

**IMPACT OF PUBLIC SECTOR OUTSOURCING ON  
EMPLOYEE WORK ATTITUDES**

**Literature Review**

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## **ABSTRACT**

Outsourcing of traditionally public sector services has become a common practice in many countries around the world. Most of the research in this area concentrates on improving efficiency and achieving financial savings. However, there is also some literature that puts emphasis on behavioral issues of this outsourcing trend. One of those issues is the impact that the public sector outsourcing has on civil servants. This is the topic of this review which examines the literature dealing with the issue of work attitudes demonstrated through its main components, namely job satisfaction, job involvement and organizational commitment. Summary of conclusions at the end of the review indicates some possible solutions that can be considering when dealing with, what the research suggests to be, generally negative attitudes.

# TABLE OF CONTENTS

1. Introduction	4
2. Definitions	6
3. Employee Work Attitudes	8
3.1 Job Satisfaction	10
3.2 Job Involvement	12
3.3 Organizational Commitment	15
4. Summary and Conclusion	19
5. References	21

## 1. INTRODUCTION

An overview of employment arrangements implemented by commercial organizations, nonprofit organizations, and public institutions indicates existence of two distinctive approaches. Initial and still very common approach involves organization-based employment involving longer-term workers commitment. During this phase, permanent, temporary and part-time contracted employees constituted the majority of work force. During the last one hundred years companies across North America, Western Europe and Japan depended on elaborate organization-based employment arrangements (Cappelli, 1995).

The organization-based employment system has a number of characteristic problems, such as, work force instability, difficulties meeting demands for quick and mass production, uneven development of professional skills, and various degree of quality outcomes, accompanied by opportunistic short-term behavior (Cappelli, 2000). All this has contributed to the appearance of a new alternative system to satisfy organizational needs for employees. This new approach depends more on short-term contractual arrangements (Jacoby, 1999), and market-based externalized forms of employment practices, such as outsourcing and subcontracting (Colling, 1995; Lepak and Snell, 1999). This approach became more widespread during the mid-1980s (Baron and Kreps, 1999).

Computer and other high-tech companies were the first ones to benefit from the outsourcing (Moss, Salzman and Tilly, 2000). Similar tendencies were identified in other

industries such as catering and cleaning, various call centers and telemarketing (Kessler, Coyle-Shapiro and Purcell, 1999), health on-site management (Kirchheimer, 2005).

The main reason for introduction of outsourcing is to reduce costs (Harrison and Kelley, 1993; Rees and Fielder, 1992). Outsourcing offered companies and organizations a possibility to economize on the costs of many human resource management functions such as recruitment, training, career development, the costs of unemployment insurance and other employment benefits (Pfeffer and Baron, 1988). In addition, they were able to save on direct employee cost since outsourcing companies usually pay lower market wage rates (Abraham and Taylor, 1996), and less generous benefits (Davis-Blake and Uzzi, 1993). Outsourcing companies are often able to reduce labor costs by implementing stricter discipline and supervision (Jones, 1982). Therefore, the efficiency benefits of outsourcing came from a combination of lower labor costs and higher work intensity (Jacoby, 1984). Outsourcing also allows introduction of lower paying positions into already established employment system without adversely affecting employee morale or inviting opposition from worker unions (Baron and Kreps, 1999).

The second reason for opting for outsourcing was fluctuating consumer demand for products and services offered. Core set of employees can easily cope with a regular level of demand, while additional increased demand can be met through outsourcing (Abraham, 1990). Some research indicates that “seasonality and cyclicity in industry employment levels” is often associated with greater reliance on outsourcing to independent contractors (Abraham and Taylor, 1996).

The third reason for outsourcing can be found in requirements some companies have for specialized, highly skilled employees that are not available internally. Such skills are judged to be too expensive or difficult to develop in-house or simply deemed to be outside the organization's core capabilities so they are often obtained from outside specialists (Prahalad and Hamel, 1990; Quinn 2000; Saunders, Gebelt and Hu, 1997).

As previously noticed, reasons for and benefits from outsourcing are widely researched. However, there has been very little empirical research on the effects of outsourcing on employee work attitudes. Baron (2000) noted that we know remarkably little about what these changes in employment relations mean for workers. Some organization behavior researchers suggest that the outsourcing gives rise to different employment relationships from those associated with organization-based arrangements (Kalleberg and Reve, 1992).

## **2. DEFINITIONS**

The main topic of this review is the literature dealing with the issue of work attitudes demonstrated through its main components, namely, job satisfaction, job involvement and organizational commitment. However, before going further with this review it is primordial that we define the terms at stake here. First of all, by outsourcing we essentially imply the transfer of services or functions previously performed within the organization to a provider outside the organization (Johnson, 1997). In other words, when an organization is using outsourcing strategy it seeks resources outside of its own

organizational structure. It is usually done in order to save money or exploit the skills not available within the organization. Outsourcing often entails an enterprise using another company, such as a consultancy or application service provider, to provide a service that the enterprise can provide for itself, yet it is cheaper to utilize a third-party's resources. For example, an enterprise might outsource all of its data storage needs because it does not want to buy and maintain its own data storage devices. Or, an enterprise might outsource its human resource management tasks to a third-party instead of having its own dedicated human resources staff.

It should be noted that there is a crucial difference between outsourcing and privatization. While outsourcing means transfer of service provision, privatization entails transfer of ownership of assets from public to private hands (Jensen and Stonecash, 2004). Other difference is duration (outsourcing is a temporary arrangement, while privatization is a once for all transaction), as well as transfer of physical assets vs. procurement of specific services.

There are also some critics of outsourcing and privatization of public services. They claim that outsourcing has not delivered on the promised high quality, low cost services. Empirical evidence does not universally support the view that public sector organizations are intrinsically less efficient (Megginson and Netter, 2001; Boardman and Vining, 1989). In his article on US military outsourcing after the first Iraq war, Krugman (2003) observed that the system failed and that the results were disappointing. Other critics argue that the savings achieved by outsourcing are usually transitory and that outsourcing has

adverse affects on workers (Quiggin, 2002), while other regard outsourcing as a potential threat to the quality of service provision (Hart, Shleifer and Vishny, 1997).

The main goal of this study is to find out what is the impact of this type of service transfer on employees work attitudes. Work attitudes are evaluations that employees hold about aspects of their work environment (Robbins, 2005). In this study we specifically focus on the following three work attitudes: job satisfaction, job involvement and organizational commitment.

Job satisfaction is regarded here as a feeling that an individual holds toward his/her job. Job involvement implies the degree to which a person identifies psychologically with their job and considers his/her perceived performance level important to self-worth. High job involvement has been related to less absenteeism. Finally, by organizational commitment we refer to a state in which an employee identifies with a particular organization and its goals (Robbins, 2005).

### **3. EMPLOYEE WORK ATTITUDES**

Decreasing resources and market competitiveness have forced organizations to scrutinize their methods of producing goods and services and make changes in their processes in order to maximize economic returns. Outsourcing is both used in private sector as well as in the public sector. For the purpose of this review we will only concentrate our attention on the impact of outsourcing on work attitudes in the public sector.



Presumably, public organizations benefit from outsourcing because they can save money and refocus their resources on the organization's core competencies. Cost savings result because specialists that benefit from economies of scale can accomplish tasks more cheaply than organizational members accomplish the same tasks (Goldfarb & Naasz, 1995). Simultaneously, as functions are outsourced, leaders relieve their employees of mundane, repetitive, and basic tasks, allowing employees to focus their efforts solely on the core, value-adding activities needed for the organization to maintain its competitive advantage.

After considering the financial roots of outsourcing strategies, it is not surprising that the majority of the outsourcing literature has examined the financial effectiveness of this organizational improvement strategy. Although some have suggested that outsourcing efforts have not always been successful (Ulrich, 1996), financial returns have been the most convincing argument in favour of outsourcing. While the potential benefits of an outsourcing strategy are appealing and the empirical data suggest that outsourcing provides considerable financial benefits, it can be stressful for all concerned. For instance, leaders who develop the strategy may be risking their careers on the outcome; managers responsible for implementing the strategy must address the challenges and face the stress associated with making the strategy work; lower-level employees who operate within the new environment must face a change that has uncertain outcomes.

This review considers work attitudes through job satisfaction, job involvement and organizational commitment, which were identified by the empirical research as directly related constitutional factors (Robinson and Rousseau, 1994).

### **3.1 Job Satisfaction**

A number of research papers suggest that outsourcing has a negative effect on employee work attitudes and organizational culture in general. Gregory (2005) indicated that the organizational culture became very adverse after outsourcing. The outsourcing had produced an organizational culture that was filled with fear, low morale, and mistrust.

With these notions in mind, Nelson, et al. (1995), longitudinally studied the effects of an outsourcing strategy on the members of a large public sector organization that outsourced certain human resources and scientific support functions. They found that the job satisfaction of managers, clerical workers, and manual workers fell as time went on. Further, the groups reported higher levels of mental health problems such as depression, anxiety, and low self-esteem.

Nelson, et al.'s (1995), work is important to this review because it introduced a potentially important aspect of outsourcing that should be considered by organizational leaders as they make the decision to outsource. That is, as an outsourcing strategy is implemented, the job satisfaction among organizational members may go down. From an applied management perspective, this loss of satisfaction among the employees may be

important because empirical studies have shown that dissatisfied workers are more likely to leave an organization than their satisfied colleagues are. Presumably, organizations must retain these employees if they are going to refocus their resources successfully toward their core competencies and reap one of the fundamental benefits of outsourcing. In this study we look at this particular issue in order to get a more complete understanding of outsourcing's influence on members of organizations.

A team of researchers at the US Air Force Institute of Technology (Kennedy, et. Al., 2002) surveyed 469 low to mid level Air Force engineering managers who performed a support function that was to be outsourced. The survey was designed to explore the participants' reactions to the outsourcing strategy given that their jobs were secure but job changes were expected as the strategy was implemented. Specifically, the questionnaire assessed current job satisfaction, perception of outsourcing, and their career intentions. By testing a path model, results indicated that the technical manager's negative view of outsourcing reduced their job satisfaction and subsequently correlated to an increased desire to leave the organization. Changes such as outsourcing can lead to lower morale, job insecurity and the erosion of motivation and loyalty.

For a psychological contract to exist between employer and employee, it is fundamental that there is reciprocity. An employer cannot expect a positive attitude towards a request for longer working hours, more flexibility and greater commitment to the organisation's goals when an increasing number of their activities are being outsourced. Thus, one of the possible consequences of a continuing outsourcing is that more employees will offer their

services to organisations on a freelance basis and will refuse to identify with the long-term goals of the company they are working for.

The economy and all of its sectors is steadily moving towards contingent workforces in virtual environments. The gain is improved economic performance, while the cost is the loss of job security and job satisfaction. Many employees are forced to sell their services to organizations on a freelance or short-term contract basis. The number of men in part-time jobs in the UK has almost doubled during the last decade, while the number of people employed by firms of more than 500 employees has slumped to just over one-third of the employed population (Cooper, 1999).

A survey of 5000 British managers found that in 1997 and 1998 over 60% of managers had undergone a major restructuring involving downsizing and outsourcing. The consequences of this change were such that two out of three experienced increased job insecurity, lowered morale, and erosion of motivation, loyalty and job satisfaction (Worrall and Cooper, 1997; 1998).

### **3.2 Job Involvement**

Research suggests that outsourcing organizations practice tighter supervision and labor control (Deakin and Michie, 1997; Pearce, 1993). Some authors regard that form of management as plain “coercion and control” (Colling, 1995) and associate it with greater work intensification (Clawson, 1980). This implies more intensive use of both employees

and capital equipment with an aim of maximize short-term output (Marsden, 1999). A study of the British Health Service (Bach, 1989) demonstrated that the outsourcing was accompanied by an intensification of work effort with employees working harder for lower bonus payments. Fewer employees were required to do the same number of jobs generating greater work pressures and forced work involvement instead of genuine interest by the workers.

Deery, S. and Walch, J. (2002) examined the effects of outsourcing on employee attitudes to work. Their research was conducted in the area of call centre services where there has been a substantial growth in the provision of external suppliers. Findings supported the propositions that outsourced employees had lower organizational commitment and a greater intention to leave their company than in-house employees. Employees also displayed lower levels of trust and reported greater work pressure. The results of the study suggest that market-mediated employment arrangements such as subcontracting can be associated with attitudinal and behavioral responses that may impair the quality of service provision to customers.

Thus, potential disadvantages to employees include the erosion of minimum employment standards, employment insecurity and a decline in bargaining power as union membership ultimately declines when employment contracts are replaced by commercial contracts with independent contractors. Interpretation of work status can also be affected since an independent contractor may remove individual's rights to a range of employment benefits, including, for example, protection against unfair dismissal.

Another important aspect of job involvement comes from received training and education. Farazmand (2002) views privatization of public organizations as forced expansion of monopolistic and oligopolistic corporate sector that is dominating the world in every possible way. This is followed by a significant diminution in the capacity and skills of public management in performing the public's business and in serving the public interests. According to him, this negative effect on public management education can have multiple negative consequences for the preparation of future generations of public administrators. It simply dampens the interests and career choices among potential public servants, and therefore their future involvements with the jobs they are expected to perform.

More contracting out and privatization, requires greater involvement in market regulation and contract management. With the erosion of skills and reduced human resources, public sector cannot perform this function effectively, and are forced to seek private contractors to manage contracts (Moe, 1996). Due to lack of proper staffing, private sector employees cannot get sufficiently involved, so they leave "a hen house to be guarded by a fox". In other words, abuses and failures are becoming more significant and more frequent.

### 3.3 Organizational Commitment

Organizational commitment and mutual trust are important elements of organizational behavior (Bigley and Pearce, 1998). Trust promotes co-operation and increases worker's motivation and effort (Deakin and Michie, 1997). Without trust, neither party is likely to give valuable information to the other or act on the information they receive (Lepak and Snell, 1999).

During the times of outsourcing, employees cannot trust that their qualifications and work experience, as well as wider contributions to the company, will be reciprocated over the long-term. Employees realize that the relationship that they have with their employer entails no promise of future employment (Tsui *et al.*, 1997). Only employer's investment in their work force, such as, for example training generates a positive attitude and workers organizational commitment.

Outsourcing creates work insecurity. Due to this work insecurity outsource contractors tend to have much higher employee turnover. The employees always seem to leave just as they reach their peak productivity. They also tend to have less interest in long-term solutions and community values. The presence of contractor co-workers, as a result of outsourcing, is associated with employee reports of lower organizational trustworthiness. This was further confirmed in a study of organizational behaviour of contract laborers and their psychological involvement and effects on employee co-workers (Pearce 1993).

The results of the study confirmed that in the environment of outsourcing employees question fairness of their organizations and show lesser organizational commitment.

There are also a number of disadvantages to employers of using flexible labour. Quality control standards can be undermined as irregularly employed "flexible workers may have less on-the-job experience and knowledge of work procedures and systems. (Nelson and al., 1995). Research indicates that permanent workers are often contemptuous of the lower quality standards of flexible workers and resent having to work beside them.

Additional problems can arise since flexible workers are not well integrated into the work and human resource systems of organisations. As a result, they are less likely to receive training and are less likely to be aware of and follow company policies that may lead to lower customer service standards or health and safety problems. When functions are outsourced, organisations may also experience problems with coordinating the delivery of services, and efficient communication with the main contract provider.

As described earlier, most of the literature on outsourcing has generally investigated organizations' motivation to outsource and the financial aspects of organizations' decisions. Individual's intent to stay with the organization as it implements an outsourcing strategy is another important element that attracted researcher's attention. This topic is particularly noteworthy because one of the fundamental objectives of an outsourcing strategy is to free human resources from mundane tasks and refocuses their efforts on the organization's core competencies. This objective cannot be fulfilled if



valued employees decide to leave the organization as their roles are redefined and the organization is realigned.

Relationship between perceptions of outsourcing, job satisfaction, and turnover intentions is also a topic of organizational behaviour research. Findings suggest that outsourcing strategy unleashes powerful forces in people, invoking simultaneous positive and negative personal feelings of fear and hope, anxiety and relief, pressure and stimulation, leaving the old and accepting a new direction, loss of meaning and new meaning, threat to self-esteem and new sense of value. Outsourcing, specifically, has been shown to evoke employees' fear of the unknown, anxiety over the future, nostalgia for the old days and resentment over the loss of identity (Nelson et al., 1995).

In fact, the emerging body of research indicates that many organizational changes may not always have the desired results because of the departure of some of the human resources needed for the organization to fulfill the desired objectives. In the past decade, one out of five organizations that had restructured reported that they had lost valuable contributors who had critical skills or talents necessary to the organization's well being; that is, they lost the "wrong people" as they made changes (Bedian & Armenakis, 1998). Bedian and Armenakis (1998) concluded that those with the opportunities to go indeed leave as their jobs change with restructuring and downsizing.

Outsourcing may have far-reaching implications that have not been considered in the past. Although outsourcing can lead to certain gains for the organization, many such

gains may be difficult to realize if the workers that the organization depends on, plan to seek employment elsewhere. Given the importance of employees and the investments made in outsourcing, leaders should recognize that outsourcing is stressful even for those remaining behind and develop implementation strategies with this idea in mind.

Some research concentrated on outcomes of actual transfers of employees to a new company to which the tasks were outsourced (Kessler, et. Al., 1999). The research concluded that employees' perceptions of their treatment were the major factor with significant attitudinal and behavioral consequences. Therefore, instead of suggestions that outsourcing was likely to be perceived in an unambiguously positive or negative way, Kessler suggests that employee views are likely to be contingent on employee disposition to outsourcing derived from how they were managed by their previous employer, what they were offered by the new employer, and how they were treated when they actually get transferred.

#### **4. SUMMARY AND CONCLUSIONS**

Findings of literature review indicate that outsourcing is becoming a widespread practice used by commercial, as well as by public and not-for-profit organizations. The main driving force for introducing outsourcing is a common belief that it will generate savings. Most of the research indicates that savings are possible but not so common and big as usually regarded. In order to achieve savings, outsourcing has to be geared towards specific activities, usually repetitive, minor and manual ones.

Behavioural impact of outsourcing on employees is given lesser importance during research but patterns are slowly emerging. It is demonstrated more and more often that organizational changes do not bring always only desired effects. Outsourcing has negative impact on work attitudes. It lessens job satisfaction, negatively impacts job involvement, and decreases organizational commitment. Loss of human resources, either through their departure or through loss of workers interest and involvement, is a concern for the management of the organizations that have decided to opt for outsourcing.

Outsourcing can bring certain benefits to the organization but they might be difficult to exploit if organizations lose their most valuable employees due to change of their work attitudes. Developing positive employee work attitudes is not just about bottom-line factors, such as salaries and taxes. It is about building and maintaining job satisfaction, job involvement and job security.

As the social anthropologist Studs Terkel (1972) suggested, “Work is about a search for daily meaning as well as daily bread, for recognition as well as cash, for astonishment rather than torpor, in short, for a sort of life rather than a Monday through Friday sort of dying”.

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