNECA	United Nations Economic Commission for Africa

CHAPTER ONE

INTRODUCTION

1.1 Introduction

The thesis examines the implementation of outsourcing in the Malawi Public Sector as a reform initiative under the new public management paradigm (NPM).outsourcing involves the shift of public service provision from the public to the private sector (Tambulasi, 2009: 1832). Implementation of outsourcing reform initiatives in the public sector is premised on the notion that bureaucracy, due to its cumbersome red-tape and corrupt practices, leads to higher costs of running the government, but delivers poor services (Hughes, 2003). Consequently, proponents of outsourcing hold the view that market provision of public services results in greater cost-efficiency and quality improvement (Jefferys, 2012). However, although outsourcing was meant to address the challenges of the bureaucratic provision of public services, evidence of problems with outsourcing are also not uncommon. Caiden (1982) and Huque (2004), for example, claim that the process of outsourcing is open to corruption, mismanagement, profiteering, waste and public immorality because markets are and will continue to be a force tending towards corruption. When this happens, it leads to delivery of relatively expensive and low quality servicers.

It is in view of this divergence of views on the ability of outsourcing to lead to low cost and high quality public service provision that this study seeks to examine the impact of outsourcing on provision of public services. Specifically, the study focuses on the effects of outsourcing on the costs and quality of public services, as the main drivers of outsourcing decisions. Further, the study seeks to examine the conduct and practices of public officials involved in making outsourcing decisions, to determine their impact on the cost and quality of outsourced public services. The aim is to establish whether outsourcing has achieved its cost efficiency and quality improvement goals. The study concludes by examining the challenges and providing solutions to ensure implementation of successful outsourcing regime in the Malawi public service.

This chapter, therefore, introduces the study. It is organised into five sections. Section one provides the background to the study whilst section two presents the statement of the problem. Section three contains study objectives and research questions, whereas section four presents the significance of the study. Section five presents the outline of chapters of the thesis.

1.2 Background to the Study

Upon adopting the multiparty democracy in 1994, the Malawi government implemented several public sector reform initiatives. The aim of the reforms was to create a viable and vibrant civil service that would be used to deal with the challenges of the new dispensation, namely; poverty alleviation, and the achievement and sustainability of democratic and good governance policy outcomes (Tambulasi, 2005). Among the reforms adopted were outsourcing. This followed the issuance of

the “Policy Statement on Civil Service Reform and Institutional Development” (Msosa, 1998: 25).

Scholars have defined outsourcing in various ways. For example, Tambulasi (2009:1832) defines outsourcing as the shift of public service provision from the public to the private sector. In addition, Domberger (1998) states that outsourcing is when a company contracts an outside supplier for services or other business processes rather than employing staff to do these services in-house. According to Jefferys (2012), the decision to outsource public services to selected private sector actors stems from NPM’s notion of competition as the driver of efficiency, quality improvement and innovation. The proponents of this shift argue that that increased market orientation in the public sector results in greater cost-efficiency for governments, without having negative impacts on the quality of service delivery (Jefferys, 2012).

The drive towards outsourcing in the public sector came about as a reform area in response to economic problems that rocked most countries in the 1980s. These problems were blamed on the poor performance of the public bureaucracy due to its cumbersome red-tape, unpleasant officials, and corrupt practices that only increased the cost of running the government but delivered poor services (Hughes, 2003:2). The public choice literature, for example, criticises the traditional public administration arrangements whereby governments provide public services (Alonso, 2015). The critiques highlight the fact that under traditional public administration, services will be over-supplied and public administration over-staffed, since politicians and bureaucrats use service provision as a tool to maximize their own individual personal

utility or political power (Savas, 1987). As a result, the public choice critics and other multinational organisations, including the World Bank and the International Monetary Fund (IMF), started to question the rationale and efficiency of state's direct involvement in the delivery of public goods and services (Dilulio, 1994: 7). The critics pushed for reforms in the way government business is run, and public services provided. This led to the adoption and advancement of a new model of organizing the public sector called the New Public Management (NPM) (Hughes, 2003: 4). New Public Management proposes seven (7) doctrinal components for reforming the public sector, including the shift to greater competition in the public sector through private sector involvement (Hughes, 2003: 2). According to Hood (1991: 5), this, among others, entails the move to term contracts and public tendering procedures. The idea is that competition in the provision of public service will introduce greater competition among providers, leading to lower operating costs and improved service quality. According to Kettl (2000) and Osborne and Gaebler (1992) outsourcing compels activities hitherto guarded in-house by public servants to be subjected to new, positive incentives provided by competition and market discipline. Kettl (2000), therefore, argues that this competition amongst potential public service suppliers reduces costs and increases efficiency and quality, leading to reduced government expenditure and staff numbers.

The Government of Malawi has been implementing public sector reforms since independence in 1964. According to Samute (2011:3), public sector reforms in Malawi fall into three generations. The first-generation of reforms are those that were implemented between 1964 and 1980; the second-generation reforms are those implemented from 1980 to early 1990s; and the third generation reforms are those

reforms implemented with the advent of multiparty political democracy in the early 1990s to the present day. The focus of the first generation reforms as spelt out in the Statement of Development Policies (Malawi Government, 1971) was to establish a Civil Service that would serve the needs of the new independent Malawi in order to facilitate rapid economic development of the new state and improve the lot of the indigenous people. The first generation reforms were adopted following the release of the Skinner Report which recommended grading structure for the administrative common service. However, the recommendations of the Skinner report were not fully implemented. The public service was not redesigned to effectively respond to development demands of the new state. The reforms only brought in new class of local elites. In view of this, the 1966 Public Service Review by the United Nations Economic Commission for Africa recommended refocusing the Public Service reforms towards the needs of administering the country in terms of leadership, new institutional structure and management arrangements. This led to the second generation reforms.

The second generation reforms were intended to address the short comings of the first generation. The first generation reform initiatives suffered from lack of comprehensiveness and synergies as they tackled public management issues as a linear activity based solution without addressing underlying causes (Kamphambe-Nkhoma: 2001). The second generation reforms coincided with the advent of the New Public Management (NPM) paradigm for public management that emerged in the early 1990s, which had partial influence in the structure and operations of the Public Service (Samute, 2011). Consequently, the second generation reforms focused on changing systems towards the role, size, structure and operational behaviour of the

public service (Malawi Government, 1987). One of the second generation reforms is the World Bank Malawi Public Sector Management Review of the Civil Service 1991 which identified that key ministries like OPC, the Department of Statutory Corporations, and Ministry of Finance lacked institutional and management capacities. Among its main areas of reform were the strengthening of the Ministry of Finance, completion of strategic and detailed functional reviews of ministries aimed at downsizing of the public service, and strengthening the Department of Statutory Corporations. This led to the development of the Privatization Policy and the establishment of the Privatization Commission, and conducting functional reviews of ministries that led to identifying functions and service that would be delivered through contracting out arrangements, abolishing superfluous functions and reducing the wage bill (Samute, 2011).

The third generation reforms aim to counter the effects of the previous reform initiatives, including the dissatisfaction and frustration among the public that arose as a result of the austerity measures that came with the second wave of reforms and the authoritarian state management. This resulted in two reform directions: the first was democratic reforms while the second had to do with achieving efficiency and effectiveness in resource utilization (Samute, 2011). The aim is to strengthen and improve efficiency and effectiveness of all branches of Government, namely; the Executive, Legislature and Judiciary in the delivery of services to the general public with focus on enhancing accountability and transparency; and the active engagement and participation of the civil society and the private sector in the national development agenda as well positioning Malawi to manage to her advantage global socio-economic and political challenges.

The rise of outsourcing initiatives in Malawi, nevertheless, falls within the second generation reforms. However, its implementation coincides with the period of the third generation reforms. It can be traced back to May 1994 when the newly elected democratic government issued a “Policy Statement on Civil Service Reform and Institutional Development” (Msosa, 1998: 25). This policy statement recognized that it is government’s policy to periodically subject public sector organizations to external reviews of their operations, responsibilities, functions, structures and establishment levels (Malawi Government, 1994; cited in Msosa, 1998:25). The policy statement was operationalized by the Civil Service Action Plan (CSAP) of 1996. The CSAP sought to “improve the efficiency, effectiveness, and financial management of the civil service” (Durevall, 2001:6). The CSAP recommended the following reforms (Malawi Government, 1996a):

- i. Rationalisation of institutional mandates and their realignment with policy objectives.
- ii. Improvement in governance and public sector ethics, by establishing an Anti-Corruption Bureau with oversight and investigative powers.
- iii. Improvements in civil service performance, through reforms in personnel management and public sector pay.
- iv. Decentralisation of service delivery and development management functions through the creation of representative local government in rural areas.
- v. Strengthening public expenditure management focusing on improvements in resource allocation and expenditure control through the implementation of the Medium Term Expenditure Framework (MTEF) where the budget becomes outcome oriented.

- vi. Contracting out some services such as security, cleaning office equipment maintenance to the private sector.

By the year 2000, the government of Malawi had implemented some tasks laid down in the CSAP such as privatization and outsourcing. According to Tambulasi (2005), the government considers outsourcing of some of its services as one of the mechanisms to promote efficient and effective delivery of public services. This is in addition to other reforms such as downsizing and rationalisation, privatisation, introduction of user fees/cost recovery, public-private partnerships, among others. As a result, government of Malawi established the rationalization and privatization units in the Office of President and Cabinet (OPC) to oversee the contracting out of services in the public sector. In addition, sectoral departments and agencies were encouraged to contract out services which could best be carried out by the private sector (Msosa 1998:25). According to the OPC, in order to identify potential services and functions to be subjected to outsourcing, Ministries, Departments and Agencies (MDAs) must ask themselves the question: “Is it essential that this function/service (which is the responsibility of the MDA) be performed in-house (OPC, 2000:38)?” This led to outsourcing of such services as office cleaning, security, laundry, catering, copy typing, legal, and building, ground maintenance, audit and secretarial services, among others.

1.3 Problem Statement

Although the NPM through its doctrinal components was meant to address the challenges of the traditional public administration, studies show that this has not been uniformly achieved. Alonso *et al* (2015), for example, contend that empirical

assessments of whether NPM related reforms, including outsourcing, reached their stated objectives are relatively scarce, mainly due to the difficulty of quantifying the impact of such reforms. This is buttressed by Clifton *et al* (2005), who argue that relatively little has been done in the way of evaluating NPM itself. This criticism is levelled because NPM purportedly sought to promote the improvement of measurement techniques to better evaluate public sector performance (Hood, 1991: 4). This study, therefore, among others, draws its inspiration from this deficit. It seeks to contribute to the empirical assessments of outsourcing as an NPM related reform by assessing the successes, challenges and prospects of outsourcing in the Malawi public sector to determine whether outsourcing has led to an efficient and effective government. As Osborne *et al* (2013) concludes it is interesting to enquire whether, after decades of reforms, outsourcing as an NPM related reform can be found to be associated with reduced cost of running the government.

In addition, several empirical problems with outsourcing have been reported both at the international level in general, and in Malawi in particular, questioning the ability of outsourcing to lead to cost effective and high quality services. The problems range from inadequate capacity of the private sector to provide the services, connivance between personnel of the private firms and the government, to lack of capacity within the government to oversee the contracts. For example, In the United Kingdom (UK), the UK House of Commons (2014) found that outsourced firms had not consistently demonstrated the high ethical standards expected in the conduct of public business. For instance, the UK House of Commons revealed that for a number of years, Serco and G4S companies charged the UK Ministry of Justice for services they were not providing. It further reported that “the public’s trust in outsourcing has been

undermined by poor performance of G4S in supplying security guards for the Olympics; and the reports that G4S and Serco had overcharged for years on electronic tagging contracts” (UK House of Commons, 2014: 3). Furthermore, it had been argued that outsourcing of services had led to the evolution of privately-owned public monopolies that largely relied on taxpayers’ money for their income (UK House of Commons, 2014). The state is then constrained in finding alternatives where a big private company fails. This shows that outsourcing has not always led to the envisaged benefits of high quality, low cost services and compared to in-house provision.

Similarly, in Malawi, several empirical problems with outsourcing have also been reported. For example, the Baker Tilly (2014) audit report makes revelations of the infamous “Cashgate” scandal – a financial scandal in Malawi where private suppliers colluded with government officials and politicians to loot, steal and obtain money through corrupt ways-which led to the discovery of cases of inflated procurement prices; overpayments; and payments where no supply has been made. The report identified 17 payments totalling over MK16 billion to six businesses where none or a limited amount of the goods paid for were provided. Similarly, a 2014 report into alleged malpractices by the Chief Executive Officer (CEO) for Blantyre Water Board (BWB) established that BWB was issuing contracts to contractors for personal benefit/interest (without following procurement procedures) (BWB, 2015: 18). According to the schedule of contracts executed between July, 2013 and June, 2014 at BWB, out of twenty (20) contracts, one company was awarded eleven (11) contracts while the remaining nine (9) contracts were awarded to and executed jointly by thirteen (13) contractors. As such, the report established that there was a heavy bias

towards awarding contracts to this particular contractor. Thus, the report concluded that the observed bias raised suspicion of personal benefits or interests by senior BWB officials including the CEO. This, therefore, ignited this study as it raised questions regarding the role and conduct of various stakeholders in the implementation of outsourcing in the public sector as to whether their various roles enhance or hinder the achievement of the ideals of outsourcing.

However, despite the above problems with outsourcing being evident, there have been relatively few studies to systematically study the effects of NPM related reforms on government performance (Alonso *et al*, (2015). These include Ferlie *et al* (1996); Kettl (2000); Pollitt and Bouckaert (2004); and Metcalfe and Richards (1990). Nonetheless, most of such studies have been limited in several ways. Firstly, the studies examine the effects of NPM related reforms at the macro level but fail to establish a correlation between the reforms and public sector size (Alonso *et al*, 2015). In addition, as Van de Walle and Hammerschmid (2011) establish, the studies cover a limited number of countries and time periods, largely due to the scarcity of key data. In this regard, therefore, this study seeks to establish whether a direct link exist between outsourcing and the cost of running government (extent of government spending). The study further seeks to produce local data for analysing the effects of outsourcing in view of the limited scope of previous studies in terms of number of countries covered.

Furthermore, the results of the fewer studies that have attempted to systematically study the empirical effects of outsourcing on the performance of government reveal several practical problems with outsourcing. Gregory (1999:66), for instance, finds

that outsourcing enhances the risk of corrupt practices at the interface between private business and governmental discretion. In addition, Caiden (1982:143) and Huque (2004) argue that the process of outsourcing is open to corruption, mismanagement, profiteering, waste and public immorality because “markets are and will continue to be a force tending towards corruption” (cited in Warren, 2004:340). On the one hand, a person in a high position who formulates government policy or can influence government decision-making seeks, as *a quid pro quo*, payment for exercising discretionary powers vested in him or her (Jiyawickrama, 2001:283). On the other hand, powerful actors are motivated to penetrate government wherever possible, either to get privileged access to government contracts or to affect the rules of competition in ways favourable to them (Warren, 2004:340). If this happens, the outsourcing relationship becomes one of mutual dependence than one of promoting economic competition” (Self, 1993:127). This is, however, contrary to what Metcalfe and Richards’ (1990) study, as one of the few systematic studies on outsourcing, established that outsourcing is key to the creation of competition necessary for the efficient and effective delivery of public services. It is also for this reason, therefore, that this study examines the extent to which outsourcing has led to reduced costs of running the government, and whether government officials and outsourced service providers work together to further the realization of the aims of outsourcing.

Therefore, the implementation of outsourcing reforms has had various unintended consequences. However, these consequences have not been adequately studied, and hence the need for this study. Among the attempted local studies on outsourcing is Tambulasi’s (2005) study of the impact of NPM reforms on political control and corruption. This study, nonetheless, concentrated on the concerns that the NPM reforms have led to the loss of local political control and have increased local

opportunities for corruption. It did not adequately examine the effect of outsourcing in Malawi as regards the reduction of costs of running the government. The study also did not highlight challenges facing outsourcing in Malawi and possible solutions to overcome them, and whether the conduct and relationship of parties to the outsourcing initiative in Malawi have facilitated or hindered the realization of the envisaged outcomes of outsourcing.

In view of the foregoing, therefore, it is apparent that these high-profile problems with outsourcing illustrate that the practice of outsourcing has not been as rosy as envisaged by its proponents. They exemplify private sector's failure to live up to the high standards expected of them as promised by proponents of outsourcing reforms, and also expose serious weaknesses in government's capability in negotiating and managing private contracts on behalf of the taxpayers. With all these instances where outsourcing had led to bloated costs of running the government, and where those involved in negotiating and managing outsourcing contracts had ended up benefiting from the contracts as reported in the last paragraphs, one could only question if, overall, outsourcing in Malawi has led to reduced costs of running the government, improved quality of public services and whether the conduct and practices of officials engaged in outsourcing activities has led to the furtherance of outsourcing objectives. However, there are no known systematic studies that have been conducted to fill this gap in Malawi. It is in this regard that this study was conducted in order to answer the following questions: How has outsourcing been conceptualized and implemented in the Malawi public sector? What have been the achievements and challenges? How, and to what extent has it led to reduced costs and improved quality of providing government services?

1.4 objectives of the study

The study has general and specific objectives as follows:

1.4.1 General Objective

The overall objective of this study is to assess the effects of outsourcing on public services provision in the Malawi public sector.

1.4.2 Specific Objectives

Specifically, the study seeks to:

- a) Analyse the conceptual underpinnings of outsourcing in the Malawi public sector;
- b) Assess the overall effects of outsourcing on public service provision in Malawi Public Sector;
- c) Analyse the consequences of the conduct of private and government officials on outsourcing in the Malawi Public Sector;
- d) Analyse the challenges of outsourcing in the Malawi public sector; and
- e) Propose strategies that can be put in place to ensure successful outsourcing of public services.

1.4.3 Research Questions

The study answers the following specific research questions:

- a) How has outsourcing been conceptualised in the Malawi public sector?
- b) Has the Malawi government accessed low cost-high quality services through outsourcing?

- c) Has the conduct of public officers engaged in outsourcing helped government to access cheaper and high quality services?
- d) What challenges has the implementation of outsourcing faced in Malawi?
- e) What measures can be put in place to overcome the challenges?

1.5 Significance of the Study

This study is important because it seeks to generate knowledge useful to policy makers and other stakeholders when making outsourcing decisions. By utilising the transaction cost analysis, the study has shown that there is a broad universe of costs to be considered when making outsourcing decision, in addition to the financial costs. In addition, the study contributes to the existing body of knowledge in the academia. The study has contributed to filling of the knowledge gap that exists pertaining to local studies on outsourcing. As such, the study provides a basis upon which future local studies on outsourcing may be based.

1.6 Outline of Chapters

This thesis has five chapters. Chapter one introduces the study. It has the following subsections: background to the study; problem statement; objectives of the study consisting of general and specific objectives; research questions; justification of the study; and chapter outline. Chapter two presents literature review. It has three main parts. The first part establishes why outsourcing is an issue in organisations. As such, it identifies the New Public Management reforms and the core competences theory as the drivers of outsourcing. The second part reviews literature in line with specific objectives. The section uses transaction cost theory to explain the literature. The third part sums up the reviewed literature into a theoretical framework of the study. Chapter

three consists of the methodology of the study. It contains the research method and the research design used to operationalise the study, whereas chapter four consists of findings and discussion of the study. It presents the findings in line with the specific objectives for the study and discusses them using the theoretical framework specified in chapter two. Chapter five presents the summary, conclusions and recommendations of the study.

1.7 Conclusion

This chapter has introduced the study, setting the context of the study. The chapter has also provided background to the study and highlighted the research problem. In addition, the chapter has provided the general and specific objectives of the study, and justified the need to conduct this study. Finally, the study limitations and organisation of the study have also been highlighted in this chapter.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of relevant literature relating to the study. The chapter locates the study within relevant theoretical foundations and debates on outsourcing. The aim is to locate gaps in literature which this study seeks to fill. The systematic review of literature is guided by the flow of specific objectives. However, the chapter begins by expounding the conceptual underpinnings of outsourcing, providing the context within which outsourcing is understood and implemented.

2.2 Conceptual Underpinnings of Outsourcing

Implementation of outsourcing in the public sector emanates from two main theoretical underpinnings. These include: the New Public Management (NPM) paradigm and the Core Competency theory. On the one hand, NPM holds that more market orientation in the public sector will lead to greater cost-efficiency for governments, without having negative impact on their service provisions. On the other hand, the core competencies theory posits that activities should be performed either in house or by suppliers depending on whether they are core or noncore to the organisation (Gottschalk and Solli-Saether, 2005). The study, therefore, discusses these theoretical underpinning, in turn. The aim is to understand the context within which the public sector in Malawi conceptualises and implements outsourcing.

2.2.1 New Public Management

Different authors use different names to refer to the New Public Management (NPM), emphasizing on different aspects. For instance, Osborne and Gaebler, (1992) calls it 'entrepreneurial government'; Pollitt (1990) uses 'managerialism'; Hood (1991) refers to it as 'new public management'; Lan and Rosenbloom (1992) describe it 'market based public administration'; and Kaul (1997) terms it 'new public administration' (cited in Tambulasi, 2005).

The doctrine of the NPM emerged in the 1980s in New Zealand, Australia, Britain, and the United States (Engidal and Bardil, 2013). It was spread to the Organisation for Economic Cooperation and Development (OECD) countries in the 1990s and from them to the low-income countries through international agencies like the World Bank, Commonwealth Secretariat and management consultancy groups (Des, 2002). The main premise in the NPM is that more market orientation in the public sector will lead to greater cost-efficiency for governments, without having negative impact on their service provisions.

According to Hood (1990b), the rise of NPM was linked with four other administrative 'megatrends', namely: a) attempts to slow down or reverse government growth in terms of overt public spending and staffing (Dunsire and Hood 1983); b) the shift towards privatization and quasi-privatization and away from core government institutions, with renewed emphasis on 'subsidiarity' in Service provision (Hood and Schuppert 1988; Dunleavy 1989); c) the development of automation, particularly in information technology, in the production and distribution of public

services; and d) the development of a more international agenda, increasingly focused on general issues of public management, policy design, decision styles and intergovernmental cooperation, on top of the older tradition of individual country specialisms in public administration.

However, although studies emphasize various aspects of NPM, their descriptions culminate into what Hood (1991) describes as seven (7) doctrinal components of NPM. These doctrinal components are presented below. However, Hood (1991) warns that not all the seven doctrinal components were equally present in all cases studied; nor are they necessarily fully consistent, partly because they do not have a single intellectual provenance.

The first element is the implementation of hands-on professional management in the public sector. According to Hood (1991:4), this means “active, visible discretionary control of organizations from named persons at the top, free to manage. Hood (1991) justifies this by arguing that accountability requires clear assignment of responsibility for action, not diffusion of power. According to the United Nations Economic Commission for Africa (2003:1), this was highlighted by the NPM movement’s slogan: “let the managers manage” and “management is management” (cited in Tambulasi, 2005). In addition, Hughes (1998:61) notes that this implies that managers would themselves be responsible for the achievement of results rather than being administrators who simply follow instructions.

The second doctrinal component of NPM is explicit standards and measures of performance. According to Hood (1991:4), this entails the definition of goals, targets,

indicators of success, preferably expressed in quantitative terms, especially for professional services. This was coined by Day and Kleln (1987) and Carter (1989). The United Nations Economic Commission for Africa (2003:14) and Minogue (1998:142) further observed that performance management would ensure managerial autonomy so that managers work to their best; address problems of accountability; and regulate the activities of public managers. In addition, Tambulasi (2005) notes that performance measurements also entail the development of citizen charters which set out the standard of service which the public has the right to receive and offer some regress for failure to achieve that standard.

Hood (1990:4) further identified “greater emphasis on output controls” as the third doctrinal component of NPM. According to Hood (1991), this doctrine means linking resource allocation and rewards to measured performance; and breaking of centralised bureaucracy-wide personnel management. The aim is to ensure that organisations stress results and not procedures. Pollitt (2003:27) further claims that this entails a shift in the focus of management from inputs and process towards outputs and outcomes. As such, allocation of organisational resources and rewards are linked to performance (Hood, 1991:4). In addition, Kaul (1997; cited in Tambulasi, 2005) argues that, in line with this doctrine, the older “line item budgeting” is replaced by performance and programme budgeting systems that look at outputs rather than inputs. This makes managers more accountable for results and outcomes rather than inputs and processes.

The fourth doctrinal component of NPM is the shift to disaggregation of units in the public sector. According to Hood (1991:5), this entails the breaking up of formerly

monolithic units, unbundling of U-form management systems into corporatized units around products, operating on decentralised one line budgets and dealing with one another on an arms-length basis. The aim is to create manageable units, separate provision and production, gain efficiency advantages of use of contract of franchise arrangements inside as well as outside the public sector. According to Larbi (1999:17), this entails “debureaucratising the public service and delayer hierarchies within them.” Ferlie *et al* (1996:12) calls this “unbundling” whereas the United Nations Economic Commission for Africa (2003:9) terms this “hiving off central government functions to local authorities. According to Minogue (2000:12), the idea is that the government should have a “smaller policy core overseeing flatter, less hierarchical, more fragmented implementing periphery,” leading to “catalytic” governments that “steer instead of rowing” (Osborne and Gaebler 1992:25).

The fifth doctrinal component of NPM is the shift to greater competition in public sector. According to Hood (1991:5), this entails the move to term contracts and public tendering. The main driving principle is that rivalry is key to lowering costs and realising better standards. Competition in the public sector is introduced through privatisation, contracting out, the use of public-private-partnerships, and the introduction of user fees (Tambulasi, 2005:12). It is through this doctrine that outsourcing finds its way into the NPM reform agenda. According to Larbi (1999:27), outsourcing involves the “out-sourcing or buying in of goods and services from external sources instead of providing them in house.” The logic is that the private sector can carry out such services in a more efficient and cost effective manner than the government.

The sixth doctrinal component of NPM is the stress on private sector styles of management practice. According to Hood (1991:5), this entails moving away from military style public service ethic, to greater flexibility in hiring and rewarding of employees. It also entails greater use of public relations techniques. The justification is that the private sector is efficient because it uses market principles and, therefore, to make government more efficient, we need to use the same (Tambulasi, 2005:13). In this regard NPM stresses use of ‘proven’ private sector management tools (Hood, 1991:5). These may include “customer service” where citizens are regarded as ‘customers’ to be served instead of ‘clients’ to be managed (Kettl, 1997:452).

The seventh doctrinal component of NPM is the emphasis on greater discipline and parsimony in resource use. This entails, cutting costs, raising labour discipline (productivity), resisting union demands, and limiting compliance costs to business (Hood, 1991:5). It calls for checking of resource demands of public sector and doing more with less, directing resources to emphasise those programmes which most assist the attainment of strategic goals (Hughes, 1998:65), cost effectiveness, and value for money (Kroukamp, 2001:24). According to Tambulasi (2005:12), in this regard, NPM empowers public officers to be ‘entrepreneurial’ (Osborne and Gaebler, 1992) and makes them cost conscious and more transparent.

The study has, so far, located outsourcing within the NPM. The study now examines the core competency theory as a basis for selecting which services to outsource.

2.2.2 Core Competencies Theory and Outsourcing

Outsourcing refers to an organisation's search for resources outside its boundaries (Xu, 2009). It involves the use of external agents through short term agreements to undertake activities which have traditionally been carried out internally by government departments or agents (WEDC, 2003:3). Similarly, Gottschalk and Solli-Saether (2005: 7) define outsourcing as the process of using an outside company to provide a non-core service previously performed by staff. These definitions point to the fact that outsourcing involves the shifting of public service provision from the public to the private sector. As Brudenn (2000:3) puts it, outsourcing involves the transfer of management and/or day to day execution of the entire business function to an external service provider. The key for any organisation is to keep the key activities and to outsource the non-core activities, well known by the slogan *sifting core from chore* (Oates, 1998). It is premised on the notion that buying the best on the outside makes sense as long as it leaves an organization to concentrate on the things it does best (Jonathan, 1997). This argument emanates from the core competencies theory. Consequently, the study now provides a brief description of the core competencies theory to present a clear justification on why outsourcing became more popular among the NPM reforms.

According to Hancox and Hackney (2000), the core competencies theory posits that activities should be performed either in house or by suppliers depending on whether they are core or noncore to the organisation. This implies that activities which are not core to the organisation should be outsourced to "best-in-the-world" suppliers (Gottschalk and Solli-Saether, 2005: 22). Subsequently, the core competencies theory specifies the possibilities of outsourcing all functions that are non-core in the

production of goods, and provision of services (Ahimbisibwe et al, 2012). Quinn and Hilmer (1994) and Arnold (2000) further note that outsourcing core activities may reduce the incentives in an organisation's innovation since it may disclose critical technologies to the outside organisations and increase competitors. This may in turn offset the benefits brought by outsourcing. To overcome this, therefore, Arnold (2000: 17) noted that the decision makers prefer to maintain the core activities and outsource the "disposable and core-distinct activities" to the external providers.

In an attempt to define what constitutes a core competence, Xu (2009: 29) observes that "companies with specific strengths in the marketplace, such as data storage or the development of accounting applications, can be said to have a core competency in that area." Accordingly, core competence refers to the organisation's ability to develop additional products and gain their share of the market in such line product market. Axelsson and Wynstra (2002:72) further define core competence as "the most critical and most distinctive resources a company controls and which are the hardest for others to copy when they are in a number of processes connected to the relevant strategic goals which the company pursues." This suggests that if, for example, Information and Communication Technology (ICT) is seen as part of the organisation's core competence, it should not be outsourced, and if ICT is not seen as part of the organisation's core competence it should be outsourced (Johansson, 2004). Xu (2009:29), therefore, concludes that a competence simply means an organisation's basic business and area of greatest expertise.

Apart from defining the core competencies, the value of the core competence theory of outsourcing is also signified by the theory's ability to establish criteria for

identifying an organisation's core competencies. This is aided by Arnold's (2000) general outsourcing model that separates an organisation's activities and illustrates the whole procedure of outsourcing design. The model is summarised in Figure 1 below.

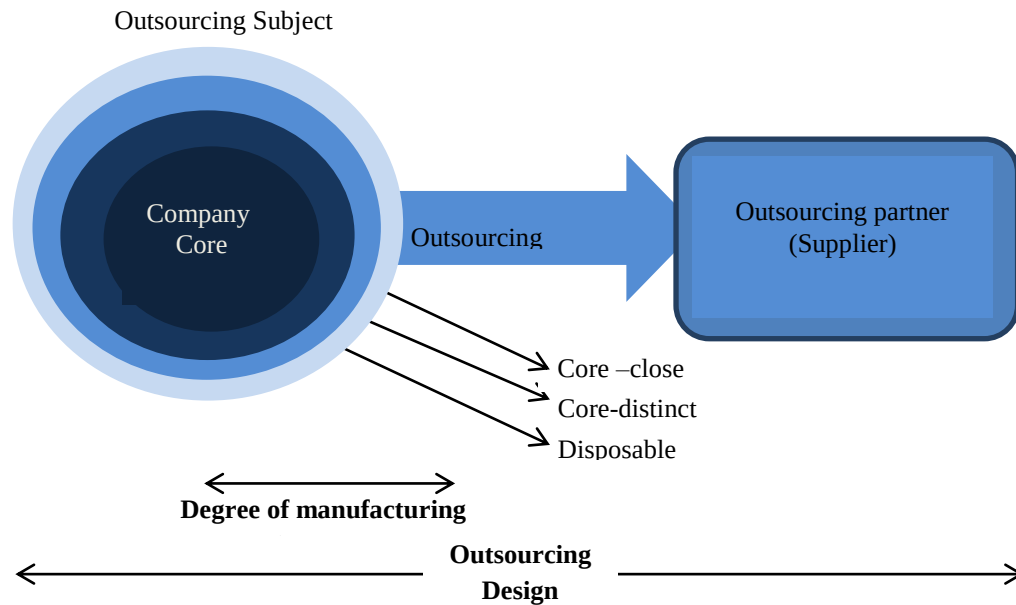


Figure 1: Summary of Arnold's Outsourcing Model (Source: Arnold, 2000)

According to Arnold's (2000) Outsourcing Model, there are four critical elements in the outsourcing process. These are: outsourcing subject, outsourcing object, outsourcing partner and outsourcing design. Xu (2009:19) noted that outsourcing subject refers to the organisation which is making the outsourcing decision, whereas outsourcing object refers to all the processes and productions of the outsourcing process. Further, outsourcing partner is the firm to be contracted (the supplier), whereas as the summation of all these decisions constitute an organisation's outsourcing design.

Arnold's (2000) outsourcing model of core competencies further identifies four levels of every organisation's activities (as shown by the shaded circles in Figure 1). By

identifying these levels, the model helps in delineating an organisation's core competences. The inner most level, the company core, refers to the crucial activities in an organisation, and is the most important level to the organisation. These are the activities that, after self-examination, the organisation considers to be the main reason for its existence. Such activities, therefore, should never be outsourced. Thereafter, the activities' importance gradually decline as one moves from the centre of the circle (the core) to the boundary. The outer-most layer signifies the activities which can easily be found on the market (Xu, 2009). Accordingly, such activities should be outsourced immediately. Outsourcing such activities helps an organisation to transfer its decision rights and accountability to vendors and enable it to pay more attention to its core competencies. It also helps the organisation to connect with the core competency of the vendor and share the information and knowledge with each other (Power, et al, 2009). The idea is that this new business partner will contribute to the strategic efforts of the company by providing it with expertise and competencies that are not found in-house.

Another great contribution from the core competencies theorists on outsourcing is the development of tests that should be used to judge a core competence, and, consequently, what to outsource. The theory of core competency holds strongly that in the long run, organisational competitiveness emanates from its ability to build a core competence, at lower cost and more speedily than competitors. Hamel and Prahalad (1990), therefore, developed three tests to judge a core competence. These include whether: a) It provides potential access to a wide variety of markets; b) It makes a significant contribution to the benefits of the product as perceived by the customer; and c) It is difficult for competitors to imitate.

Based on these tests, Xu (2009) concludes that there are two elements that distinguish an organisation's core competence. Firstly, the organisation's businesses or activities must be unique in the eyes of the customers (Xu, 2009:30). This implies a competitive advantage, resources and know-how for the products. Secondly, the core competence should have the potential to develop and reinforce. According to Xu (2009:31), this means that competitive advantages must be able to be put into several uses for multiple purposes. It entails, for example, that the costs of Research and Development, and management can gain the optimal rewards.

It is of paramount importance, therefore, that organisations, including government, conduct a proper analysis of their core competencies before embarking on outsourcing, a process Oates (1998: 5) described as "sifting the core from the chore." This is more important because the boundaries between the core and non-core seem to be moving over time as experience and confidence in outsourcing grows (WEDC, 2003:5). As such Johnson (1997) concludes, buying the best on the organisations outside makes sense as long it leaves you to concentrate on the things you do best. Governments, therefore, need to investigate what they do and then focus upon what they do best, following the dictates of the core competencies model. The process of outsourcing in the public sector, therefore, is a result of government's efforts to concentrate its efforts on provision of core and core-close public services whilst letting the private sector to provide the other non-core services. This, together with the NPM's desire to access cheaper and better quality public services, is what has driven public sector institutions towards outsourcing.

2.2.3 Difference between Outsourcing and Contracting Out

Before proceeding to examine literature specific to each objective, it is vital to clarify the context within which the term “outsourcing” is used in this study. This is important as a WEDC (2003:3) report observes, the term outsourcing has often been wrongly used as a synonym for contracting out. However, on the one hand, Bendor-Samuel (undated) noted that contracting out (or just contracting) is when a company (buyer) purchase goods or services from another company (supplier or vendor). In this situation, the buyer owns and controls the process by telling the supplier exactly what it wants and how it wants the supplier to perform those services. As such, the supplier cannot vary buyer’s instruction in any way. The buyer can replace the supplier quite easily by breaking the contract (WEDC, 2003:4).

On the other hand, WEDC (2003:4) observed that in outsourcing, the buyer turns over control (ownership) of the process to the supplier. The buyer only tells the supplier what results it wants the supplier to achieve, but the supplier decides how to accomplish those results. In outsourcing, the supplier has expertise in a certain process and it has economies of scale. If the buyer were to indicate to the supplier how to do the job (as happens in contracting), the buyer would be destroying an important aspect that makes outsourcing work-the value that is created by using the supplier’s expertise and economies of scale. Telling the supplier how to do the job also eliminates accountability on the part of the supplier, and this an important element in successful outsourcing relationships (WEDC, 2003:4). This study, therefore, adopts this distinction and uses the term outsourcing in the strict terms as specified herein.

2.3 Effects of Outsourcing on Provision of Public Services

This study examines the effects of outsourcing on costs and quality as the main areas of impact by the outsourcing reform initiatives. As noted by Reed (2011), through competition, outsourcing can achieve efficiency (cost reduction), quality improvement and innovation.

2.3.1 Effects of outsourcing on cost of public services

Proponents of outsourcing public services argue that it leads to reduced costs of running the government. These theorists suggest that outsourcing saves money as the positive pressures of competition force organizations to find ways to work more efficiently (Sclar, 2000). As Kettl (2000), Donahue (1989), and Osborne and Gaebler (1992) observe, the positive effects of competition hold true whether outsourcing is from the pure public sector or from other not-for-profit organisations. As such, governments have the options to outsource from the private sector, from non-profit organisations, or from other government agencies as long as they compete. The only exception, as Gaebler (1992) observes, is when the provider is a monopolist, and so the decision about outsourcing must be based on a more pragmatic approach: comparing the costs of in house production with the costs of outsourcing the service provision. As Williams (2012) argued, the central argument underpinning the case for outsourcing, that competition is the driving force for quality and efficiency improvements, is undermined when the market depends upon a few large companies.

In addition, Dobbs (2004: 3) postulates that outsourcing gives access to cost-effective services provided by the private sector through a competitive process as they try to out-do each other to win the bid. This implies that as the number of bidders increase,

costs decrease, and vice versa (Reed, 2011). The result is that the same level of services as provided in-house by the public organization is offered for a much lower cost by the private firm (Dobbs, 2004). As such, the public organization gets access to cost-effective public services. Further, Gupta (2002) observed that there is evidence for outsourcing to deliver cost-savings in some areas of public service, particularly relating to the early period of contracting out. He cites an example of what he termed an influential review of 203 case studies from a range of countries that identified that cost savings occurred in 75 per cent of cases with over half of cases yielding savings of between 10 and 30 per cent.

However, Reed (2011) concedes the fact that there is considerable debate around the validity of these figures relating to the ability of outsourcing to lead to cost savings, and their subsequent recycling in several reports since then. Similarly, Doig *et al* (2001), Landis *et al* (2005) and Robinson *et al* (2008) note that although outsourcing is suitable, the results of outsourcing are not much satisfactory. Furthermore, a *Deloitte* study reported that 64% of the total outsourcing firms realized their loss in outsourcing service (Monteverde and Teece, 1982). In addition, other studies reveal that only 44% of the firms have not yet realized their cost loss (E.g. Mastenet *al.*, 1989; Monteverde and Teece, 1982). This, therefore, suggests that outsourcing may not always impact positively on costs, and that the studies that postulate that outsourcing leads to reduced costs do not take into consideration all facts relating to the outsourcing transaction. As Reed (2011) noted, even if we assume the existence of effective competition and well-functioning markets, efficiency requires that the government must be a smart buyer, a skilled purchasing agent, and a sophisticated examiner of the goods and services it purchases from the private sector. All of this is

not for free. Although the policymakers tend to consider only the production costs, there are many other transaction costs that need to be accounted for. This study, therefore, briefly examines the transaction costs theory as it relates to outsourcing and reduction of costs of running the government.

2.3.2 Unintended effects of outsourcing on cost of public services

Subsequent to the transaction cost theory to be discussed in the next subsection, and contrary to the arguments that outsourcing leads to reduced costs of running the government, Globerman and Vining (1996) argues that outsourcing only has a potential for lowering the first set of costs, but these savings could be more than offset by increases in governance and transaction costs. Where the complexity of the task is high, contestability or market competition is low, and asset specificity — and thus investment risk — is high, governance cost could prove to be tragically high for government (Globerman and Vining, 1996). In addition to this, Van Slyke (2003) observed that outsourcing supporters seldom acknowledge that outsourcing leads to additional public management costs such as developing program performance measures and evaluation tools, developing and maintaining management capacity to monitor and oversee contractors, and so on. Van Slyke (2003), therefore, urges that some other impacts should be taken into account, too. In addition, Mills (1995) argues that the introduction of contracts may both lead to a fragmentation or lack of coordination within the broader public service system, and could have an impact on staff resources with a drain of key personnel to the for-profit providers. This, in turn, may lead to an increase in both direct and transaction costs.

Furthermore, Pollitt and Bouckaert (2000) observed that despite a great deal of practical experience by governments of all levels, in many countries, there was still relatively little agreement about whether outsourcing is uniformly beneficial or what the magnitude of reductions in government expenditure might be. Critics of outsourcing claim that it has not consistently delivered on the promised high quality, low cost service. Krugman (2003:27), for instance, noting the failures of outsourcing security services in the United States Army, observed that:

“The U.S. military has shifted many tasks traditionally performed by soldiers into the hands of such private contractors as Kellogg, Brown and Root, the Halliburton subsidiary. The Iraq war and its aftermath gave this privatised system its first major test in combat – and the system failed”

Lastly, although Gupta (2002) found evidence for the potential of outsourcing to deliver cost-savings through a review of 203 case studies from a range of countries that identified that cost savings of between 10 and 30 percent occurred in 75 per cent, other findings indicated otherwise. Jefferys (2012), for example, noted that other studies have found that over time the cost savings achieved by outsourcing are reduced, and that claims made for the level of cost-reduction tend to be over-stated. In addition, it has been highlighted that the importance of assessing full-cost –including investment in target-setting, monitoring and evaluating contractors’ performance and legal and administrative costs –is often overlooked with the focus more narrowly placed on delivery costs (Jefferys, 2012).

2.4 Effects of Outsourcing on Quality of Public Services

In addition to cost reduction discussed earlier, proponents of outsourcing further argue that it leads to higher quality of services provided as compared to in-house provision. Proponents argue that outsourcing brings in fresh thinking from the voluntary and private sectors and incentivise services to innovate to improve service quality and be more responsive to the needs of users (Reed, 2011). The impact on quality and costs, however, has some interlinkages. As Osborne and Gaebler (1992) observe, empirical evidence, although limited, suggests that the quality of outsourced services might generally be the same or somewhat higher than when these services are provided in-house by the public sector. With a constant quality, if outsourcing is done in the right fashion, it enables governmental agencies to benefit from the combined force of specialization and competition, and, therefore, to reduce their costs substantially. Osborne and Gaebler (1992), therefore, conclude that the savings provided by adopting outsourcing seem in some cases significant, and overall, estimate that the benefits of competitive outsourcing may allow reductions in costs by as much as 10-20 percent, at the same time as constant quality is maintained or even improve. However, Jensen and Stonecash (2004) observe that outsourcing may not always lead to quality improvement. The quality shading hypothesis which is discussed in the next section provides a justification for this argument. The thesis, therefore, returns to this argument when discussing the quality shading hypothesis in the theoretical framework section on page 45.

2.5 Consequences of the Conduct of Private and Government Officials on Outsourcing

The transaction costs theory as it relates to outsourcing makes two important behavioural assumptions, namely: bounded rationality and opportunism (Williamson, 1975). As developed by Simon (1957), bounded rationality refers to the fact that people have rationality, but limited. As such, it is only possible for both parties in a transaction to sign an incomplete contract. Opportunism on the other hand refers to the fact that that people behave cunningly opportunistically at the expense of others (Williamson, 1975). This section, therefore briefly looks at how opportunism in particular, and conduct of officials in general, impacts on outsourcing.

Drawing from the assumption of opportunism by the transaction cost theory, several studies by various authors posit that outsourcing breeds corruption. Gregory (1999:66), for example, contends that “outsourcing enhances the risk of corrupt practices at the interface between private business and governmental discretion.” Similarly, Caiden (1982:143) and Huque (2004) argue that the process of outsourcing is open to corruption, mismanagement, profiteering, waste and public immorality. To buttress this argument, Jiyawickrama (2001:283) on the one hand, argues that, a person in a high position who formulates government policy or is able to influence government decision-making seeks, as a *quid pro quo*, payment for exercising discretionary powers vested in him or her. On the other hand, Warren, (2004:340) argues that powerful actors are motivated to penetrate government wherever possible, either to get privileged access to government contracts or to affect the rules of competition in ways favourable to them. This illustrates that both private and public sector actors to outsourcing are motivated to personally or privately benefit from the

outsourcing relationship. If this happens, however, “outsourcing relationship becomes one of mutual dependence rather than one of promoting economic competition” (Self, 1993:127). This may negatively impact on the cost reduction or quality improvement aims of outsourcing discussed in the last section. This, therefore, implies that the conduct of personnel involved in outsourcing may work to facilitate or undermine the achievement of the goals of outsourcing.

In addition, Imam *et al* (2014) argues that heterogeneity in competence levels of individuals and outsourcing firms is directly connected to heterogeneity in both outsourcing and supplier relations and conduct. This is mainly in line with formal relationship management. Relationship management is the extent to which an outsourcing firm has developed committed, cooperative relationship with the outsourcing provider (Imam *et al*, 2014). Imam *et al* (2014) observes that the good relationship and conduct management with the outsourcing provider has a positive impact on an outsourcing performance. It is believed that the building of relationship management is multidimensional in nature, including elements of cooperation and commitment between two parties. Imam *et al* (2014) noted that although many organizations invest in relationship management, many dissatisfy in investing in relationship management unless a high level of trust and mutual commitment are not present. This, however, may have a negative impact on the achievement of outsourcing objectives since there will be no constant touch between the outsourcing provider and the outsourcing organization. As such, the conduct of employees to distance themselves from the outsourcing relationship may sometimes lead to a *laissez faire* attitude which may be detrimental to the achievement of the ideals of outsourcing. In this regard, Imam *et al* (2014) conclude that a committed buyer and

supplier relationship coupled with an honest conduct has a positive impact on outsourcing initiatives. As such, an organization should emphasize tremendously in developing a cooperative and committed and mutual relationship with an outsourcing provider and encourage its employees to conduct themselves in line with it.

Furthermore, in line with the bounded rationality assumption of transaction cost theory of outsourcing, the design of contracts determines how the parties to the contract relate, and therefore, how that relationship is going to impact on outsourcing. Adegbesan and Ricar (2005) and Elfenbein and Lerner (2003), for example, posit that that since contract complexity dictates the allocation of control rights, it is how these control rights are allocated that determines how a firm will benefit from a strategic partnership. Under these circumstances, contractual complexities may, therefore, be a key moderator of the fundamental relationship between outsourcing and performance, and the conduct of staff (Zeynep and Higgins, 2007). This means that if contracts do not contain clauses that discourage parties to the contract to engage in rent seeking behaviour, then the contract may negatively impact on outsourcing since, as Gregory(1999:66) noted, “contracting out enhances the risk of corrupt practices at the interface between private business and governmental discretion.” Caiden (1982) and Huque (2004), therefore, warn that more often than not, this kind of interface in the outsourcing process is open to corruption, mismanagement, profiteering, waste and public immorality. This is the case as “markets are and will continue to be a force tending toward corruption” (Warren, 2004:340).

However, as much as governments may be prone to private profiteering when they indulge in outsourcing, their established structure works to mitigate the impact of that

profiteering. As Williamson (1975) argues, for example, the danger of opportunism is less likely within an organisation (bureaucracy) than in market coordination since it can be prevented within an organisation by means of the authority principle (hierarchy). This is mainly because employees may not necessarily possess all powers to make a decision regarding an outsourcing contract. It can, therefore, be concluded that the government's hierarchical arrangements provide the necessary checks and balances to ensure a successful outsourcing regime.

2.6 Challenges of Outsourcing

Despite the promise of outsourcing to lead to reduced cost of running government and provision of high quality services, its implementation has not been without challenges. These challenges span across the conceptualisation, actual implementation, monitoring and evaluation of the outsourced contracts themselves.

The first observed challenge relates to the quality of resulting products. As noted in the previous section, outsourcing may lead to the production of defective products and services. As it will be highlighted in the next section, in an outsourcing arrangement, there might be opportunism by the suppliers due to the misaligned incentives between the contractor and the client organization, information asymmetry or high switching costs (McIvor, 2009). Under such situations, there might also be high switching costs which make it almost impossible for the client organization to change the contractor and hence risk the quality of the service if the contractor is not performing according to standards and the contract is not clear on what should happen.

A second challenge relates to what is termed work size reductions. As Schacter (2000: 7) puts it, this involves the loss of key company skills after outsourcing which poses added costs to the operations of the company and quality of service offered. Schacter (2000) further notes that it is quite often for outsourced companies to replace its workforce frequently, even with less qualified employees or even with people with less experience, as the contracts rolls on. This inhibits the build-up of employee knowledge and keeps quality at low levels. Further, outsourcing may fail due to overlooking personnel issues. Before an outsourcing decision is made, management should inform the other employees, an explanation as to what exactly might happen, for example, if by outsourcing a particular department will involve transferring the staff in that department to the supplier or declaring them redundant.

Thirdly, Mbugua (2014) notes that most challenges form outsourcing emanate from the design stage where firms write and implement poor contracts. This is in line with the bounded rationality assumption of transaction cost theory discussed in the previous section. According to Mbugua (2014), a contract is said to be poor if it doesn't contain objective performance measures, clear terms and conditions that dictate the relationship between the two parties. Further, outsourcing faces challenges when the managers do not take time to negotiate the contract and develop precise contract clauses, clearly stating, among others, the amount to be paid.

The fourth challenge, as noted by Barthelemy (2003), is that outsourcing may fail due to managers losing control over the outsourced activity. Ideally, managers should be in constant communication with the supplier at all times and be actively involved in the entire process. Overlooking hidden costs as discussed in the previous section, has

also been identified as another failure of outsourcing. Costs such as costs for drafting a contract and searching for a supplier can sometimes be higher than costs of the entire process of outsourcing but they are however, important so as to benefit the organization in the long run. The challenge, however, is that managers do not control for such indirect cost.

2.7 Measures to Ensure Successful Outsourcing

To overcome the above stated challenges and ensure a successful outsourcing, several steps ought to be undertaken both in the planning and implementation stages of outsourcing. Through a survey of nearly a hundred outsourcing efforts in Europe and the United States, Barthelemy (2003) identified some of the steps to be taken to address what he called “seven deadly sins of outsourcing” to ensure successful outsourcing. Some of such steps are listed below:

Firstly, according to Barthelemy (2003), firms should not outsource activities that should not be outsourced. Determining which activities can be best performed by outside vendors requires a good understanding of where the firm's competitive advantage comes from. Resources and capabilities that are valuable, rare, difficult to imitate, and difficult to substitute for, lead to superior performance (Barney, 1991). As such, activities that are based on such resources and capabilities (core activities) should not be outsourced because firms risk losing competitive advantage and becoming hollow corporations (Beitis, 1992). Outsourcing non-core activities may be costly to a firm in the near future after the so-called “honeymoon” period (i.e., just before or after the contract is signed) (Lacity and Hirschheim, 1993). This is because at the time of outsourcing, the reported benefits are only projected, not actual.

Secondly, selecting a good vendor (outsourced form) is essential for successful outsourcing (Barthelemy, 2003). As Rabinovitch (1999) argues, while one important argument for outsourcing is that specialist vendors have lower costs than their clients, it is important to note that successful firms do not always necessarily outsource to cut costs. Literature on criteria for successful provider choice distinguishes between hard and soft qualifications. According to Razzaque and Sheng (1998), hard qualifications are tangible and can be easily verified by due diligence. They refer to the ability of vendors to provide low-cost and state-of-the-art solutions. These include business experience and financial strength. Soft qualifications are attitudinal. They may be non-verifiable and may change depending on circumstances. Important soft criteria include a good cultural fit, a commitment to continuous improvement, trustworthiness, flexibility, and a commitment to develop long-term relationships.

Thirdly, writing a good contract also ensures successful outsourcing (Barthelemy, 2003). According to Saunders *et al* (1997), a good contract is essential to outsourcing success because the contract helps establish a balance of power between the client and the vendor. Spending too little time negotiating the contract and pretending that the partnership relationship with the vendor will take care of everything is a mistake (Willcocks and Choi, 1995). Drafting a good contract is always important because it allows partners to set expectations and to commit themselves to short-term goals. Several authors prescribe what good contracts should be, including being precise and Complete (Parkhe, 1993), Incentive based and balanced (Harris, *et al*, 1998) and flexible (Henderson, 1997).

In addition not losing control over the outsourced activity is another measure to ensure successful outsourcing (Barthelemy, 2003). It is particularly important for an outsourcing client to avoid losing control over an outsourced activity. Such a loss of control could either be because the client may not have the capabilities to manage the vendor or the client may not actively manage the vendor. When an activity is outsourced, it is crucial to retain a small group of managers to handle the vendor. These managers must be able to develop the strategy of the outsourced activity and keep it in alignment with the overall corporate strategy. While vendor management skills are very important, they must also be complemented with technical skills. If no one in the company is able to assess technological developments, outsourcing is bound to fail. As Barthelemy (2003) concludes, outsourcing does not mean abdicating. A lack of active management must be avoided at all costs.

2.8 Analytical Framework

The study utilises the transaction costs theory of outsourcing and the quality shading hypothesis to analyse the findings of the study. This theory was chosen because it provides a framework for analysing the comprehensive universe of costs pertaining to a phenomenon. Such an approach thus provides a tool to effectively assess the effect of outsourcing on cost of providing public services. The theory is also used to analyse the costs that the conduct of officials impose on the outsourcing function. The quality shading hypothesis, on the other hand, is used to analyse findings relating to the effects of outsourcing on the quality of public services. The two theories complement each other. Whilst the transaction costs theory is used to analyse the effects of outsourcing on the cost of public services, the quality shading hypothesis is used to analyse the effects of outsourcing on quality, which cannot be ably explained using

the transaction costs theory. This presents a complete analytical picture of the outsourcing phenomenon in the Malawi public service. .

2.8.1 Transaction Costs theory of Outsourcing

The transaction cost theory as it relates to outsourcing basically is concerned with conditions under which certain characteristic of the transaction or the object of the transaction would lead to its internal, hybrid or external provision of services (Catyuan, 2012). As Itoh (2006: 3) observed, the fundamental question of “what determines the boundaries of an organisation?” consists of two related questions. Firstly, what activities are carried out within organisations rather than through market transactions (outsourcing) and, secondly, why? Coase (1937), Klein *et al* (1978), and Williamson (1975) further argue that this is because there are costs associated with outsourcing. According to them, a transaction, therefore, is brought inside the organisation exactly when these transaction costs are economized most by governing it under hierarchical authority relations within the firm.

According to Itoh (2006:4), transaction costs are incurred when an efficiency-enhancing transaction is not realized due to various coordination and incentive problems. Under market mechanism, these transaction costs include *ex ante* costs of finding trading parties and prices, foreseeing relevant contingencies, and negotiating and drafting contracts (Itoh, 2006). These costs make any real contract inevitably incomplete: it may have a gap, i.e., there are states of nature in which obligation of either party is vaguely or not at all specified; or it cannot realize the gains from trade completely because it is contingent on observable contingencies in an insufficient way (Itoh, 2006). In addition, there might be *ex post* transaction costs such as those of

monitoring and enforcing agreements which may render *ex post* adaptation necessary. This is summarised in Figure 2 below by depicting costs of market transaction using the transaction costs approach.

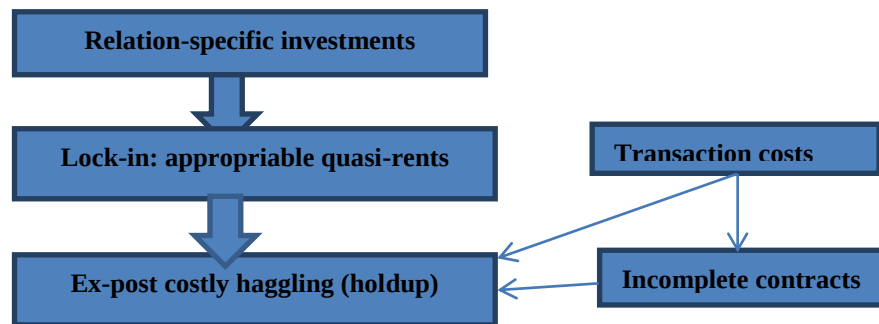


Figure 2: Summary of Itoh's Transaction Costs Approach (Source: Itoh, 2006)

Through the transaction costs approach illustrated in Figure 2 above, it can be observed that the *ex post* adaptation is particularly costly when investments specific to a current relationship are involved. The parties to a transaction develop relation-specific assets when the value of the assets is substantially higher in their relationships than in the next-best alternative use. In addition, Klein *et al* (1978) further argues that once the parties to a transaction start their relationship and invest in relation-specific assets, “lock-in” occurs. This means that there are *ex post* quasi-rents, returns in excess of the alternative-use value of the assets, and hence the parties find it very difficult to change to another partner. Because of contractual incompleteness, it is inevitable to renegotiate initial agreements *ex post* in order to adapt them to contingencies that realize, and hence opportunities for “holdup” arise, i.e., either party is able to appropriate some of the returns the other parties expected to collect at the time they invested. This *ex post* costly haggling then leads to maladaptation (delay, inefficient agreements, termination of the relationship, and so on) (Itoh, 2006). Organisations intending to enter into an outsourcing arrangement,

therefore, need to consider these complications and take into consideration all possible costs of the transactions to be entered into.

In addition to the above contribution of the transaction cost theory to outsourcing, Catyuan (2012) notes that the theory makes two important behavioural assumptions, namely: bounded rationality and opportunism. As developed by Simon (1957), bounded rationality refers to the fact that people have rationality, but limited. As such, it is only possible for both parties in a transaction to sign an incomplete contract. Opportunism on the other hand refers to the fact that that people behave cunningly opportunistically at the expense of others (Catyuan, 2012). However, according to Catyuan (2012), the danger of opportunism is less likely within an organisation than in market coordination since it can be prevented within an organisation by means of the authority principle (hierarchy).

In this regard, therefore, it can be concluded that the value of the transaction cost theory to outsourcing decision is that it provides organisations engaged in outsourcing with an array of true costs that they need to consider when making outsourcing decision. It urges organisations engaged in outsourcing to consider both production and transaction costs for an outsourcing transaction to avoid making outsourcing decisions based on partial information and making false conclusions about the ability of outsourcing to lead to cost-effective provision of public services. As Williamson (1979) argues, given the governance structure or institutional context within which government transactions are negotiated and executed, the contracts with program providers are likely to be complex rather than simple. In such environments, the transaction costs of designing, monitoring and enforcing complex contracts are very

likely to be high. In the light of this, governments must be wary of getting caught up with outsourcing processes that compromise the government's ability to secure and protect the public interest in the long term. Thus, Globerman and Vining (1996) conclude that, from a transaction cost point of view, outsourcing is justified only when one can expect to lower the sum of production costs and the costs of managing the relationship between government and the provider of goods and services.

2.8.2 The quality shading hypothesis

Jensen and Stonecash (2004) observe that outsourcing may not always lead to quality improvement. The quality-shading hypothesis is used to explain this scenario. According to Jensen and Stonecash (2004), the quality-shading hypothesis isolates two foundations that explain how quality may deteriorate when service production is transferred to the private sector. Firstly, the hypothesis identifies the multi-tasking approach which was developed and proposed by Holmstrom and Milgrom (1991). This suggests that in instances where an outsourced firm is required to perform a number of different tasks, effort will be allocated to the task that is most easily measured (and therefore rewarded) (Jensen and Stonecash, 2004). This means that the outsourced firm may decide to increase productivity at the expense of the quality of the output.

The second foundation of the quality shading hypothesis is in form of a model developed by Hart *et al* (1997) which posits that, in a world of incomplete contracts, a private outsourced firm has stronger incentives both to reduce costs and improve quality than the public sector. However, the model argues that the cost-reduction incentive may overwhelm the quality-improvement incentive if quality is difficult to

measure (i.e. it is non-contractible). In this instance, the contractor may be able to cut quality without detection (Domberger and Jensen (1997). This, therefore, means that outsourcing may not necessarily always lead to high quality services as provided in house. This study, therefore, is partly an attempt to test this hypothesis.

The quality-shading hypothesis, however, admits that one of the difficulties associated with proving whether quality shading occurs is the difficult in measuring quality. It observes that the measurement of service quality is generally much harder than measuring the quality of a good since their assessment may require subjective judgement rather than mere accumulation of data (Jensen and Stonecash, 2004). Domberger and Jensen (1997), for example, note the difficult in measuring quality of cleaning services. They notice that the only way cleaning can be measured is through personal observation and what constitutes a high standard of cleanliness may vary from one observer to another (Domberger and Jensen, 1997). Likewise, Fraser and Quiggin (1999) conclude that performance evaluation may be biased by contractors' attempts to mislead cleaning inspectors. Domberger and Jensen (1997), however, concluded that reductions in quality after outsourcing may be caused by poor specifications and inadequate performance monitoring. This implies that that quality-shading may be a problem of contract design or implementation, and is therefore preventable.

This study, therefore, utilises the quality shading hypothesis to interpret the quality related findings of the study. The choice of this hypothesis is based on two main reasons: 1) the study seeks to assess the impact of outsourcing on two main impact areas, cost and quality. As such, while transaction costs theory provides an extension

to cost consideration beyond direct costs, quality shading hypothesis provides an extension to quality considerations. It provides government institutions with alternative view that to watch out for possible quality deteriorations (as opposed to improvement) after outsourcing; 2) the hypothesis further brings forth the dimension of quality measurement. By utilising the quality shading the hypothesis, the study seeks to assess government's conception of quality and if such conceptions are cleared defined in outsourcing contracts.

2.9 Conclusion

This chapter has presented a survey of literature relevant to the study. It has focussed on literature relating to the specific objectives of the study. The study has also highlighted the transaction cost theory and the quality shading hypothesis as the main theoretical frameworks for this study.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presents details on how the study was operationalised. It contains the research methods and designs that the study used to measure the extent to which outsourcing has achieved what was intended, and the various implementation challenges faced by outsourcing. Respective sections of this chapter look at the research design; research methods utilised; ethical considerations guaranteed; and the limitations of the study. The study also provides an overview of the sampled institutions.

3.2 Research Design

A research design is a particular strategy for answering a research question (Green and Browne, 2005: 9). There are quantitative and qualitative designs. The choice of a design is influenced, although not dictated, by the aim of research – by what the researcher is trying to find out (Creswell, 2007). Quantitative designs are best used for questions that relate to ‘quantities’: they are about counting or measuring events or phenomena (such as questions that start with ‘when?’ ‘which?’ ‘how many?’ or ‘how much?’). On the other hand, qualitative methods are best used for questions that relate to the ‘quality’ of, or variations in experience, or the meaning of experience for

different people, such as questions starting with ‘why?’ or ‘what?’ (Green and Browne, 2005: 9).

Upon mapping the designs applicable to each of the specific objectives of this study, a qualitative research design was adopted. This is because study objectives sought to, among others, gather empirical data on the perception of the sampled stakeholders regarding the effect of outsourcing on costs and quality of public service provision, conduct of staff involved in making outsourcing decisions, challenges facing outsourcing, and measures to address the challenges. Qualitative design, therefore, allowed the researcher to probe more on specific perceptions of the members in the sample. This generated a rich data that adequately answered the objectives of the study.

3.3 Population, Sample Size and Sampling Methods

The study population, sampling methods and sample size for the study were as follows:

3.3.1 Population

The study population for this study were the ministries, departments, and agencies in Malawi. At the time of this study, Malawi had eighteen (19) ministries, according to the cabinet list released by the Chief Secretary to the Cabinet, effective 16th July, 2017. All these ministries outsource provision of non-core services, including security and cleaning. However, the study was conducted in two purposively sampled institutions, namely: the accountant general’s department (AGD) in the Ministry of

Finance, Economic Planning and Development; and the Department of Statutory Corporations (DSC) under the Office of the President and Cabinet (OPC).

3.3.2 Sampling method

Respondents to this study were sampled using the non-probability sampling methods of *purposive or judgmental* sampling. Purposive sampling is a method in which the researcher's judgment about who is the most useful and representative respondent is used (Barbie, 2007:180). Purposive sampling groups participants according to preselected criteria relevant to a particular research question (Green and Browne, 2005).

The study was conducted in two purposively sampled institutions, namely: the Accountant General's Department (AGD) in the Ministry of Finance, Economic Planning and Development; and the Department of Statutory Corporations (DSC) under the Office of the President and Cabinet (OPC). These two places were purposively selected because of different reasons. On the one hand, the Accountant General's Department was sampled because it was at the centre of the recent Cashgate scandal alluded to in chapter one of this study. As such, the study sought to explore whether systems were put in place to strengthen the integrity of government, through outsourcing.

On the other hand, the Department of Statutory Corporations (DSC) was purposively selected because of its unique position in the public service. DSC is mandated to provide administrative and financial oversight to all Statutory Corporations in Malawi. However, instances of outsourcing and procurement irregularities in

Statutory Corporations in Malawi are common. These include the Blantyre water Board scandal where the CEO for Blantyre Water Board (BWB) was issuing contracts to contractors for personal benefit/interest (without following procurement procedures) (BWB, 2015: 18). It also includes the Roads Authority scandal where the CEO single sourced services from his own company worth K217 million for the design and construction supervision of various roads, bridges and drainage structures in the central and southern regions of Malawi (*Malawi News*, 4th June, 2016). Further, outsourcing procurement irregularities were also existent when senior management of the Agricultural Development and Marketing Corporation (ADMARC) were accused of “misconducts in the manner in which the ADMARC Limited procured maize from the Republic of Zambia in the 2016 marketing season” (ADMARC, 2016:1). It is in view of this that DSC was sampled in order to highlight its capacity to provide oversight over the Statutory Corporations. The Study wanted to assess DSC’s ability to manage its own outsourcing, before it can oversee parastatals.

3.3.3 Sample Size

The study covered a total of 57 purposively sampled respondents at the AGD and DSC as follows:

A. Department of Statutory Corporations

A total of 29 employees from the DSC and its outsourced service providers were interviewed as follows: 1 controlling officer; 1 senior accounts personnel; 1 administration officer; 1 head of procurement; 5 IPC members; 3 other staff; 3 in-house cleaners; 2 in-house security guards; 1 security company manager; 1 cleaning

company manager; 1 private cleaning supervisor; 1 private security supervisor; 4 private cleaners; 4 private security guards.

B. Accountant General's Department

A total of 28 employees from both the AGD and its outsourced service providers were interviewed as follows: 1 controlling officer; 1 senior accounts personnel; 1 administration officer; 1 head of procurement; 5 IPC members; 3 other staff; 3 in-house cleaners; 1 in-house security guards; 1 security company manager; 1 cleaning company manager; 1 private cleaning supervisor; 1 private security supervisor; 4 private cleaners; 4 private security guards.

3.4 Profile of Study Ministries, Departments and Agencies

Below are the profiles for the two selected study Ministries, Departments and Agencies (MDAs):

3.4.1 Accountant General's Department

The Accountant General's Department (AGD) is a Department in the Ministry of Finance, Economic Planning and Development. In line with the goals of economic governance for Malawi, the mandate of the AGD is to account for government expenditure, provide financial management and accounting services, and maintain and monitor the implementation of effective financial management and procedures in government. In this regards, the AGD is expected to manage all government accounts; achieve appropriate financial controls and accountability; and produce national financial statements, payments of personal emoluments, setting, maintaining and

monitoring the implementation of effective management and procedures in the government increased allocation.

The AGD has over 393 employees both at its headquarters and across all government ministries. The head office is located at Capital Hill in Lilongwe. It has 184 employees. This study, therefore, only involved staff stationed at the head office. The Accountant General is the top most officers the AGD, at the level of a Principal Secretary (Grade C).

3.4.2 Department of Statutory Corporations

The Department of Statutory Corporations (DSC) is a department under the Office of the President and Cabinet. DSC was established in 1982 through a government order. Its mandate as contained in its 2013-2018 Strategic Plan is to ensure parastatal sector's optimal utilization and management of resources, in compliance with Government regulations, thereby contributing to national development. DSC also provides financial and administrative oversight to parastatals, in addition to ensuring that good corporate governance practices are practised in all parastatals.

The Department has 38 employees, all located at its only offices in Gemini House, City Centre, Lilongwe. Unlike the AGD, DSC has no satellite offices anywhere in the country. The study, was thus, conducted at its offices in Gemini House in Lilongwe.

3.5 Data Collection Methods

Data for the study was collected using three main methods as follows:

3.5.1 Interviews

Interviews are a technique designed to elicit a vivid picture of the participant's perspective on the research topic (Mack, 2011:29). The study used semi structured interview guides to solicit information from sampled respondents. This is a qualitative method of inquiry that combines a pre-determined set of questions (questions that prompt discussion) with the opportunity for the interviewer to explore themes or further responses (Creswell, 2007). The use of this method was important because it enables the researcher to gather information on a wide range of topics, including the costs, relationship of stakeholders and the respondents' perception of how outsourcing was being implemented in the Malawi public sector. This study, therefore, collected some of its data from the following categories of key informants using interviews as follows:

A. Senior government staff

The study interviewed 30 senior government officers from both DSC and AGD. The study categorised every officer on or above Grade I of the Government's grading scale as a senior officer. These included the Controlling officers, Accounts personnel, administration officers, and IPC members. With the exception of IPC members, the study used the same interview guide to collect data from all senior staff. However, emphasis and probing differed depending on the importance of the position of the person being interviewed to the type of data required. For instance, interviews with controlling officers concentrated more on the general overview of outsourcing in the two Departments. However, interviews with accounting personnel probed deeper on the cost implications of the outsourcing decisions. This is because the finance

personnel are the advisers to the IPCs and management on the availability of funds for activities in the Departments. They also honour payments to the service providers.

On the other hand, interviews with the IPC and administration officers hinged on the procurement process. This included whether all procurement process were followed, and whether there have been influences from interested stakeholders in the entire process. This was augmented by interviews with other staff purposively selected, but those not directly involved in any of the outsourcing processes. In addition, these any other staffs were asked to provide their comparative opinion on the quality of in-house and outsourced services at these two Departments.

B. Senior staff in outsourced firms.

The study gathered data from 8 senior staff in the outsourced private companies. These included engagement managers and supervisors of both the outsourced cleaning and security firms. Like controlling officers in the two Governments Departments, interviews with Engagement Managers concentrated more on the general overview of outsourcing in the two Departments. However, unlike the controlling officers, Engagement Managers were also asked questions pertaining to conduct of officials. This is mainly because the Managers are actively involved in the bidding process and they were deemed likely to offer an incentive or being asked for the same by the government officials. This data was crosschecked with a similar probing when interviewing the government officials.

On the other hand, interviews with supervisors of the outsourced firms concentrated on the operational aspects of the contracts. This is so because the companies employ

or deploy the supervisors after a contract has already been secured from the government departments. As such, their main responsibilities are the day to day execution of the contract. This, therefore, necessitated that their interviews concentrate on the operational aspects like the availability of cleaning schedules and adherence to the same; availability of security equipment, conduct of security guards, level of wages for the employees, among others,

3.5.2 Focus Group Discussions

Four Focus Group Discussions (FGDs) comprising 8 junior officers each from both outsourced and government institutions were conducted during the study. The FGDs were made up of messengers and cleaners. Focus groups are discussion groups with a purpose (Fischer, 2006). These are particularly useful for investigating the complexity of human behaviour and motivations (Morgan and Krueger, 1993). Focus groups are typically used either at the beginning of a study to identify questions for subsequent interviews or following interviews to explore phenomena in more depth. This study, however, used focus groups after conducting interviews in order to validate some of the claims made by the managers during the interviews. The aim was to verify some of the claims made by the senior government staff. The FGDs, therefore, focussed on the operational aspects of the contract. These included the presence of cleaning materials, security equipment, technical or professional ability of guards and cleaners, criteria for hiring them, and the challenges they face when executing their duties.

During the FGDs, cleaners and messengers were grouped into two different groups. This was mainly to ensure homogeneity of the groups when tackling the subject matter. A maximum of four cleaners and four security guards were targeted at each of

the Government Departments. This implies that two FGDs were conducted per Government Department, one for cleaners, another one for security guards. As such, a total of four FGDs were conducted during the study. The study, however, targeted guards and cleaners employed both by the Government Departments themselves and those employed by the private companies. The FGDs, therefore, included both government and private guards. This ensured that claims made by the private or government cleaners and security guards about the quality of their services were either justified or denied right away through dialogue.

3.5.3 Documentary review

This involves collecting data from secondary data sources. These are datasets that are already in existence (Barbie, 2007: 180). It is the data that have been already collected by and readily available from other sources. Such data are cheaper and more quickly obtainable than the primary data and also may be available when primary data cannot be obtained at all. Secondary data helps to make primary data collection more specific since with the help of secondary data, the researcher is able to make out what are the gaps and deficiencies and what additional information needs to be collected. It, therefore, provides a basis for comparison for the data that is collected by the researcher.

The study thus utilised existing data sets to strengthen the data obtained through interviews and focus group discussions. These included procurement evaluation reports for security and cleaning services in the two Government Departments. These provided a basis upon which the technical and financial competitiveness of the engaged private firms were evaluated. The documents also contained information

about previous contracts executed by the firms, and hence formed. This helped in determining the level of expertise and experience possessed by the private firms. The study further reviewed strategic documents for the two Government Departments to understand their core mandate, and hence be able to gauge their core competencies. In addition, the study reviewed contract documents signed between the private companies and the Government Departments. The aim was to assess the completeness of the contracts and assess the possibilities of a hold up and costly ex post haggling. Further, the study reviewed procurement legal framework in Malawi, including the Public Procurement Act of 2003; the Malawi Public Procurement Regulations of 2004; and Procurement Desk Instructions issued from time to time. These helped to outline the required procedures for engaging the outsourced forms, and used it to probe how the public officials conducted their outsourcing processes in their respective Departments.

3.6 Data Analysis

The qualitative data collected in the study was analysed manually by using content analysis, the analysis of text documents by classifying, summarizing and tabulating the information (Maxwell, 2010). This involved making systematic comparisons and aggregation of field notes recorded from each interview, thereby categorizing the issues according to the recurrent themes. This led to identification of patterns, trends, theoretical constructs and themes that evolved from the qualitative data collected. This led to formulation of general conclusions (findings) about the subject matter. No software was used to analyse the qualitative data as the amount of data could easily be manageable without such tools. However, Microsoft word and excel were used to make tables based on the collected descriptive data.

3.7 Ethical Considerations

The interviews were conducted based on informed consent of the respondents and key informants. Key informants were informed of the objectives of the study beforehand. The key informants were at liberty to participate in the interview or not. The key informants were assured of highest degree of privacy and confidentiality on the information they provided. In addition, the researcher ensured endeavoured to remain objective and regardless of the knowledge and values held on any on any subject matter.

3.8 Limitations of the Study

The study has been designed in a qualitative framework. As is the case with all qualitative studies, the results of the study may not apply to other public sector institutions. This is more so because the study was conducted in form of as a case study, concentrating on two government departments which may have different operating environments from the rest of the public sector.

In addition, due to time and financial constraints, the sample size may not be adequate. This is particularly true because, through the purposive sampling employed in the study, several other potential respondents may be identified in the course of the study through snowballing. However, with limited time and financial resources, the study was unable to reach all potential key informants and respondents, effectively leaving their valuable input outside the study.

3.9 Conclusion

This chapter has presented the methodology of the study. It has presented the study methods and design that the study used to measure to progress, challenges and prospects of outsourcing implementation in the Malawi public sector. The chapter highlighted the study population and sampling frame, the profiles of the two sampled institutions, data collection methods and data analysis.

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

This chapter contains findings and discussion pertaining to the study. It presents and discusses the findings in accordance with the specific objectives presented in chapter two. Accordingly, the chapter is divided into five main sections. Section one presents and discusses findings on the theoretical underpinnings of outsourcing in the public sector, whereas section two presents and discusses findings on the impact of outsourcing on public service provision, with emphasis on costs and quality of public services. Section three presents and discusses findings regarding the effects of the conduct of officials engaged in outsourcing decision making on the provision of public services. Thereafter, section four highlights the challenges facing implementation of outsourcing in the Malawi public sector. Finally, section five presents and discusses finding on measures that can be employed to achieve successful implementation of outsourcing.

4.2 Conceptual Underpinnings of Outsourcing in the Malawi Public Sector

This section presents and discusses findings pertaining to the theoretical underpinnings of outsourcing in the Malawi public sector. The aim is to establish how outsourcing has been conceptualised in the Malawi public sector since its adoption in

1994. To achieve this, the study used a combination of both documentary review and key informant interviews.

4.2.1 Outsourcing, Core competencies, and the NPM in Malawi Public Sector

The study has established that implementation of outsourcing in the Malawi public sector has followed the wave of international reforms. As Samute (2011) highlights, implementation of the second generation reforms coincided with the advent of the NPM paradigm that emerged in the early 1990s, and NPM had partial influence in the structure and operations of the Public Service. He noted that the NPM emphasizes on, among others, applying market mechanisms in providing public services. This is in line with what outsourcing aimed at. It signalled a move away from the traditional bureaucratic culture of running state affairs, in favour of private sector management models where government only delivers the core services, and contracts out the rest to the private sector. Therefore, the second generation of reforms focused on changing systems towards the role, size, structure and operational behaviour of the “public service” (Malawi Government, 1987).

In addition, the study has established that NPM’s desire for competition in public service provision is evident in the procurement legal system that has been adopted in Malawi after the advent of multiparty democracy. A review of the Public Procurement Act (2003) reveals that the law makes it mandatory for all public procurement to be subjected to private sector competition. Section 30(1) of the Public Procurement Act (2003) states that “Public procurement shall be realized by means of open tendering proceedings, subject to the exceptions provided in this section, and outlined in the

Schedule. “This, therefore, means that the spirit of competitive public service provision which is at the centre of NPM is well legislated in Malawi, signifying full adoption of the NPM concept.

The study has further established that the drive towards outsourcing is also in line with the desire to streamline provision of public services, where government only delivers core and essential services and lets the public sector provides the rest, in line with the core competence theory of outsourcing. A review of the Civil Service Action Plan (CSAP) reveals that government views outsourcing of some of its services as one of the mechanisms to promote efficient and effective delivery of public services by concentrating its energies on what it does best (Malawi Government, 1996). Consequently, in 2006 the Office of the President and Cabinet established a Public Sector Reforms Management Unit “to coordinate and monitor the effective implementation of public service reform initiatives and programmes, and develop systems that will ensure sustainable achievement of national goals” (Msosa, 1998). Among its aims was to ensure that Ministries, Departments and Agencies (MDAs) are ably guided on how to identify their core competencies, and outsource the non-core once. To this effect, according to the OPC, in order to identify potential services and functions to be subjected to outsourcing, Ministries, Departments and Agencies (MDAs) were directed to ask themselves the question: “Is it essential that this function/service (which is the responsibility of the MDA) be performed in-house (OPC, 2000: 38)?” This kind of self-evaluation, therefore, is in line with the guidelines for judging a core competency provided by the core competencies theory which requires institutions to ask themselves whether: a) It provides potential access to a wide variety of markets; b) It makes a significant contribution to the benefits of

the product as perceived by the customer; and c) It is difficult for competitors to imitate.

It is the finding of this paper, therefore, that government's conceptualisation of outsourcing is in line with both the NPM paradigm whereby competition in the private sector is deemed important for lowering costs and improving quality, and the in line with the core competencies theory whereby government seeks to concentrate its energies on its core activities.

Although the paper has established that government's conceptualisation of outsourcing is in line with the NPM paradigm and the core competence theory, the study has also established that the problems facing outsourcing and other reforms in the public sector emanate from lack of a clear overarching national philosophy for reform. This philosophy is the guideline that would dictate the efforts of stakeholders in one agreed reform direction. As one key informant interview revealed, *"the main factors that have contributed to the poor performance of public sector management reforms in Malawi is the absence of an agreed philosophy about public sector management reforms in Malawi to which all key participants are committed"* (Key informant interview, 3rd November, 2017). The interviews indicated that such a philosophy entails adopting guiding principles that bring or pull together the actions of different players in the reform process and programmes. This means that the process of effectively designing and managing reforms needs to be informed by shared principles among the different stakeholders. These principles should mainly serve two purposes, namely; to anchor the Framework and to guide institutional and management actions. It was therefore, noted that there remains the challenge to build

and sustain a common understanding of the reforms agenda in Malawi among some stakeholders. This is because the communication strategy is not yet fully implemented that will ensure that attitudes and ethics change for a common good of the public.

4.3 Effects of Outsourcing on Provision of Public Services

Outsourcing of public services is preferred because it provides access to cost effective services by Governments. In addition, outsourcing is desired because it leads to high quality services compared to in-house government provision. As Reed (2011) noted, outsourcing is able to achieve efficiency (cost reduction) and quality improvement by subjecting public service provision to private sector competition. This section, therefore, presents that study's findings relating to the effects of outsourcing on cost and quality of public services. The findings are presented using cases of security and cleaning services at the Department of Statutory Corporations (DSC) and Accountant General's Department (AGD).

4.4 Effects of Outsourcing on Cost of Public Service Provision

Dobbs (2004) notes that outsourcing of public service allows government to save money as positive pressures of competition force private sector suppliers to offer relatively cheaper prices to win government contracts. The private sector companies try to out-do each other to win the bids. This means that as the number of bidders increase, costs decrease, and vice versa.

In order to establish whether outsourcing leads to reduced cost of running the Government, key informants in the study were asked to provide data relating to the direct costs of providing security and cleaning at both the AGD and DSC. This

basically meant comparing the cost of hiring one security guard and cleaner under in-house and outsourced arrangements. The study relied on data provided mainly senior government officials (as defined in chapter three), IPC members and managers of security firms to obtain actual data pertaining to the costs of providing the services. For an informative and conclusive trend analysis, data pertaining to the last five financial years were solicited. From the key informant interviews and analysis of documents, the study established the following:

4.4.1 Effects of Outsourcing on Costs of Security Services Provision at the Department of Statutory Corporations and the Accountant General's Department

A. Hybrid system of public service provision

The study found that both DSC and AGD operate a hybrid system whereby both private and Government guards are engaged to provide security services. Key informant interviews revealed that private guards are engaged only for the day shift whilst government guards operate the night shift. One senior staff indicated that *"...this arrangement is preferred because we do not completely trust strangers with Government property, especially at night. The credibility of these private guards is sometimes questionable"* (Key informant interview, 25th June 2017). However, private managers expressed dissatisfaction with this arrangement. One of the managers at the private security company, for example, indicated that *"it would have been better if DSC allowed our guards to operate even at night since we conduct night patrols to determine if our guards have reported for duty, something Government employees don't do"* (Key informant interview, 25th June, 2017). This, however, indicates that although Government institutions have embraced outsourcing,

its degree of absorption and implementation varies, with some preferring to maintain a mix of private and public provision to hedge against the risks associated with both systems of public service provision.

The review of contract documents with private security companies showed that DSC, for example, outsources provision of one security guard during the night, whilst it provides one in-house security guard during the day. However, Focus Group Discussion (FGD) with the junior staff revealed that *“DSC has a total of three security guards who work on shifts. Each shift is one week long. This means that each DSC security, after working for one week, rests for two weeks, waiting for his other shift”* (Focus Group Discussion, 26th July 2017). It, therefore, follows that a DSC guard only works for two weeks per month, whilst he gets a full monthly salary. As a consequence, DSC in-house security guards are paid even when they are not working, increasing the cost of public service provision.

B. Evidence of cost efficiency

A comparison of key informant data on the costs of one security guard under outsourcing and in-house provision arrangements showed a trend revealed in Table 1 overleaf.

Table 1: Cost of outsourced Security Services at the Department of Statutory Corporations

NO.	ITEM	FINANCIAL YEAR				
		2017/2018	2016/2017	2015/2016	2014/2015	2013/2014
1	Number of Guards	1	1	1	1	1
2	Monthly Cost/guard (MK)	25,000.00	16,000.00	16,000.00	16,000.00	11,500.00
3	Annual cost/ guard (MK)	300,000.0	192,000	192,000.00	192,000.00	138,000.00

Source: Own construction

Key informant interviews revealed that DSC has had one outsourced security service provider since 2004. *“Over the years, the contract has just been auto-renewed, and the security service provider has been adjusting the prices upwards from the original K7,000.00 per guard in 2004 (K11,500.00 in 2013) to the current K25,000.00 per guard in 2017. The Department has simply been paying the adjusted fees without question”* (Key informant interview, 27th July, 2017).

In this regard, to measure the cost of providing one security guard per month, the study used the charges each security company made per guard as contained in the contract. Table 1 above shows that, since 2013, the monthly cost of providing one outsourced security guard at DSC has risen from K11,500.00 in the 2013/2014 financial year to K25,000.00 in the 2017/2018. This represents a 117% rise in monthly costs of providing security services over the five year period. Similarly, the monthly cost of one private security guard at AGD has risen from K23,911.36 in the 2013/2014 financial year to K45,000.00 in the 2017/2018 financial year, representing 88% increase over the five-year period as shown in Table 2.

Table 2: Cost of outsourced Security Services at the Accountant General's Department

NO .	ITEM	FINANCIAL YEAR				
		2017/2018	2016/2017	2015/2016	2014/2015	2013/2014
1	Number of Guards	1	1	1	1	1
2	Monthly Cost/ Guard (MK)	45,000.00	45,000.00	28,636.36	23, 911.36	23, 911.36
3	Annual cost/ guard (MK)	540,000.00	540,000.00	343,636.36	286,936.36	286,936.36

Source: Own construction

On the other hand, the cost of providing one in-house security guard was measured by the salary payable to one security guard per month. As such, key informants were asked to provide data relating to the salary of one Government security guard per month. In this regard, key informant interviews revealed that “...Government security guards within the civil service are paid the same salary regardless of their duty station, by virtue of them being on the same grade (P) of Government’s salary scale segment” (Key informant interview, 28th July, 2017). This, therefore, means that the cost of one Government security guard is the same throughout the Civil service. As a result, the study found that the salaries of Government security guards both at DSC and AGD (at Grade P of Government’s salary scale segment) since 2013 have been as presented in Table 3 overleaf.

Table 3 above shows that the cost of providing one security guard at the Department of Statutory Corporations rose from K31,750.00 per month in the 2013/2014 financial year to K54,910.00 in the 2017/2018 financial year. This represents a 73% increase in cost of providing in-house security guards per month at DSC

Table 3: Cost of in-house Security Guards at DSC and AGD

NO.	ITEM	FINANCIAL YEAR				
		2017/2018	2016/2017	2015/2016	2014/2015	2013/2014
1	Number of Guards	1	1	1	1	1
2	Monthly Salary per Guard (MK)	54,910.00	54,910.00	50,784.17	45,008.00	31,750.00
3	Annual cost/guard (MK)	658,920.00	658,920.00	609,410.00	540,096.00	381,000.00

Source: Own construction

From the above data, the study has established that outsourcing of security services both at DSC and AGD has led to reduction of direct costs of providing security services for each of the studied years. In 2017, for example, the cost of providing one in-house security guard per month at DSC is K54, 910.00, whereas the monthly cost of one private security guard at DSC and AGD is K25,000.00 and K45,000.00, respectively. This represents a K29,910.00 (54%) and K9,910.00 (18%) reduction in monthly costs of security per guard between by outsourcing security services at DSC and AGD, respectively. The finding supports Gupta's (2002) discovery that outsourcing delivers cost-savings of between 10% and 30%. The finding is further supported by what one member of the FGD lamented that *"the Government guards are paid highly than us private guards, although we have the same or even better qualifications and materials than them. Our Government counterparts are much better than us"* (Focus Group Discussion, 1st August 2017).

4.4.2 Effects of Outsourcing on Costs of Cleaning Services at the Department of Statutory Corporations and the Accountant General's Department

A. Hybrid system of provision

Similar to the security service arrangement highlighted in the last section, key informant interviews revealed that a hybrid system of cleaning services provision exists at both the DSC and AGD. According to one Senior Administrative staff, *“the AGD uses outsourced private cleaners to clean common spaces, whereas Government in-house cleaners are responsible for cleaning inside offices and in secure and sensitive rooms and places”* (Key Informant Interview, 24th July 2017). According to another senior government employee, *“this arrangement is preferred because the private outsourced cleaners cannot be trusted with sensitive equipment and information kept in offices. As such, they must only be allowed access to common places like corridors, washrooms and stairs where there were little or no valuable items and information”* (Key informant interview, 24th July 2017). The study, therefore, finds that Government institutions do not fully trust private companies to have access and control to government services without restriction.

B. Evidence of cost efficiency

A comparison of key informant data on the costs of cleaning services is provided in Table 4 overleaf. The cost of cleaning services as indicated herein includes the salary payable to one cleaner and the cost of materials used by one cleaner per day. Key informant interviews, FGDs and review of contracts and payment vouchers revealed the following costs of outsourced cleaning services.

Table 4: Cost of outsourced Cleaning Services at the Accountant General's Department

NO.	ITEM	FINANCIAL YEAR				
		2017/2018	2016/2017	2015/2016	2014/2015	2013/2014
1	Number of cleaners	1	1	1	1	1
2	Monthly Cost per cleaner (MK) ¹	47,499.17 ²	47,499.17	36,134.20	30,334.00	28,506.70
3	Annual cost/ cleaner (MK)	569,990.04	569,990.04	433,610.40	364,008.00	342,080.40

Source: Own construction

Table 4 above shows that the cost of cleaning services per month at the AGD has risen from K28,506.7 in 2013 to K47,499.17 in 2017, signifying a K18,992.47 (67%) rise in monthly costs over the five year period. At DSC, the costs of cleaning services provision were observed as presented in Table overleaf:

In line with the findings at AGD, findings at DSC reveal that the cost of cleaning services per month at DSC have risen from K20,567.00 in the 2013/2014 financial year to K33,956.20 in the 2017/2018 financial year. This represents a 65% rise in monthly costs of cleaning services over the five year period.

¹The figure is an average of total wages, cleaning materials and management fee

²At the time of the study, procurement processes for the 2017/2018 financial year were yet to be finalized. As such, both AGD and DSC continued with contracts for the 2016/2017 financial year until such a time when new service providers would be identified through open tendering

Table 5: Cost of outsourced Cleaning Services at the Accountant General's Department

NO.	ITEM	FINANCIAL YEAR				
		2017/2018	2016/2017	2015/2016	2014/2015	2013/2014
1	Number of cleaners	1	1	1	1	1
2	Monthly cost per cleaner (MK)	33,956.20 ³	33,956.20	30,234.34	25,334.55	20,567.00
3	Annual cost per cleaner (MK)	407,474.40	407,474.40	362,812.08	304,014.60	246,804.00

Source: Own construction

The study further found that government in-house cleaners also double as messengers. The cleaners/messengers are on grade P of Government's salary scale segment, just like the security guards. As such, the change in costs of in-house cleaner (measured by the salary of the cleaners) is similar to the change in cost of provision of security guards. As one member of an FGD indicated, *"guards and messengers (cleaners) are at the same level in government. Sometimes when government cleaners are absent or on holiday, security guards are called upon to clean the offices. This is why we receive the same salary"* (Focus Group Discussion, 1st August, 2017). As a result, the study found that the salaries of Government cleaners both at DSC and AGD (at Grade P of Government's salary scale segment) since 2013 have been as follows:

³At the time of the study, procurement processes for the 2017/2018 financial year were yet to be finalized. As such, both AGD and DSC continued with contracts for the 2016/2017 financial year until such a time when new service providers would be identified through open tendering

Table 6: Cost of in-house cleaning (Messengers) at DSC and AGD

NO.	ITEM	FINANCIAL YEAR				
		2017/2018	2016/2017	2015/2016	2014/2015	2013/2014
1	Number of cleaners	1	1	1	1	1
2	Monthly Salary per cleaner (MK)	54,910.00	54,910.00	50,784.17	45,008.00	31,750.00
3	Annual Salary per cleaner (MK)	658,920.00	658,920.00	609,410.00	540,096.00	381,000.00

Source: Own construction

Table 6 above shows that the monthly cost of one in-house cleaner at both the AGD and DSC rose from K31,750.00 per month in the 2013/2014 financial year to K54,910.00 in the 2017/2018 financial year. This represents a 73% increase in cost of providing in-house cleaners per month. These figures are higher as compared to the cost of outsourced cleaning services at both the AGD and DSC.

It is the finding of this study, therefore, that the relative direct costs of providing both security and cleaning services are significantly reduced under outsourced arrangements than under in-house provision. The study has established that the extent of cost reduction ranges from 18% to 54% of in-house costs. This finding supports Dobbs' (2004) argument that under outsourcing, the same level of services as provided in-house by the public organisation is offered for a much lower cost by the private firm. It further vindicates the arguments that outsourcing has a great potential to lowering the first set of costs, the direct costs of providing the public services (Globerman and Vining, 1996).

In line with the transaction cost of outsourcing, the study has also established that there are lock-ins and hold ups in the relationship between the outsourced service providers and the two Government institutions. Lock-in occurs when parties to a relationship and invest in relationship-specific assets. This leads to hold-ups, where either party is able to appropriate some of the returns the other party expected to collect at the time they invested. As highlighted in the above findings, the DSC has had one security company since 2004 when the contract was first signed (refer to Appendix 1 for a copy of the contract). The company, although it has not invested in any material or financial related investments with DSC, it has invested in human relations with the DSC staff. As such, the DSC staff is not able to make a decision to terminate the contract because they sympathise with the company's owners "*who have become our friends*" (Key informant interview, 27th June, 2017). This has led to the auto-renewal of the contract for the past 13 year, explicating the hold-up scenario. This, eventually affects the quality of the services being offered, and presents a risk of some DSC employees benefiting financially from the hold-up arrangement. These are the transaction cost of outsourcing which are never included in the outsourcing production function. Other hidden costs of outsourcing are discussed overleaf:

4.4.3 Prevalence of Transaction Costs of Outsourcing at DSC and AGD

Although the above findings of the study unequivocally point to the fact that outsourcing leads to reduced cost of providing security and cleaning services at DSC and AGD, key informants in the study were quick to mention that there were some costs which are not taken into account when calculating the cost of cleaning or security services. For example, one key informant said that "*the outsourced services at this department may seem cheaper. This is mostly because all costs incurred*

outside the contract are not included. If the allowances for evaluation team members were to be counted, the cost of outsourcing would increase substantially” (Key informant interview, 24th July 2017). These are called transaction costs.

Itoh (2006) observes that under market mechanism transaction costs include *ex ante* costs of finding trading parties, foreseeing relevant contingencies, and negotiating and drafting contracts. In addition, there might be *ex post* transaction costs such as those of monitoring and enforcing agreements which may render *ex post* adaptation necessary. However, the study found that when computing costs of outsourced services, both AGD and DSC do not take these costs into consideration although they are incurred in the course of identifying and maintaining the relationships with private providers of public services. This leads to incomplete contracts. Key informant interviews, therefore, revealed the following transaction costs that are not being included in the costs of outsourced services at ADG and DSC:

A. Advertising Costs

The study found that the need to publicly advertise for bids for provision of outsourced public services is properly legislated in Malawi. Section 30 of the Malawi Public Procurement Act (2003) makes it mandatory for all public procurements in Malawi to be conducted by means of open tendering proceedings. The Act, however, provides exceptions to allow other methods such as request for quotations, single sourcing and restricted tendering. For open tendering, however, section 44 of the Malawi Procurement Regulations states that time for the receipt of bids and requests to participate as fixed by the Procuring Entities (PEs) shall be at least 28 days to give interested parties reasonable time appropriate to the contract to draw up and submit

their bids. When fixing these time-limits, PEs shall take particular account of the complexity of the contract and the time required for drawing up bids. Specifically, Section 44(c) of the Regulations states that in the case of national competitive bidding, the bidding period shall be not less than 30 days from the date of publication of the invitation to tender.

In addition, section 60 of the Malawi Procurement Regulations clearly states that the invitation to tender or to apply for pre-qualification shall be published, at a minimum, in the Government Gazette. The procuring entity shall not publish an invitation to tender or to pre-qualify for a procurement proceeding in a newspaper or other media prior to publication of the announcement in the Gazette. Under Section 60 of the Regulations, in no case shall a publication of an announcement in the public media be deemed a substitute for publication of the announcement in the Gazette. Minimum periods of time shall be counted from the date of publication in the Gazette.

However, although the law makes it optional for PEs to publish their Requests for Bids (RFBs) in the public media, key informant interviews revealed that *“due to limited access to Government gazettes, PEs are forced to publish adverts in the newspapers of widest circulation to reach as many potential service providers as possible”* (Key informant interview, 24th July, 2017). This, however, has financial implications. As one key informant observed, *“one black and white full page advert costs an average of K300,000.00. If the advert is placed in our two daily newspapers of widest circulation (The Nation and Daily Times), the costs may even be huge. What more if they are placed a number of times?”* (Key informant interview, 28th July, 2017). However, the study found that such advertising costs are not included when

calculating the costs of outsourcing. This means that the costs of the contracts are usually understated, and as such, these costs make any real contract inevitably incomplete (Itoh, 2006). If these costs were to be taken into consideration, the cost of outsourcing would have significantly gone higher.

B. Bid evaluation costs

Section 76 of the Malawi Procurement Regulations states that after receiving bids, the process of evaluation of bids shall be carried out in an efficient manner, taking particular account of the validity period of the bids. The actual period of time required may vary depending on the nature or urgency of the tendering proceeding. However, to ensure an efficient and objective evaluation *“the law allows the Internal Procurement Committee (IPC) to appoint an Evaluation Committee (EC) to evaluate the bids on its behalf”* (key informant interview, 25th July, 2017). The key informant interviews revealed that at the AGD,

“a team of up to 9 members is constituted to undertake the evaluations on behalf of the Internal Procurement Committee (IPC). The evaluation team usually meets at a venue away from office premises, such as a hotel, to avoid interference and disturbances. The team members are paid Duty and Subsistence Allowances (DSA) for up to 5 nights per service being evaluated. In addition, the office books conference facilities and provides transport for the evaluation team members. All these costs are related to finding the service provider, which essentially should be included in the cost of outsourced services, but unfortunately they are not” (key informant interview, 25th July, 2017).

The study, therefore, found that the costs of evaluating the bids are not taken into account when calculating the costs of the outsourcing contracts both at AGD and

DSC. This means the cost of outsourcing are understated. The study further found that the actual bid evaluation costs vary according the grades of members of the evaluation team members. One key informant interview revealed that *“if the team is composed of officers in grades I to G, the DSA per night is K20,000.00. This means that for a 5 day evaluation by a 9 member evaluation team, a total minimum of K900,000.00 may be spent on allowances only”* (key informant interview, 25th July, 2017). However, as observed, these costs are not included when determining the cost of outsourced services. This gives the impression that outsourced services are cheaper than in-house provision.

C. Cost of enforcing the contracts

Key informant interviews further revealed that the costs pertaining to contract administration are also not included in the cost function of outsourced services at AGD and DSC. Several key informants lamented that *“procurement and administrative officers spend time following up on cleaners and security guards on behalf of supervisors of these companies, whenever they don’t report timely report for duties or when they are sick”* (Key informant interviews, 25th July, 2017). However, contracts provide for the supervisors to be responsible for the private employees, and only report to management on weekly basis. The time wasted by Government employees on following up on these contracts is, therefore, the opportunity cost which is never included in the costs of providing the outsourced services at AGD.

4.5 Effects of Outsourcing on Quality of Public Services

As Osborne and Gaebler (1992) argues, the quality of outsourced services is somewhat higher than when these services are provided in-house by the public sector

because governmental agencies benefit from the combined force of specialization and competition. This, therefore, means that the outsourcing leads to cost efficiency and quality improvement.

However, the quality-shading hypothesis argues that quality of outsourced services may deteriorate for two main reasons (Jensen and Stonecash, 2004): the multi-tasking approach which suggests that that in instances where an outsourced firm is required to perform a number of different tasks, effort will be allocated to the task that is most easily measured (and therefore rewarded); and that the cost-reduction incentive may overwhelm the quality-improvement incentive if quality is difficult to measure (i.e. it is non-contractible). In this instance, the contractor may be able to cut quality without detection (Domberger and Jensen, 1997), Nonetheless, the quality-shading hypothesis acknowledges that the difficult in measuring quality makes it difficult to prove that quality shading occurs. Measurement of service quality is generally much harder than measuring the quality of a good since their assessment may require subjective judgement rather than mere accumulation of data (Jensen and Stonecash, 2004). Domberger and Jensen (1997), consequently, admits the difficult in measuring quality of cleaning services since what constitutes a high standard of cleanliness may vary from one observer to another.

In view of the above subjectivities, to determine the quality of outsourced services, a combination of techniques was used to evaluate the effect of outsourcing on quality of public services. Firstly, key informants and FGD members were asked to provide their opinion on the quality of services under both in-house and outsourced arrangements. In addition, a review of contract documents was conducted to identify the cleaning

and security plans and measures of quality contained therein, if any. These were then evaluated against the perceptions of stakeholders on the levels of quality of services being provided. The study, therefore, established the following:

4.5.1 Effects of outsourcing on quality of cleaning services

Both Key informant interviews and FGDs conducted revealed that employees and other stakeholders at the AGD and DSC were in favour of outsourced cleaning services because of the quality of services being offered. The key informant interviews specifically showed that the *“places which are cleaned by private cleaners always look tidy and clean than those cleaned by in-house cleaners.”* (Key informant interview, 26th July, 2017). Similarly, when asked about their perception of the outsourced cleaning services, some members of the FGDs said that:

“...outsourced cleaning is better than in-house cleaning because messengers who used to do the cleaning in the absence of the outsourced cleaners had a heavy workload which affected the quality of their work. This was evidenced by stinking toilets which could even be smelled from the offices. The messengers had to clean all offices, corridors and toilets, whilst at the same time they were expected to make tea for the bosses, and carry files from one office to another. This affected the quality of their cleaning services. Since they would be tired with other duties, the messengers would not devote a lot of time to cleaning, unlike what the private cleaners currently do. The messengers would just clean in the morning and never went back to do follow up clean ups. They basically had no schedule (Focus group discussion, 2nd August, 2017).

“When the in-house messengers (cleaners) would not make it to work for various reasons, it meant that the offices would also not be cleaned. However, with the outsourced cleaners, the cleaning company always

replaces the cleaners whenever any of their allocated cleaners could not make it. This doesn't interrupt cleaning services, and hence the quality of cleaning services is maintained, leading to beautiful and clean scenery around the offices" (Focus group discussion, 2nd August 2017).

From the foregoing, the study has established that the quality of outsourced cleaning services at AGD and DSC is highly regarded by stakeholders than in-house provision. This supports Osborne and Gaebler's (1992) finding that the quality of outsourced services might somewhat be higher than when these services are provided in-house. This is mainly because *"the private sector companies have the required personnel and train their newly employed personnel both on the job and in theory"* (Key informant interview, 7th August, 2017). The training that the cleaners undergo, and the ability to replace cleaners when one is absent allows the private sector cleaning company to offer continued services to both AGD and DSC, ensuring a consistent high quality service.

The study further found that the reason outsourced cleaning services are perceived as being of high-quality than in-house cleaning is adherence to work schedule. A review of the contracts signed between both the AGD and DSC revealed that the cleaning companies commit to adhere to a cleaning schedule. Key informant interviews with staff at the AGD and DSC also revealed that *"the cleaners have a cleaning schedule which they follow. They have to clean at least three times a day, according to their contract terms. This has greatly improved the appearance of our offices and open spaces. In addition, the toilets no longer smell bad"* (Key informant interview, 27th July 2017). An example of a cleaning schedule signed by a cleaning company at AGD is provided as Appendix 2. From the schedule, it can be seen that the cleaners adhere

to strict timelines for doing specific chores. For example, corridors are cleaned twice per day whilst toilets are cleaned three times per day. The schedule, therefore, clarifies expectations from AGD which forms the basis for evaluating the cleaning company's quality of service. This is contrary to in-house cleaners that were found to have no cleaning schedules or work plans. Consequently, the finding rejects the quality-shading hypothesis' assertion that firms only allocate resources to the task that is most easily measured and that the cost-reduction incentive may overwhelm the quality-improvement incentive. As the study has established, stakeholders at AGD and DSC were satisfied with the level of quality of service, both from their perspectives and as detailed in the agreed upon work schedules. Thus, quality shading did not occur at either DSC or AGD during the contract period.

Nonetheless, the study has established that the measurement of quality is still subjective at DSC and AGD. The study found that the contracts signed by the cleaning companies only contained work schedules that dictated where to clean and how often to clean it, as per Appendix 2. However, the contracts and the schedules do not contain a detailed description of how the places should look after the schedule has been adhered to. In this regard, the study agrees with the quality-shading hypothesis that measurement of service quality is harder because it depends on subjective judgment rather than accumulation of objective data. The quality shading hypothesis observes that the only way cleaning can be measured is through personal observation, and what constitutes a high standard of cleanliness may vary from one observer to another (Domberger and Jensen, 1997). Similarly, the quality shading hypothesis observes that performance evaluation may be biased by contractors' attempts to mislead cleaning inspectors (Fraser and Quiggin, 1999). This, therefore, means that

the firms may be assessed subjectively on performance measures that are not specific, leading to subjective contract renewals or terminations.

4.5.2 Effects of outsourcing on quality of security services

The study found that the effects of outsourcing on the quality of security services at AGD and DSC area mixed case scenario. Almost half of the members that were interviewed were of the view that outsourcing led to better and tight security services, whereas the other half vehemently believed that the two methods of providing security did not matter.

As presented earlier, DSC operates a hybrid system whereby it has in-house security guards who work on night shifts of one week long, and has outsourced provision of one private security guard who works during the day. Key informants and FGD members were asked how they perceived the quality of outsourced and in-house security services at both DSC and AGD. The results of the key informant interviews showed that *“there were problems with both in-house and outsourced security guards”* (Key informant interview, 3rd August, 2017). One member of the FGD stated that

“...instances of theft have been reported under both arrangements. Here at DSC, private guards used to work during the night. However, they were stealing Government property, and several of them were arrested. This is why the management resorted to having private guards only during the day to supplement the government guards” (Focus Group Discussion, 1st August, 2017).

The study further showed that both at DSC and AGD, Government officials do not trust in-house security guards. This is evidenced by the limitations that are placed on

them in terms of the areas they can access and the time they are contracted to work at the institutions. Key informant interviews showed that

“...private security guards are deliberately restricted to working during the day, and are not allowed unauthorised access into the office building. This is because government feels private security companies do not vet the individuals that were being recruited as security guards. This poses security risks to Government property” (Key informant interview, 27th July 2017).

However, managers of the security companies denied that they do not conduct proper due diligence on the security guards they employee. They lamented that *“all our guards are first of all taken to Police for capturing of figure prints. This is aimed at recruiting only those guards that have a clean criminal record. In addition, the security guards are taken through ethics courses before being deployed into duty stations”* (Key informant interview, 28th July 2017). Nevertheless, these allegations were not collaborated by the security guards that were involved in the FGDs. All the private security guards indicated that *“we were told that we will be taken to police to have our figure prints captured. However, some of us have worked with this company for over six months now, and we are yet to have our finger prints captured by the police”* (Focus group discussion, 2nd August, 2017).

However, despite having the aforementioned reservations with outsourced security guards, key informants and FGD members did not provide concrete backing for in-house security service provision. One senior staff, for example, complained that *“these government security guards often report for work whilst drunk. They also steal from the offices. They can steal anything ranging from computers to chairs”* (Key

informant interview, 28th July 2017). In addition, another senior official who oversees and supervises the in-house security guards observed that

“It is also difficult to recover Government property in times of theft when using in-house security guards. If it is proven that the items were either stolen by the security guard or were stolen due to his or her negligence, the Government security guards may have to be surcharged. Normally, it takes over three years for the full amounts to be recovered since the Government has to deduct the money from one’s salary. This is so because the security guards’ salaries in grade P are meagre, and the government has to adhere to the labour laws where total deductions from an employee’s salary must not exceed fifty percent (50%) of his/her salary. However, with outsourcing, the value of the stolen items is always paid back by the company and then the company will deal with its own guards later. This safeguards government’s property (Key informant interview, 28th July 2017).

From the preceding findings, therefore, the study has established that the effect of outsourcing on quality of cleaning and security services at DSC and AGD is a mixed bag. Evidence suggests that both arrangements have their own weaknesses which impact the quality of the services provided. These weaknesses bring hidden transaction costs to the outsourcing arrangements which are usually ignored when assessing the cost of in-house and outsourced services.

In addition, as argued by Hart *et al* (1997), in line with the quality-shading hypothesis, the weaknesses of both arrangements render the contracts to be incomplete. However, the findings reject the quality-shading hypothesis that in a world of incomplete contracts, a private outsourced firm’s cost-reduction incentive may overwhelm the quality-improvement incentive, leading to instances of quality reduction without detection. As noted, the reduction in quality of security services is

usually noted by the Government officials. This leads to “*taking remedial measures such as surcharges and asking for sober security guards to replace drunken guards*” (Key informant interviews, 28th July, 2017).

4.6 Consequences of the Conduct of Officials on Outsourcing

Behavioural theorists in the transaction costs school of thought posit that human behaviour is characterised by bounded rationality and opportunism (Cattyuan, 2012). Bounded rationality refers to the fact that people have rationality, but limited. As such, it is only possible for both parties in a transaction to sign an incomplete contract (Simon, 1957). Opportunism on the other hand refers to the fact that that people behave cunningly opportunistically at the expense of others (Cattyuan, 2012). In line with opportunisms, it is argued that outsourcing breeds corruption, and that it enhances the risk of corrupt practices at the interface between private business and governmental discretion (Gregory (1999: 66). Jiyawickrama (2001) noted that influential government officials seek, as a *quid pro quo*, payment for exercising discretionary powers vested in them. Similarly, powerful actors are motivated to penetrate government wherever possible, either to get privileged access to government contracts or to affect the rules of competition in ways favourable to them (Warren, 2004). This leads to outsourcing relationship becoming one of mutual dependence than one of promoting economic competition, which in turn negatively impacts on the cost reduction or quality improvement aims of outsourcing (Self, 1993:127).

To establish the effect of the conduct of officials engaged in making outsourcing decision, key informants were asked if they thought government officials are offered

or solicit incentives to influence decisions in favour of potential service providers. Similarly, officials in the private sector institutions were asked if they have ever offered any incentive to government officials to win a contract, or if any government official has ever solicited an incentive from them in order to win a contract.

The study findings show that whilst most Government officials in general admitted to have solicited or been offered an incentive by private security service providers, procurement personnel and IPC members indicated that they had never received any incentive to influence outsourcing decisions. Most junior staff also indicated that

“we are aware that our bosses in government and private sector companies exchange money for personal benefit when contracts are won, but we have no first-hand experience” (Focus group discussion, 2nd August, 2017). One key informant, for example, indicated that *“there is an unwritten rule that the private companies would pay 10% of the total contract sum to government officials in return for helping them winning the contract. The private companies would even offer you a larger percentage in return for your help”* (Key informant interview, 28th July 2017).

This was collaborated by almost all key informants from private service providers. One private manager, for example, revealed that:

“...we are now used to paying these ten percent sums. It’s either the government officials demand it at the time of bidding, or they will make it a condition to offer you a contract if you emerge successful. To ensure that we win, we are always willing to pay the amounts. Otherwise we would have been out of business a long time ago” (Key informant interview, 28th July 2017).

However, the study found that the private companies inflate the prices of their bids to hedge themselves against making losses after paying the incentives to the government officials. For example, one private sector key informant stated that

“...the fact that you have to pay a commission (incentive) to win is a forgone conclusion. The question now is where you get that money. For us, we simply factor that forecast incentive into the contract sum so that we can recover it in the course of the contract implementation. The good thing is such incentives are mostly paid when the contract is won” (Key informant interview, 28th July 2017).

Further, the study found that the private companies cut on the quantities and quality of materials and equipment used to perform their duties. One cleaning company manager, for example, indicated that

“instead of putting toilet tissues in the toilets two times a day, we would only put once. Sometimes we would put materials of lower quality just to save on costs. Otherwise we would be making losses” (Key informant interviews, 19th July 2017). Similarly, one security company manager revealed that *“instead of buying our guards four pairs of uniform as indicated in the contract, we buy them two. The other money becomes our profit” (Key informant interview (20th July, 2017).*

From the preceding findings, therefore, it has been established that some public officials involved in making outsourcing decisions receive or solicit incentives to award a contract to a particular company. This confirms Jiyawickrama's (2001) observation that influential government officials seek, as a *quid pro quo*, payment for exercising discretionary powers vested in them. The findings further confirm Warren's (2004) finding that shrewd private sector actors penetrate government wherever possible, either to get privileged access to government contracts or to affect

the rules of competition in ways favourable to them (Warren, 2004). When this happens, therefore, the study has established that the effect is the increase in the cost of providing public services since private sector companies factor the costs transaction costs of greasing the hands of public officers into the cost of providing the public service. In addition, the conduct of officials leads to quality shading as the private companies replace high quality materials with low quality ones in order to save on costs and maintain their profit margins. Thus, according to the transaction cost theory, opportunism on the part of public and private official gives rise to transaction costs which essentially makes the outsourcing arrangements incomplete if they are not taken into account. Further, some aspects of the transaction cost find their way into the contracts by being embedded in the contract sum, ready to be offered or given out when claimed by Government officials.

4.7 Challenges of Outsourcing at AGD and DSC

Although the study has established that outsourcing has led to cost effective and high quality services as compared to in-house provision at both AGD and DSC, the following challenges have also been established as affecting implementation of outsourcing at both the AGD and DSC.

4.7.1 Late payments to service providers

The study established that suppliers are usually paid late. This arises because both DSC and AGD receive their monthly funding from the Ministry of Finance late. As one senior staff at DSC said, *“we normally receive funding halfway through the month. This means that we also prepare our payments late, leading to delayed pavements to our service providers”* (Key informant interview, 27th June 2017). This

means that service providers also pay their employees late. As one member of the FGD said, *“we sometimes get out salaries after the 15th day of the following month. This affects our working morale since we have nothing to pay our landlords”* (Focus Group Discussion, 2nd August 2017). However, managers of the security company indicated that the delay in paying them negatively affects their cash-flow; hence they are sometimes unable to pay their employees on time. One of the security managers said *“it works better when you have contracts with more than one institution because you can use the payments from the other institutions to pay salaries for the institutions that delay in making monthly payments. Otherwise, our employees suffer”* (Key informant interview, 26th July 2017).

4.7.2 Low Salaries

As indicated in section 1 of this chapter, the study established that the private company employees are paid lower salaries than government employees. *“This affects the private employees’ work morale since they feel exploited”* (Key informant interview, 28th July 2017). Most key informants indicated that *“the private companies sometimes pay their employees way below the mandatory minimum wage of K25,000.00. This also leads to the reported instances of theft as they seek to supplement their incomes”* (Key informant interview, 26th July 2017).

4.7.3 High Employee Turnover

The study established that private companies at DSC and AGD frequently change their employee because the employees quit their jobs to seek greener pastures elsewhere. During focus group discussions, when asked about how long the employees had worked with their companies, most of them indicated that they were in

their 3rd to 4th months. However, *“most of the companies have had their contracts at least for the past two years”* (Key informant interviews, 25th July, 2017). This confirms Schacter’s (2007) observation that it is quite often for outsourced companies to replace its workforce frequently, even with less qualified employees or even with people with less experience, as the contracts rolls on. The effect of this is that it inhibits the build-up of employee knowledge and keeps quality at low levels.

4.7.4 Prolonged and Tedious Procurement Processes

The study found that the need to comply with the Malawi Public Procurement Act (2003), Malawi Procurement Regulations (2004) and the Desk Instructions for Public Procurement, prolongs the process of identifying service providers. Section 44 of the Malawi Procurement Regulations states that time for the receipt of bids and requests to participate as fixed by the Procuring Entities (PEs) shall be at least 28 days to give interested parties reasonable time appropriate to the contract to draw up and submit their bids. The study found *that “the whole period from inception to contract signing goes beyond three months. All this is because of the need to abide by the competitive bidding requirement”* (Key informant interviews, 28th July 2017).

The study established that the effect of the prolonged and tedious processes, coupled with high costs of identifying a service provider, is that both DSC and AGD have been stuck with some private firms for over three years despite having signed a one year contract. As one administrative staff at DSC indicated, *“we have had our security company for over 5 years. Considering the small contract price, no one is willing to initiate the tedious procurement process to identify another service provider”* (Key informant interview, 26th July 2017). This, therefore, means that

institutions are stuck with service providers simply because they want to run away from engaging in tedious procurement process since it is not their core mandate. This buttresses Itoh's (2006) observation that due to contractual incompleteness, it is inevitable to renegotiate initial agreements *ex post* in order to adapt them to contingencies that realize, and hence opportunities for "holdup" arise, i.e., either party is able to appropriate some of the returns the other parties expected to collect at the time they invested. Nonetheless, this only points to the fact that the contracts at both AGD and DSC were poorly formulated. According to Mbugua (2014), a contract is said to be poor if it doesn't contain objective performance measures, clear terms and conditions that dictate the relationship between the two parties.

4.7.5 No End of Contract Evaluations

The study found that at the end of the one year contracts which are signed with service providers, the AGD and DSC do not conduct end of contract evaluation. As key informant interviews with senior DSC staff indicated, *"...end of contract evaluations are rarely conducted. This is exacerbated by the fact that there will be no automatic renewal of the contracts. As such, we see no reason to conduct the end of year evaluations"* (Key informant interviews, 19th July, 2017). This however, implies that the managers have lost control of the outsourcing process. As Barthelemy (2003), observes, outsourcing may fail due to managers losing control over the outsourced activity. Ideally, managers should be in constant communication with the supplier at all times and be actively involved in the entire process, including the implementation of the contract. This loss of interest by managers, however, may lead to delivery of poor quality services and increase in transaction costs, ex-post (Itoh, 2006). In this regard, the study concludes that much as this arrangement reduces transaction costs of

outsourcing, it denies the institutions a chance to learn from the weaknesses and strengths of the elapsed contracts.

4.8 Measures to Ensure Successful Outsourcing

The study has established the study challenges affecting outsourcing as highlighted in the previous section. The study, therefore, asked key informants and members of FGDs to indicate measures that would ensure successful at both the DSC and AGD. The following measures were, therefore, highlighted:

4.8.1 Agreeing on a good contract

Saunders *et al* (1997), insist that a good contract is essential to outsourcing success because the contract helps establish a balance of power between the client and the vendor. Drafting a good contract is always important because it allows partners to set expectations and to commit themselves to short-term goals (Willcocks and Choi, 1995). The study found that almost all key informants interviewed highlighted the need for clear contract terms. The key informants observed that almost all challenges mentioned above could be overcome “*if the contract is written in clear terms, with clear sanctions for breach of the same*” (Key informant interviews, 24th June 2017). For example, one key informant observed that “*issues of delayed payments to service providers would be avoided if the contracts provided for penalties*” (Key informant interviews, 24th June 2017). In addition, another key informant highlighted the fact that “*frequent changes in staff of cleaners and security guards can also be overcome if the contracts provided for terms that bind the companies to have employee retention strategies so as to avoid interruption of service at the client institution*” (Key informant interview, 1st August 2017). The study has established, therefore, that the

contract is the backbone of the outsourcing relationship. The clearer and more comprehensive the contract is, the more successful the outsourcing relationship will become.

4.8.2 Obedience to the law

The study has established that almost all key informants and members of the FGDs highlighted the fact that private companies were paying low salaries because they did not want to abide by the law. One key informant observed that *“companies know that they are paying below the minimum wage, but they don’t care because we as government institutions do not take lead in enforcing the legal provisions”* (Key informant interview, 2nd August 2017). Section 54 of the Employment Act mandates the Minister responsible for Labour, if he is of the opinion that it is expedient to fix the minimum wages of any group of wage earners, prescribe the minimum wage. Section 54 (3) states that in prescribing the minimum wages, the minister shall, as far as possible, consider –

- a. the needs of workers and their families, the general level of wages, the cost of living, social security benefits and the relative living standards of other social groups; and
- b. economic factors, including the requirements of economic development, levels of productivity and any effect the wage might have on employment.

In addition, section 55 of the Employment Act (2000) provides that the minimum wages set under section 54 shall not be subject to abatement. The section further states that any employer who pays wages in contravention of subsection (1) shall be guilty of an offence and liable to a fine of MK 50,000 and to imprisonment for ten years.

In view of the above, the study has established that in the dictates of the law are abided by, employee turnover would be low, and hence the government institutions would benefit from the economies of scale arising from the employees' continued service to the client institutions.

4.8.3 Continuous Assessment of contract performance

Barthelemy (2003) states that managers should not lose control over the outsourced activity to ensure successful outsourcing. He observed that control could be lost as a result of the client not having the capabilities to manage the vendor or the client may not actively manage the vendor. Outsourcing does not mean abdicating.

Most of the managers of the outsourced companies that were interviewed indicated that they rarely get formally assessed by the clients. One Security manager for example, said that *"we only get phone calls when a guard is absent. If everything else is working well, we have no feedback from the clients"* (Key informant interview, 2nd August 2017). Most private managers felt the government authorities abdicate their responsibilities, and simply watch the contract implementation from a distance.

The study, therefore, established that for outsourcing to be successful there is need for a group of public officials to be put in place to manage the service provider. As one key informant commented,

"this group of people would be answerable for all matters relating to the contract, including quality of service and performance assessment. The group should ensure that the service provider is assessed every quarter. This would also serve as a basis for contract renewal. For

those bidding for the first time, the assessments would serve as reference points for previous ability and experience” (Key informant interview, 2^{4th} July 2017).

4.8.4 Improved funding

Almost all senior government key informants indicated that delayed payments to service providers would be solved if funding improves. As one key informant said, *“when faced with delayed funding, there is usually nothing we can do, apart from waiting for Treasury to release the funds. If treasury could improve funding, the private sector companies would be paid timely and, hence, they would also timely pay their employee to avoid demotivating them and affecting the quality of their services”* (Key informant interview, 28th July 2017).

4.9 Conclusion

This section has presented the findings of this study. It has utilised the transaction cost theory and the quality shading hypothesis frameworks to analyse the findings. It is the finding of this studies that outsourcing at both AGD and DSC has led to reduction of direct costs of providing public services. The study, however, has also established that although the direct costs of outsourcing have been reduced, there are some hidden costs relating to outsourcing which are not being included in the outsourcing function. These are costs related to advertising, evaluating the bids and managing the contracts. The study has further observed that the effect of outsourcing of quality of public services is mixed. Whilst the study found evidence of improved quality of cleaning services and DCS and AGD, there results on the quality of security services was inconclusive. In this regard, the chapter has highlighted the findings on the challenges

that were negatively affecting outsourcing efforts, and has since provided measures to overcome them.

CHAPTER FIVE

CONCLUSION AND POLICY IMPLICATIONS

5.1 Introduction

This chapter concludes the thesis. It summarises the objectives and the findings of the study, taking into account the various theoretical underpinnings of the study. The main objective of this study was to assess the successes, challenges and prospects of outsourcing in the Malawi public sector. Specifically, the study assessed the effects of outsourcing on public service provision; the effects of the conduct of public officials on outsourcing; and explored the challenges facing outsourcing in the Malawi public sector. The study further provided strategies to address the observed challenges and ensure successful outsourcing.

5.2 Summary of the Study's Major Conclusions

The study has established that the conceptual understanding of outsourcing in the public sector is in line with the dictates of both the New Public Management paradigm and the core competence theory. It has been found that the desire for competition in public services provision is well legislated in Malawi. In addition guidelines for determining which services to outsource have also been clearly spelled out.

The study has further found that outsourcing has a positive effect on the direct costs of providing public services. The outsourcing of security services has led to reduction in direct costs (contract costs) ranging from 18% to 54%. Similarly, study found evidence of about 50% reduction in the cost of cleaning services after outsourcing. This, therefore, supports the findings that outsourcing leads to costs effectiveness.

However, despite proving that outsourcing leads to reduction in the direct costs of providing public services as evidenced by the declining comparative costs of in-house and outsourcing services at DSC and AGD, the study has established that outsourcing is also associated by transaction costs. These include the cost pertaining to advertising for bids, evaluating the bids and enforcing the contracts. The study has established that these costs, although not significantly high compared to the contract sums, are not included in the cost of outsourcing services. Thus, government institutions may be under the illusion that outsourcing results in lower costs, whilst not all costs are considered. The study also found that the transaction costs are both in financial terms (e.g. costs of evaluating the bids) and in non-financial terms (e.g. time spent on enforcing the contracts).

In terms of the effects of outsourcing on the quality of public services, the study has established that the results are mixed. The outsourced cleaning services both at AGD and DSC are regarded highly by the employees at the two departments who are the main users/stakeholders of the cleaning companies' services. Employees at both DSC and AGD are satisfied with the environment at their workplaces. And the employees opined that their work environment was now conducive following outsourcing of cleaning services. They also pointed out at clean and tidy corridors, unstinting toilets,

and adherence to clearing schedules as some of the major successes of outsourced cleaning services at AGD and DSC. The study however, found that employees and other stakeholders at DSC and AGD were indifferent on whether outsourced security services were of higher quality as compared to in-house security services. Employees mentioned that instances of theft have been reported under both arrangements. As such, the employees felt that it does not matter whether security is provided in-house or outsourced. They concluded that the quality of security services largely depend on the integrity of the security guards and managers.

The study has further established that the conduct of officials engaged in outsourcing has a bearing on the quality and cost of outsourced services. It has revealed that it is a norm for public officers to solicit 10% of the potential contract sum as commission for helping the private companies to win contracts. It has also been established that the private service providers are accustomed to this norm, to the extent that they embed the commissions in the contract sums by inflating the prices of the bids. The private service providers, therefore, offer the incentives to government officials, if the government officials do not ask for it. The study has, however, established that the effect of this conduct is the increase in prices of bids and reduction in quality of materials used to undertake the contracts. The conduct of official, therefore, increases both the direct costs and the transactional costs of outsourcing. If the bids did not embed the incentives, the cost of outsourced services would have been much lower than at present levels.

Finally, the study has established that, although outsourcing at AGD and DSC has led to the successes detailed above, there are some teething challenges facing its

implementation. These include late payments to service providers due to late funding of ministries, low salaries paid to employees of private companies, prolonged and tedious procurement processes, and no end of contract evaluations. The study has observed that the challenges highlighted impose transaction costs on outsourcing. The low salaries and delay in paying the private employees leads to demotivation which, it has been established, leads to instances of theft. In addition, delayed funding further cripples the operations of the private firms, and imposes additional transaction costs on the firms, over and above the direct costs incurred in implementing the contract.

The study has, therefore, established measures which, if implemented, may minimise or resolve the challenges observed, and lead to a flawless outsourcing regime both at DSC and AGD. These include the need to write good contracts, the need to abide by the law on minimum wages, the need to put in place a robust continuous assessment regime for contract performance and the need for improved funding to ministries. If these are implemented, the challenges highlighted herein would be overcome, and the outsourcing initiatives at DSC and AGD would improve significantly and yield more positive results.

5.3 Policy Implications

The first policy implication for the above findings is the need to develop a universe of monetary and nonmonetary costs of outsourcing. From the cost universe, public institutions will be able to foresee the possible direct and transaction costs of outsourcing a particular public service. As such, the public institutions will make well informed decisions that take into account all possible costs, and take measures to minimise foreseeable costs. This will avoid opportunism by unscrupulous private and

public sector institutions. As per the status quo, the full cost of outsourcing public service provision is not known. It is possible that government is losing through outsourcing when the aggregate transaction costs are taken into account. It is therefore, a significant policy lesson for public sector employees to conduct a thorough analysis of the costs universe before embarking on outsourcing decisions.

Secondly, the presence of hybrid forms of providing public services where MDAs combine in-house and outsourced providers has led to split accountability. As demonstrated in the findings, private security companies are able to pay government in time of loss of government property due to theft. However, this reimbursement is restricted to theft occurring during the agreed periods manned by private guards. In the event of theft by private guards outside their working hours, the private companies cannot be held liable. The government security guard on duty is surcharged. However, the recovery period takes longer since the deductions have to conform to labour laws on maximum deductions. Therefore, having learnt the lessons of the hybrid system of provision of public services and the associated negative effects of split accountability, government may wish to engage the private sector companies in all manner of its noncore activities. This would give the private companies full responsibility and accountability on its operations.

5.4 Areas for Further Study

The findings of this study and the surveyed literature suggest that there are other areas relating to the objective of this study that require further investigation. Some of the areas may revolve around the following observations and questions?

- a) To what extent has outsourcing led to the prevalence of corruption in the Malawi public sector? This should be researched as an extension to the literature and findings on the effect of the conduct of official on outsourcing. The aim is to help government get to the root cause of the stated conduct of officials and establish the levels of corruption arising as a result of outsourcing. This would then enable government to institute anticorruption measures specific to outsourcing and the conduct of individuals.
- b) What is the best way to manage outsourcing contracts? This should examine whether a contracts management unit within each MDA is necessary, or whether each contract should have its own manger.

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Appendix 1: Security Contract

MAKA SECURITY SERVICES

Specialised in Guarding 24 Hrs service
All correspondences should be addressed to the Director

BIWI TRIANGLE
P O BOX 1150
LILONGWE
TEL: 08 201 623, 01727112

SERVICE CONTRACT FORM

Ministry of Statistics (Client) Contact No. 776-1071426 of
P.O. Box 30061 (Address) hereby request
Lilongwe (The Company) of Post Office Box 1150
Road/Street Chembo House from the day of 15.11.2004 at an agreed rate
of K7,000 per month payable in advance or in arrears as per Company's sole
discretion.

An additional of 15% p.a. of the amount shown due on any invoice delivered to client or
posted to the last known address of the client will become due by the client to the
company in the event of non-payment of the amount shown due on the invoice within 30
days of the date of delivery or posting of the invoice as the case may be.

The services shall be on temporary/permanent basis as follows

NO OF GUARDS	SHIFT	LOCATION	FROM (Time) Date if temporary	TO (Time) Date if temporary
2 per day	NIGHT	CHEMBO HOUSE	15.11.2004	

Subject to our standard conditions overleaf, this contract shall remain in force for a
minimum period of three months and thereafter month to month unless and until either
party terminates the contract by not less than one month's previous notice in writing
expiring on the last day of the minimum period or on the last day of any succeeding
calendar month.

The standard conditions provided are incorporated in this contract. Please ensure that the
conditions are read and understood before signing this contract.

IMPORTANT NOTICE TO CUSTOMERS

By conditions provided the company and its servants and agents are firstly not liable at all for certain losses and damages and
secondly, if they are to be liable the amount of liability is governed by liability conditions. See that your insurance gives you
the insurance cover that you need.

Date 12.11.04

Clients Signature(s) [Signature]

Accepted for and on behalf of the company [Signature]

Witness [Signature]

June 2004

Appendix 2: Cleaning Schedule

Below is a table showing the list of services to be provided and the level of frequency.

NAME OF ACTIVITY	DAILY			WEEKLY			MONTHLY			QUARTERLY
	1X	2X	3X	1X	2X	3X	1X	2X	3X	1X
Office/Room cleaning and mopping	✓									
Window and door cleaning					✓					
Wall cleaning			as	req	uired		✓			
Carpet cleaning	✓									
Hovering					✓					
Toilet cleaning			✓							
Spraying Air freshener	✓									
Reception area cleaning			✓							
Cobweb removal				✓	as	req	uired			
Watering of all in-door plants					✓					
Corridor cleaning		✓								
Setting up chairs and tables for meetings		As	requ	ested						
Management of in-house dust bins;	✓									
Pest Management							✓			
Any other related services assigned by management		As	requ	ested						
Cleaning all terrazzo surfaces				✓						
Provisional of Hot water etc	AS	REQ	UIR	ED						

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Appendix 3: Tool 1: Interview Guide for Key Informant Interviews:

Ministry Officials

Introduction

- Paul Chibwana, University of Malawi, Chancellor College
- Doing research on outsourcing in the public sector: progress, challenges and prospects

Ethics

- The discussion will be conducted in confidence
- Findings used only for academic purposes
- Consent sought to record the interview

Guiding questions

1. What do you understand by the term “outsourcing”?
2. What, if any, services have been outsourced in your Ministry in particular or the public services in general?
3. Which private firms have provided the stated outsourced services in the past 5 years?
4. What, in your view, are the main reasons for outsourcing in your Ministry or in the public service?
5. What, in your view, are the main reasons for outsourcing of:
 - a. Security services
 - b. Cleaning services
6. Do you think your Ministry or the public service in general has achieved its goals by outsourcing security and cleaning services?

- a. If yes, in what areas?
 Security....
 Cleaning....
 - b. How has outsourcing helped your ministry achieve the desired results?
 Security....
 Cleaning....
7. How would you describe the security and cleaning services offered by the outsourced firms at your Ministry in terms of:
- a. Quality of security services offered by each of the contracted security firms compared to in-house provision? Please explain your answer.
 - b. Quality of cleaning services offered by each of the contracted security firms compared to in-house provision? Please explain your answer.
 - c. Cost of outsourced security services as compared to in-house provision? Kindly provide a comparison of costs structure of the two regimes.
 - d. Cost of outsourced cleaning services as compared to in-house provision? Kindly provide a comparison of costs structure of the two regimes.
 - e. How has the quality and cost of providing security and cleaning services changed over the last decade? Please explain
8. Do you think the firms that have been selected to provide security and cleaning services have the required personnel, technical ability and equipment to effectively deliver the services? Please explain.
- a. Security....
 - b. Cleaning....

9. How would you describe the process of selecting security and cleaning firms to be outsourced in terms of transparency and adherence to set procedures?
10. Do you believe representatives of outsourced firms influence public officers in your Ministry or elsewhere to win contracts? If yes in what way?
11. Do you believe some public officers actively or passively solicit/ receive direct and/or indirect benefits from outsourced firms so that they are favoured in the bidding? What sort of incentives? Please specify.
12. Do you think firms that win cleaning and security contracts at your ministry or in the public sector as a whole through dubious means perform their outsourced functions to the same level of satisfaction as those that win the contract on merit or indeed as compared to in-house provision? Please explain your answer.
13. Do you think public officers that solicit incentives from outsourced private firms objectively and effectively monitor the performance of the outsourced security and cleaning firms to ensure delivery of quality services? Please explain?
14. How would you describe the effects of the conduct of officials involved in the process of identifying and managing outsourcing firms on the cost and quality of the public services so provided? Please explain your answer:
 - a. Effects on quality
 - b. Effects on cost
 - c. Any other effects
15. What do you think are the challenges facing the provision of outsourced security and cleaning services at your ministry?
 - a. Security

b. cleaning

16. What do you think are the main driving factors behind the challenges mentioned?

17. How would each of the challenges mentioned above be overcome?

18. What do you think should be done to ensure successful implementation of outsourcing at your ministry?

**Appendix 4: Tool 2: Interview Guide for Key Informant Interviews:
Security/Cleaning Firms Managers**

Introduction

- Paul Chibwana, University of Malawi, Chancellor College
- Doing research on outsourcing in the public sector: progress, challenges and prospects

Ethics

- The discussion will be conducted in confidence
- Findings used only for academic purposes
- Consent sought to record the interview

Guiding questions

1. What do you understand by the term outsourcing?
2. For how long has your company been in existence? Who owns the company?
3. For how long has your company provided cleaning/security services to this ministry? To the public service?
 - a. Which other ministries/institutions has your company provided services to in the past five years (of since becoming into existence if recently created)?
4. What were the qualifications and experience that the company requires from its employees?
5. Do you conduct any in-service training for your employees? Please mention them if any.
 - a. How often do you conduct the trainings?

6. What do you think are some of the reasons the Ministry outsourced provision of Security/ cleaning services (from your company)?
7. Do you think the Ministry has achieved what it envisaged to achieve by outsourcing security/cleaning services?
 - a. If yes, how and in what areas?
8. How would you describe the security/ cleaning services offered by your company in terms of:
 - a. Quality of cleaning/security services compared to government in-house provision? Please explain your answer.
 - b. Cost of cleaning/security services as compared to government in-house provision? Kindly provide a schedule of charges for providing the services to the government for the period you have provided the services at the ministry.
9. How would you describe the process of selecting your company to provide the services in terms of Transparency and adherence to set procedures?
10. Do you offer incentives to ministry officials in order influence the choice of your company? If yes, what incentives?
11. Did some ministry officials solicit/ receive incentives from your company so that they are favoured in the process of selecting a winning firm? What sought of incentives? Please specify.
12. If you had won the contract by offering incentives, would you provide the same level and quality of service as compared to when you win the contract on merit or indeed as compared to government in-house provision? Please explain your answer.

13. Do you think public officers that solicit incentives from outsourced private firms objectively and effectively monitor the performance of the outsourced security/cleaning firms to ensure delivery of quality services? Please explain?
14. How would you describe the effects of the conduct of officials involved in the process of identifying and managing outsourcing firms on the cost and quality of the public services so provided? Please explain your answer:
- a. Effects on quality
 - b. Effects on cost
 - c. Any other effects
15. What do you think are the challenges facing the provision of outsourced security/ cleaning services at the ministry you are providing the service?
16. What do you think are the main driving factors behind the challenges mentioned?
17. How would each of the challenges mentioned above be overcome?
18. What do you think should be done to ensure successful implementation of outsourcing at your ministry?

Appendix 5: Tool 3: Interview Guide for Members of the Internal Procurement Committee (IPC)

Introduction

- Paul Chibwana, University of Malawi, Chancellor College
- Doing research on outsourcing in the public sector: progress, challenges and prospects

Ethics

- The discussion will be conducted in confidence
- Findings used only for academic purposes
- Consent sought to record the interview

Guiding questions

1. What do you understand by “outsourcing”?
2. What services have been outsourced in your Ministry in particular or the public services in general?
3. What is your role in the selection of outsourced service providers in your Ministry?
4. Which outsourced service providers have provided cleaning and security at your ministry in the past 5 years?
5. What factors does the IPC consider when selecting service providers to outsource from? Please list and explain.
6. Do the selected firms fulfil all the requirements? If not, why?

7. Are there instances where the IPC waives some requirements to accommodate less qualified service providers? If so, why?
8. Does the IPC verify the existence of the requirements submitted by the potential service providers in the bidding documents?
9. Have the service providers that have been selected by the IPC to provide security and cleaning services delivered the services satisfactorily? Please explain your answer
10. Does the IPC have means of verifying actual performance of the selected service providers post award of contract?
11. Do private service providers offer incentives to members of the IPC in order for the IPC to favour the company? If yes, what sought of incentives?
12. Do you think some IPC members solicit/receive incentives from private firms to favour them in the contract award process? If yes, what sought of incentives?
13. Are there repercussions for service providers that do not offer incentives to public officials? If yes, what sought of repercussions?
14. What do you think are some of the challenges facing the provision of outsourced security and cleaning services at your ministry?
15. What do you think are the main driving factors behind the challenges mentioned?
16. How would each of the challenges mentioned above be overcome?
17. What do you think should be done to ensure successful implementation of outsourcing at your ministry?

Appendix 6: Tool 4- Focus Group Discussion Guide (Cleaners and Guards)

Introduction

- Paul Chibwana, University of Malawi, Chancellor College
- Doing research on outsourcing in the public sector: progress, challenges and prospects

Ethics

- The discussion will be conducted in confidence
- Findings used only for academic purposes
- Consent sought to record the interview

Guiding questions

1. What is your understanding of outsourcing?
2. For how long have you worked with your security/cleaning company?
3. How were you employed?
4. What were the qualifications and experience that the company was looking for when employing you?
5. Have you undergone any in-service training since taking up your current job?
Please mention them?
 - a. How often do you undertake the trainings?
6. Which materials do you require to effectively perform your duties?
 - a. Are you provided with all required materials to enable you performing your duties effectively?
 - b. What materials are you not provided with? Why?

- c. How do you perform your duties in cases where not all materials are provided to you?
- 7. How would you describe the quality of service that you deliver as compared to those provided by public sector employees at the ministry?
- 8. What are some of the challenges that you encounter when performing your cleaning/security duties?
- 9. What do you think can be done to address the stated challenges?