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Is contracting out good or bad for employees? A systematic review of international experience

Karsten Vrangbæk (1), Ole Helby Petersen (2) and Ulf Hjelmar (3)

(1) University of Copenhagen, Department of Political Science, Denmark.

(2) Roskilde University, Department of Society and Globalisation, Denmark.

(3) The Danish Institute for Local and Regional Government Research, Denmark.

Corresponding author:

Assoc. professor Ole Helby Petersen

Roskilde University, Department of Society and Globalisation

Universitetsvej 1, P.O. Box 260

DK-4000 Roskilde

Denmark

E-mail: olehp@ruc.dk

Phone: +45 51 22 75 73

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Abstract

The past decades have witnessed an upsurge in governments' use of contracting out as a means of reforming and privatizing public service delivery. This development has to a large extent been driven by efficiency and cost-effectiveness concerns, but may also result in important changes in the working conditions and work environment for the personnel in public organizations. In this article, we present the findings from a systematic review of studies documenting the consequences of contracting out for employees. The review is based on 26 empirical studies published between 2000 and 2012. We find both positive and negative effects for employees documented in the literature, although with a predominance of negative effects, including reductions in the workforce and other changes in the workforce composition such as the replacement of experienced employees with younger workers, poorer working conditions, lower salaries, fewer benefits and reduced job satisfaction. We conclude that poorer conditions for the public service personnel are well documented as a short term consequence of contracting out, while more studies covering a longer time-span are needed in order to assess whether the predominantly negative effects are transitory or will persist over time.

Key words: Contracting out; systematic review; public employees; working conditions; employee effects.

1. Introduction

The past decades have witnessed a growing use of market-based arrangements such as privatization and contracting out as a means of delivering services to citizens (Hodge, 2000; Stolt, Blomqvist & Winblad, 2011). As a result, the production of a range of different services has gradually been transferred from the public to the private sector. Previous research in the area has mainly been focused on the economic consequences of contracting out (e.g. Domberger & Jensen, 1997; Hodge, 2000; Ohlsson, 2003; Iseki, 2010), and to some extent also on quality aspects (e.g. O'Tool & Meier, 2004; Stolt, Blomqvist & Winblad, 2011). Yet it is very likely that these changes also have significant effects – positive and/or negative – for the public employees affected by contracting out (Battaglio 2009). Only a few literature reviews have, however, been carried out in this area in recent years, and none of them explicitly address the issue of whether contracting out leads to better or worse overall conditions for the workforce employed in the public sector (Pinch & Patterson 2000; Jensen & Stonecash 2005; Longva & Island 2010).

The aim of this article is to address this knowledge lacuna by systematically reviewing the research literature in the area. The article is based on a comprehensive sample of studies that were collected through a systematic literature search of articles on the consequences for employees of contracting out, published in peer-reviewed journals. Contracting out is defined as the private delivery of publicly-financed services through a contractual agreement between a public sector organization and a private sector company (Hodge 2000). This is different from privatization defined as the sale of public assets (Hodge, 2000) and internal contracting arrangements between government units, both of which are not our focus here. The article addresses the following research question: What are the most frequently reported consequences of contracting out for employees, and is the balance of the evidence positive or negative? The focus is on changes in employment conditions as a result

of contracting out as well as the perception of such changes among the affected employees, which means that both objective changes in work conditions and more subjective changes are reported in the review.

The article is based on a total of 26 studies that were carefully examined by the review team. The overall result is that the studies report both positive and negative effects for employees, but with a predominance of effects that are presented as negative. These include the increased use of part-time and temporary employees, substitution of employees with less experience and education than those in post before, poorer working conditions, lower salaries and reduced job satisfaction. There are some indications of regional/national differences in the sense that social democratic welfare states that are known to have fairly extensive regulation of employment relations and relatively strong unions appear to have less negative experiences for employees than more liberal countries. Most of the studies investigate a relatively short time period, and it is therefore not possible to determine whether the predominantly negative effects are transitory or will persist over time. It is likely that some of the structural changes to working conditions and work force compositions will remain in the long run, whereas some of the perceptual changes (such as reduced job satisfaction) could be related to the uncertainty that is often experienced in the process of contracting out. Overall, the findings suggest that a more careful assessment and focus on employee issues is indispensable for obtaining a more complete understanding of the consequences of contracting out in the public sector.

The paper proceeds as follows. In Section 2, we present a framework for identifying positive and negative employee-related consequences of contracting out. In Section 3 the review method is described, and in Section 4 the findings of the systematic review of employee consequences of contracting out are presented. Finally, in Section 5, we discuss the findings in terms of their validity and their broader societal implications and a conclusion is provided.

2. Theoretical background for analyzing employee effects

Why should we expect contracting out to have consequences for employees, and how can we classify the different types of possible consequences? We have reviewed a number of previous studies on contracting out for theoretical arguments about how the transition from public to private provision through contracting out can affect employees. Based on this we derive a set of theoretical dimensions for assessing the effects on employees.

The public sector has many diverse tasks, ranging from classical regulation and law enforcement to policy development and service production (Moore 1995). It is particularly the latter type of public sector activity that has been subjected to contracting out over the past decades. The introduction of NPM brought an emphasis on privatization and private sector management tools (Hood 1991; Osborne 2010). It was emphasized that the role of the public sector should be to “steer” rather than to “row” (Osborne & Gaebler 1993). This implies that the production of services should be separated from the political process of setting priorities and regulation of service provision. A central assumption behind this was that the core tasks could be defined as essentially the same, whether performed by public or private organizations. This allowed a focus on efficiency as the dominant target, and led to an imitation of management practices across public and private sector organizations. Human resource management became a common buzzword in the public sector, and many types of flexibility in working conditions also became common in public organizations (Farnham and Horton 1997).

Against this background, some would expect limited employee consequences of contracting out, because public and private service production is seen as similar in many important aspects. However, there are several reasons why we might expect effects on employee relations even within public service sectors. Most relate to differences in the institutional context and the general values

that remain attributed to public organizations as part of the political-administrative governance structure (Mintzberg 1983, Scott 2007, Bozeman 2007). The institutional context includes the formal legislative framework for activities, as well as more normative demands mediated through external stakeholders and strong professional groups working within many public service organizations. In spite of the NPM trends, many countries still have legacies of more traditional governance of public organizations, while their private counterparts have more leeway to install flexible work practices and contracts. Standardization of labor relations tends to be more common in the public sector (Farnham and Horton 1997), often supported by collective agreements and relatively strong unions. Many stakeholders also maintain a picture of the public sector as a “model employer” in terms of providing job security, equal opportunities and involving employees in decision processes (Farnham and Horton 1994). Political actors may consider public sector organizations as a “demonstration field” or “frontrunner” for socially responsible behavior in the workplace. In this way public organizations may be facing both legislative and normative pressures to consider a wider range of values than merely efficiency (Moore 1995; Bozeman 2007).

Private organizations, on the other hand, generally have more leeway to focus narrowly on efficiency. Given the competitive pressures on private firms, such leeway is likely to be translated into stronger demands on the employees in terms of more flexible working conditions, longer hours, lower salaries and more flexible contracts (Cunha and Cooper 2001: 22). Downsizing is another likely strategy when contracting out tasks to private organizations (Haskel and Szymanski 1993). Donald Kettl (1993: 161-162) explains that “with so much of state and local spending concentrated on personnel costs, any argument to reduce that spending inevitably is an argument to reduce the number of employees as well”. In other words, if savings are to be realized through contracting out, this is likely to also involve staff reductions, which may in turn put more pressure on the remaining employees.

Reductions in personnel costs require greater flexibility in the management of human resources (Fernandez et al 2006). Greene (2002) argues that it is more difficult to hire, discipline and fire employees in the public sector, because of a variety of civil service rules and constraints. In addition, private sector firms can typically rely more on temporary and part-time workers (Fernandez et al 2006), and may be able to pay lower wages (Dube and Kaplan 2010). Lower wages in the outsourced organizations may reflect more temporary employment, lower skill and experience levels, a lower degree of unionization and a weaker bargaining position (Dube and Kaplan 2010: 289).

The consequences of contracting out for the employees can also be realized at a more subjective level as psycho-social changes. Adapting to a competitive environment may enhance uncertainty for employees, particularly in the transition phase. This can lead to loss of control, and occupational stress with related psychological and physiological effects (Cunha and Cooper 2002). Several conditions associated with perceptions of stress may be present in the transformation process including role ambiguity; role overload (too many or too complex tasks) and role underload (simplification or loss of discretion); new work relations; job insecurity, deterioration of working conditions; and the frustration of career enhancement expectations (Cunha and Cooper 2002). Other researchers have also emphasized that occupational stress is related to the insecurity over whether employees can meet the new demands imposed in the transformation to private contracting (Falkenberg et.al. 2008). The transition from one institutional environment to another may thus create uncertainty, stress and burnout due to role ambiguity, role overload or role underload. We expect such perceptual effects to be particularly strong in the transitional phase, and we envisage that self-selection and gradual adjustment to new conditions may reduce some of these effects over time.

So far, we have discussed potentially negative effects for employees of contracting out. However, the transformation to private sector status may also have positive effects (Stolt, Blomqvist & Winblad, 2011). One may find more carefully designed incentive schemes and more attention to matching of skills and job functions in the private sector (Cunha and Cooper 2001). More targeted training in regards to the tasks performed is another possibility (Donohue 1989: 145). Less red tape and a clearer priority in regards to external stakeholders may also create greater job satisfaction, particularly for entrepreneurial employees. Similarly, it could be argued that employees with a strong service orientation might benefit from a potentially higher focus on responsiveness to users within private sector firms exposed to competitive pressure. Private sector firms may also be more concerned with creating a unitary culture, with more clearly defined goals than public sector organizations that typically cater to many different stakeholders. Finally, it is possible that the economic pressure and the introduction of NPM type management initiatives in public organizations over the past decades have strained these organizations, for example by reducing staff levels and increasing demands for documented efficiency gains. Such pressures may create very stressful environments, which may be exacerbated by the need to balance multiple and potentially conflicting values in public organizations (Bozeman 2007). In such situations, contracting out might actually bring more clarity and reduce stress for employees.

Summing up, it is a common theoretical assumption for the study of employee consequences of contracting out that competitive pressure on private firms is likely to influence their structure and organizational processes, including their human resources strategies. Private firms are assumed to have better opportunities for developing flexible HR strategies as they are less regulated and have fewer external stakeholders with the formal power to influence the organization. While this may be positive from the perspective of the organization, it can have negative consequences for the employees. At the same time, it is also a common theoretical assumption that an abrupt transition

from public to private employment affects the perception, satisfaction and motivation of employees, at least in the transition phase. Based on this brief review of theoretical arguments, we present a schematic overview of potential positive and negative consequences for employees of contracting out (see Table 1). Although one may find theoretical arguments for both positive and negative consequences, we observe that the dominant position in the literature tends to be negative. We therefore formulate our first proposition as follows: *P1: At the overall level we expect the studies to report more negative than positive effects of contracting out for public employees.*

Table 1: Overview of potential positive and negative consequences for employees of contracting out

| | Positive consequences | Negative consequences |
|--|---|--|
| Structure and organizational processes | <p>More differentiated incentives may increase motivation</p> <p>Stronger interest in finding the best “fit” between employees and job functions</p> <p>Less red tape and stronger focus on responsiveness to “customers” can lead to increased job satisfaction for some employees</p> <p>More flexible work conditions</p> <p>Training and emphasis on individual al skills</p> | <p>Involuntary reductions in work force</p> <p>Downgrading experience and skill levels</p> <p>Moving to short-term contracts rather than permanent employment</p> <p>Poorer working conditions, safety measures etc.</p> <p>Higher pace and performance demands</p> <p>Reductions in wages and benefits</p> <p>Less job security</p> <p>Less attention to broader societal aims (equal opportunities, job training and providing opportunities for socially disadvantaged or mentally disabled etc.)</p> |
| Perception, satisfaction and motivation | <p>Positive management attention</p> <p>Clearer goals and priorities</p> <p>Increased job satisfaction and motivation due to clearer goals, training and emphasis on individual skills, more flexibility in career paths etc.</p> | <p>Uncertainty and lack of control may lead to occupational stress</p> <p>Stress and lower job satisfaction due to higher pace and performance demands</p> <p>Reduced affective commitment</p> <p>Lower intrinsic motivation</p> |

Our analytical perspective for the structural/organizational dimension in Table 1 is based on changes for employees compared to the situation before contracting out, and this would affect both existing and new workers. For the perceptual dimension, most underlying studies take an analytical perspective of workers undergoing the transition to contracting out. But this is not clearly declared in all cases. We cannot solve this ambiguity in the underlying texts, but generally take the perspective that perceptual changes refer to workers exposed to the process of contracting out.

Table 1 provides the analytical structure for our review of the literature in the field. We will identify the effects reported in the studies and assess whether they are more positive than negative at the overall level, or vice-versa. Whether the actual effects in each case are realized will probably depend heavily on national, temporal and sector-specific factors (Falkenberg et al 2008), which we will also pay attention to in the review. The structural and process-related effects depend on the legislative set-up and specific institutional configuration in different countries. It has previously been shown that both a "Rechtsstaat" culture of public service and a "consensual" policy style involving unions and other societal partners appear to have a curbing effect on the introduction of NPM measures (Pollitt and Bouckaert 2004: pp 52-54). It is likely that countries with such "Rechtsstaat" or "consensual" characteristics will have a larger propensity to use legislation to ameliorate the potentially negative effects of contracting out for employees than Anglo Saxon countries with "public interest"/"liberal market" characteristics.

This point can also be made with reference to the "varieties of capitalism" literature, where countries within the "coordinated economy" group such as Germany and the Nordic countries are characterized by a strong involvement of societal partners and rely on gradual and negotiated policy styles (Hall and Soskice 2001). This also means that these countries tend to be less radical in their introduction of public sector reforms, including those regulating public workforce relations. We therefore formulate the following proposition: *P2: In the studies we expect to see national or*

regional differences where more regulated countries with a tradition for strong unions also in the private sector (e.g. “coordinated economies” emphasizing a consensual policy style) will report less negative effects than countries with more liberal labor market traditions and weaker unions in the private sector.

3. Design and methods

The systematic review method aims to synthesize the reported results in the research literature on employee effects of contracting out. A common approach to research reviews is to include a statistical meta-analysis, implying that new calculations of effect are made based on the data included in the reviewed studies (Konnerup 2012). However, this has not been possible in this case, because the included studies span different types of methods and data (register data, surveys and qualitative case studies) and different sectors with very different conditions for contracting out (the technical sectors and the welfare sectors). Our systematic review method is inspired by a method developed by the EPPI centre (Gough 2004; Gough, Oliver & Thomas 2012). This is suitable for systematically reviewing complex literature using various methods and data, including qualitative methods and data.

In order to handle this complexity in the literature, the methodological approach needs to be systematic and transparent. One could argue that this systematic review method is no different from other types of research: it needs to follow the same principles of quality, rigor and accountability that are expected in primary research. Our focus is on empirical studies – both quantitative and qualitative - on employee effects of contracting out, with a focus on the most recent empirical findings published between 2000 and 2012. We have only included primary research studies in the review. Three literature reviews have been used as background information but were excluded from

the review because they did not contain primary empirical data (see Pinch & Patterson 2000; Jensen & Stonecash 2005; Longva & Island 2010).

The following databases were used in the screening of relevant studies: Social Sciences Citation Index, Sociological Abstracts, Social Services Abstracts, ERIC (Education Resources Information Center), PILOT Database, Campbell Library and Cochrane Library. The following terms were used in the literature search: privatization/privatisation, contracting, contracting out, outsourcing, tender, competitive tender, competitive bidding, marketisation/marketization and public. Based on this screening, we examined the individual publications and made an assessment of whether those publications answered the research question and whether they met the inclusion criteria and were not subject to exclusion criteria. The specific inclusion criteria were: contracting out/outsourcing in the public sector in industrialized countries based on a market economy (Europe, North America, Australia, New Zealand, Japan, South Korea) and publication year from 2000 until 2011. Exclusion criteria were: studies outside the industrialized countries, studies with very limited empirical data (conceptual discussions, essay papers and similar), studies focusing on other forms of public-private interaction (PPPs, free-choice reforms, privatization and studies focusing on broader neo-liberal, marketization and NPM issues), and studies focusing on the process of contracting out, rather than analyzing effects.

After screening for duplicates in the sample, a total number of 3,170 studies were recorded in an Endnote database containing title, abstract, journal, key words and publication year. Following this screening process, all studies were assessed in a three-step process by a review team consisting of the authors of this article. This was done to ensure the quality of the work by making sure that the necessary knowledge and skills were represented and making the process less subjective (Petticrew & Roberts 2005; Gough, Oliver & Thomas 2012).

In the *first step*, the titles, abstracts and keywords of the 3,170 studies were carefully examined. In this process, studies were examined according to the defined exclusion criteria and coded in the Endnote database as relevant, maybe-relevant or not relevant for the review. A total of 222 studies were judged as relevant or maybe-relevant, and full manuscripts for the 222 studies were obtained.

The *second step* was that the review team defined the standards required for a study to be judged as being of a sufficient standard and thus included in the review. These criteria were revised after being tested by all three members of the review team on a number of quality appraisals of a sample of studies. The result of this process was a review protocol which can be obtained from the authors. The overall quality criteria used in the review were: 1) whether the study is based on an appropriate analytical design compared to the analysis object and the availability of relevant data in the field; 2) whether the data collection meets relevant standards: broadly stated, in quantitative studies the data collection should make a generalization possible and in qualitative research the collected data should be sufficient to support interpretations; and 3) whether the conclusions of the analysis are based on suitable methods with which to calculate employee effects of contracting out and provide reasons for choice of method.

The *third step* was a critical appraisal of the studies found in the screening process. This was carried out on an individual basis by the members of the review team. The full texts were carefully examined to judge its trustworthiness and its value and relevance to our research question. In this process, studies were both excluded due to the inclusion and exclusion criteria and because of insufficient quality. We only found a few borderline cases (three studies). They were jointly evaluated by the members of the review team, and on the basis of this examination, it was decided whether to include the study in the systematic review. In line with the review protocol, each study was finally described in order to code the study and sum up the main results.

Meta-reviews tend to include studies with significant empirical results and pay less attention to the theoretical and methodological quality of the studies. The critical appraisal of studies also aimed at reducing this publication bias often found in meta-reviews (Rothstein, Sutton and Borenstein 2005). As a result of this three-step process we ended up with a final set of 26 publications, which forms the basis of the review of employee consequences of contracting out.

4. Results of the systematic review

The results from the review of the 26 publications are summarized in Table 2. It can be seen from this that the empirical studies about contracting out and employee effects are mainly from Europe (15 studies) and North America (10 studies), while there is just one study from Asia. A fair amount of the studies (8) are from the Scandinavian welfare states. The studies vary across different service areas. 14 represent the technical area, primarily studies from areas such as waste management and road/park maintenance. A similar number of studies (14) look at contracting out within social services, including education, employment, health and care of the elderly¹. With regard to the utilized methodology, most studies (19) are based on quantitative data. Both survey data (13 studies) and register data (10 studies), are used while 7 studies build on qualitative methods.

Table 2: Description of studies included in the review

| Study | Service area | Country | Method |
|----------------------------|-----------------------------------|----------------|--|
| Kavanagh and Parker (2000) | Technical areas | United Kingdom | Qualitative data (1 case study, n=12, individual stakeholders) |
| Reeves and Barrow. (2000) | Technical area (waste management) | Ireland | Quantitative data (survey data, n=88, local authorities) and qualitative data (n=7, local authorities) |

¹ A few studies look at both technical areas and social services and, as a result, the numbers of studies referred to here do not add up to 26.

| | | | |
|---------------------------------------|--|----------------|---|
| Ferrie et.al (2001) | Social services (civil service) | United Kingdom | Quantitative data (registry data, survey data, n=666, employees) |
| Camp and Gaes (2002) | Social services (prisons) | USA | Quantitative data (survey data, n=91, private prisons) |
| Cunha and Cooper (2002) | Technical area (production of cement etc.) | Portugal | Quantitative data (survey data, n=247, employees) |
| Gustafsson and Busch (2002) | Technical area (waste management) | Norway | Qualitative data (1 case study, n=12, individual stakeholders) |
| O'Toole and Meier (2004) | Social services (primary education) | USA | Quantitative data (registry data, n=3122, school districts) |
| Park (2004) | Technical area (waste management) | Korea | Quantitative data (registry data, n=19, regional and local authorities; survey data, n=33, employees) |
| Gustafsson and Saksvik (2005) | Technical area (waste management) | Norway | Quantitative data (survey data, n=46, enterprises) and qualitative data (n=14, individual stakeholders) |
| Bel and Costas (2006) | Technical area (waste management) | Spain | Quantitative data (registry data, all local authorities in the Catalan region; survey data, n=186, local authorities) |
| Fernandez, Smith and Wenger (2006) | Social services (employment) | USA | Quantitative data (survey data, n=1586 in a 1997 survey, n=1283 in a 2002 survey, local authorities; registry data used as control variables) |
| Hebdon (2006) | All areas | USA | Quantitative data (survey data, n=54, local authorities) |
| Peoples, Talley and Wang (2008) | Technical area (public transport) | USA | Quantitative data (registry data, n=1002, employees) |
| Busck (2007) | Technical area (waste management) | Denmark | Qualitative data (30 case studies, local authorities and enterprises) |
| Falkenberg, Näswall and Sverke (2009) | Social services (health) | Sweden | Quantitative data (survey data, n=1127, employees) |
| Cunningham and James (2009) | Social services (welfare benefits) | United Kingdom | Quantitative data (survey data, n=12, voluntary organizations) and qualitative data (n=13, individual stakeholders) |
| Hansen, Sverke and Näswall (2009) | Social services (health) | Sweden | Quantitative data (survey data, n=1102, employees) |
| Nuppenau (2009) | Technical area (park maintenance) | Denmark | Qualitative data (n=18, individual stakeholders) |
| Bae (2010) | Technical area (waste management) | USA | Quantitative data (registry data, n=252, local authorities) |
| Dube and Kaplan (2010) | Social services (low-wage service occupations) | USA | Quantitative data (registry data, n=44.338, janitors and guards) |
| Engstrom and Axelsson | Social services (health) | Sweden | Qualitative data (1 case study, n=14, employees) |

(2010)

| | | | |
|-------------------------------------|---|---|--|
| Iseki (2010) | Technical area (public transport) | USA | Quantitative data (registry data, n=108, transit agencies) |
| Yang and Kassekert (2010) | All state areas | USA | Quantitative data (survey data, n=221.479, employees, registry data used as control variables) |
| Flecker and Hermann (2011) | Social services (health) Technical area (electricity, postal services, public transport) | Austria, Belgium, Germany, Poland, Sweden, United Kingdom | Qualitative data (23 case studies, appr. n=250, management, employees, stakeholders) |
| Stolt, Blomqvist and Winblad (2011) | Social services (care of the elderly) | Sweden | Quantitative data (survey data, n=2629, employees) |
| Zuberi (2011) | Social services (health, low-wage service occupations) | Canada | Qualitative data (n=70 employees) |

In the following we have summarized the type of effects reported in the studies under four headlines: workforce composition, working conditions, salaries and benefits, and employee satisfaction. The first three types are categorized as effects influencing the structural and organizational processes, while the last type is categorized as an effect influencing the employees' perception of the contracting out process (see Section 2 for further details). Table 3 summarizes the findings. Negative effects for employees are shown first and positive effects last under each headline (marked with *):

Table 3: Overview of employee effects of contracting out

| | Types of effects | Specific effects | Sources |
|------------------------------|------------------------------|--|---|
| Structure and process | Workforce composition | <ol style="list-style-type: none"> 1. Reductions in the work force 2. Replacing experienced employees with younger and cheaper employees 3. Relying more on short-term contracts and flexibility 4. Reducing the level of education in the | <ol style="list-style-type: none"> 1. <i>Kavanagh & Parker 2000; Gustafsson & Busch 2002; Park 2004; Flecker and Hermann 2011; Stolt et.al. 2011</i> 2. <i>Reeves & Barrow 2000; Gustafsson & Busch 2002; Camp & Gaes 2002, Peoples, Talley and Wang 2008.</i> 3. <i>Camp & Gaes 2002; Dube & Kaplan 2010;</i> |

| | | | |
|-------------------|---|---|--|
| | | work force | <i>Flecker and Hermann 2011.</i> <i>4. Busck 2007</i> |
| | Working conditions | <ol style="list-style-type: none"> 1. Poorer working conditions in terms of vacation and sick leave 2. More flexible working hours and schedules and replacing full-time with part-time employment 3. Higher pace and performance demands 4. Poorer health and more sick days 5. Poorer safety measures 6. Increasing working week 7. More flexible work practices* 8. Better health* | <ol style="list-style-type: none"> 1. <i>Kavanagh & Parker 2000; Reeves & Barrow 2000, Busck 2007</i> 2. <i>Camp & Gaes 2002; Fernandez, Smith & Wenger 2006; Flecker and Hermann 2011.</i> 3. <i>Park 2004; Gustafsson & Saksvik 2005; Busck 2007; Cunningham & James 2009, Nuppenau 2009; Flecker and Hermann 2011 Zuberi 2011.</i> 4. <i>Ferrie et.al. 2001; Cunha and Cooper 2002; Gustafsson & Saksvik 2005; Busck 2007</i> 5. <i>Reeves & Barrow 2000; Busck 2007</i> 6. <i>Kavanagh & Parker 2000; Flecker and Hermann 2011.</i> 7. <i>Reeves & Barrow 2000.</i> 8. <i>Falkenberg, Näswall and Sverke 2008.</i> |
| | Salaries and benefits | <ol style="list-style-type: none"> 1. Reductions in wage levels 2. Fewer benefits | <ol style="list-style-type: none"> 1. <i>Kavanagh & Parker 2000; Gustafsson & Busck 2002; O'Toole & Meier 2004; Bel & Costas 2006; Bae 2010; Dube & Kaplan 2010; Iseki 2010; Flecker and Hermann 2011, Zuberi 2011.</i> 2. <i>Kavanagh & Parker 2000; Fernandez, Smith & Wenger 2006; Hansen, Sverke & Näswall 2009; Dube & Kaplan 2010; Flecker and Hermann 2011, Zuberi 2011.</i> |
| Perception | Employee satisfaction, motivation and stress | <ol style="list-style-type: none"> 1. Reduced job satisfaction 2. Less job security 3. More stress and burn out 4. Increased job satisfaction* 5. Less stress* | <ol style="list-style-type: none"> 1. <i>Park 2004; Falkenberg, Näswall and Sverke 2009; Engstrom and Axelsson 2010; Yang & Kassekert 2010; Flecker and Hermann 2011.</i> 2. <i>Ferrie et.al. 2001; Park 2004; Hebdon 2006; Busck 2007; Cunningham & James 2009; Dube & Kaplan 2010; Engstrom and Axelsson 2010; Zuberi 2011</i> 3. <i>Hansen, Sverke & Näswall 2009;</i> 4. <i>Cunha and Cooper 2002; Nuppenau 2009</i> 5. <i>Cunha and Cooper 2002</i> |

* Positive effects for employees

It appears from Table 3 that studies document negative effects for employees much more frequently than positive effects. Only a few studies report positive effects: more flexible work practices, increased job satisfaction and less stress².

² In the following we will show how many studies report different types of effects. Ideally, we would have liked to have stated as well how many studies in total looked into a specific field – and how many studies actually found effects - in order to strengthen the argument. We do not believe, however, that this was plausible in our case because of the limited number of studies and publication bias issues.

Our review shows that the *workforce composition* is affected negatively by contracting out in various ways. Negative effects are found in all types of markets but mostly in countries with liberal labor market traditions. First, reductions in the workforce are documented in a number of studies (Kavanagh & Parker 2000; Gustafsson & Busch 2002; Park 2004; Flecker and Hermann 2011; Stolt et.al. 2011). The rationale behind this is typically that the private contractor considers it as necessary to make “adjustments to staffing levels (...) to reflect improvements in efficiency and changing workloads” (Kavanagh & Parker 2000: 14). Reductions in the workforce vary considerably – from a few per cent to 29 per cent.

Several studies also indicate that contracting out leads to a replacement of experienced workers with younger employees that are typically more flexible and paid less (Reeves & Barrow 2000; Camp & Gaes 2002; Gustafsson & Busch 2002; Peoples, Talley and Wang 2008). A result of this could also be that after contacting out, experienced workers moderate their wage demands and other demands from fear that they may be replaced (Peoples, Talley and Wang 2008). In extreme cases, the tendency to employ younger and cheaper employees after contracting out can result in the employment of under-age workers (Reeves & Barrow, 2000). This has, however, only been reported in one study.

Another result is that private sector operators rely more on short-term contracts in order to be more flexible and competitive (Camp & Gaes 2002; Dube & Kaplan 2010; Flecker and Hermann 2011). A result of this is a relatively high staff turnover and, in some cases, a lack of experienced staff. Replacing experienced employees with younger employees and relying more on short-term contracts in the private sector can typically lead to a general reduction in the level of education in the workforce compared to the public sector (Busck 2007).

Our review also finds that *working conditions* are affected by contracting out in numerous ways. Most studies report negative effects, and only a few studies have found positive effects. Negative effects are mostly found in liberal countries with less regulated labor markets. A number of studies report poorer working conditions in terms of vacation and sick leave (Kavanagh & Parker 2000; Reeves & Barrow 2000; Busck 2007). Examples of this are reductions in sickness benefits, sick pay entitlements for the first day of illness are removed, and leave around Christmas and other holidays is reduced or removed.

Other studies have shown that outsourcing has resulted in more flexible working hours and the replacement of full-time with part-time employment (Camp & Gaes 2002; Fernandez, Smith & Wenger 2006; Flecker and Hermann 2011). It is argued in the literature that part-time employment and flexible working hours are consistent with the efficiency rationale of outsourcing since contractors with these arrangements gain flexibility (Fernandez, Smith & Wenger 2006: 72).

Higher pace and performance demands are also highlighted in a number of studies (Park 2004; Gustafsson & Saksvik 2005; Busck 2007; Cunningham & James 2009, Nuppenau 2009; Flecker and Hermann 2011; Zuberi 2011). Work intensification in most cases follows reductions in resources and staff since remaining employees are typically required to take on the responsibilities of earlier staff. The reduced staffing model is, according to one study, designed to work best when workloads are stable. In many settings increases and decreases in demand are, however, not predictable and, as a result, the reduced staffing model typically leads to periods of high pace and excessive workloads for the employees (Zuberi 2011).

Furthermore, some studies emphasize that contracting out can lead to poorer health and more sick days (Ferrie et.al. 2001; Cunha and Cooper 2002; Gustafsson & Saksvik 2005; Busck 2007). The study by Gustafsson and Saksvik shows that outsourcing in the public refuse collection sector in a

Norwegian town led to detectable changes in the refuse collectors' health status: six of 27 refuse collectors were, within three years after the contracting out process, diagnosed with heart problems or musculoskeletal pains mainly due to higher pace and performance demands. A study published in the *British Medical Journal* shows that after contracting out, employees made more use of consultations with general practitioners, first of all as a result of minor psychiatric illnesses (Ferrie et.al. 2001)

Other studies show that contracting out leads to poorer safety measures (Reeves and Barrow 2000; Busck 2007). Furthermore, a few studies show that contracting out can have the effect of increasing the working week – typically in the range of 2½-5 hours per week (Kavanagh & Parker 2000; Flecker and Hermann 2011). On the positive side, Reeves and Barrow (2000) report in a study of refuse collection in Ireland that work practices after privatization became more flexible because of the introduction of new equipment and smaller crew sizes. Moreover, in another study of Swedish hospitals, Falkenberg, Näswall and Sverke (2008) conclude that physical health problems among staff were reduced after outsourcing.

Salaries and benefits are typically negatively affected by contracting out. This has – not surprisingly - mostly been found in countries with liberal market traditions and weak unions. Some studies conclude that salaries are lower after contracting out (Kavanagh & Parker 2000; Gustafsson & Busch 2002; O'Toole, O'Toole & Meier 2004; Bel & Costas 2006; Bae 2010; Dube & Kaplan 2010; Iseki 2010; Flecker and Hermann 2011, Zuberi 2011). The studies are typically from countries with liberal-oriented labor market traditions. Cuts in salaries typically include both reductions in the basic salary and in overtime rates. The rationale behind these cuts is typically that the private contractor considers it necessary to reduce wages in order to remain competitive. Labor expenses in the social services typically represent 60-80% of the total costs and cuts in salaries are seen as an effective way for the private sector to stay competitive.

Furthermore, a number of studies report that employee benefits (health coverage, training programs etc.) are reduced or removed as a result of contracting out (Kavanagh & Parker 2000, Fernandez, Smith & Wenger 2006; Falkenberg, Näswall and Sverke 2009; Dube & Kaplan 2010; Flecker and Hermann 2011, Zuberi 2011). This could be because outsourced staff are less likely to be unionized and more likely to be employed part-time on short-term contracts (Dube & Kaplan 2010).

Perceptual effects have been found in a number studies. Most report negative effects but a few also found positive effects. This is in line with the structural and process-related effects reported earlier, and not surprising since one should expect the subjective perception of employees to be affected by their overall conditions. According to four studies, employee satisfaction is negatively affected by contracting out (Park 2004; Falkenberg, Näswall and Sverke 2009; Engstrom and Axelsson 2010; Yang & Kassekert 2010). This is not surprising since privatization unleashes a major process of change which at least in the short run could be expected to lead to increased uncertainty among employees and a lower level of satisfaction (Cunha and Cooper 2002; Falkenberg, Näswall and Sverke 2009). Whether this effect continues in the long run is uncertain, and none of the studies have taken a longer term perspective on job satisfaction.

A number of studies show that privatization results in job insecurity (Ferrie et.al. 2001; Park 2004; Hebdon 2006; Busck 2007; Cunningham & James 2009; Dube & Kaplan 2010). One aspect of this is that employees often lose unionization status as a result of privatization (Hebdon 2006: 523). Moreover, employees often feel they are under the threat of redundancy because of insecure funding (Engstrom and Axelsson 2010). Employees are, for instance, not sure what will happen to them in the next bidding round if the current contractor loses the bid (Park 2004; Busck 2007).

More stress and burn-out are also reported as a result of outsourcing (Hansen, Sverke & Näswall 2009; Nuppenau 2009; Zuberi 2011). Higher pace and performance demands are typically seen as a

major reason for this. Other reasons include difficulties in keeping a high professional standard because of economic restrictions. Down-grading skill/education levels and experience among co-workers might also negatively affect job satisfaction.

Contrary to the results reported earlier, a study by Cunha and Cooper (2002), focusing on the technical area in Portugal (cement and paper pulp companies), reports an increased job satisfaction and lower levels of stress as a result of privatization. This shows that the private companies in the study have a more people-oriented culture and more focus on acknowledging individual efforts. A similar conclusion is found in the study by Nuppenau (2009) concerning park maintenance in Denmark, which illustrates that positive effects are documented in some cases, although the overall picture of perceptual effects of contracting out has a predominance of studies interpreting the consequences as negative for employees.

5. Discussion and conclusions

Our systematic review has demonstrated that the utilization of the contracting out instrument has a number of consequences for the employees involved. Our first proposition was that the negative effects of contracting out would outweigh positive effects for the employees. This proposition has been confirmed. The studies included in our review document negative consequences on a wide range of parameters, including changes in workforce composition, poorer working conditions, lower salaries and benefits and reduced job satisfaction. Moreover, competitive pressure and demands for greater flexibility in organizing work processes are reported in many studies, although with varying intensity and presence across different service sectors and national contexts. This result suggests that a careful assessment and focus on employee issues is crucial to ensure satisfactory working

conditions and wage levels for the employees affected by contracting out reforms in the public sector.

At the same time, it is also important to call attention to the studies showing positive results for employees involved in contracting out. These findings illustrate that it might be possible to regulate and design tenders and contracts in a way that safeguards satisfactory standards for the employees involved.

The results of our review raise the broader issue of how to balance potential economic gains of contracting out with the reported negative effects for employees. Systematic literature reviews have shown that contracting out typically leads to economic gains, especially in the technical areas, even if they are less substantial than often claimed (Hodge 2000; Petersen et.al. 2012). Our study has shown that these economic gains seem to come at the expense of the employees involved in the process. How to balance these concerns is ultimately a political and managerial issue. Has value-for-money been achieved and has it involved decent conditions for employees involved in the process?

Our second proposition about national or regional differences is partially confirmed. We see a tendency that more regulated countries with a tradition for strong unions also in the private sector (e.g. “coordinated economies”) report fewer negative effects than those with more liberal labor market traditions and weaker unions in the private sector. This indicates that there is a differentiated impact of contracting out, and that some of the negative consequences for employees may be alleviated by regulatory measures. It also indicates that the institutional theoretical perspective presented in the introduction constitutes a useful framework for analyzing and predicting the consequences of contracting out. It would be an important theme for future studies to confirm these

findings by increasing the number of case studies, and developing a better understanding of how the institutional conditions can facilitate the specific positive or negative effects of contracting out.

Our review thus indicates that there are differences and perhaps systematic patterns in the distribution of positive and negative effects across countries and regions. The study also indicates that positive effects of contracting out might be more prevalent in the technical areas. A possible explanation for this could be that the private sector within these service areas focuses more on the matching of (technical) skills and job functions than the public sector. If these indications hold true on a larger scale, it means that we must abandon a priori expectations of generic positive or negative effects, and replace them with a more nuanced view emphasizing the importance of country (regulatory) setting and sector (task) environment.

In the theoretical discussion we suggested that perceptual effects are particularly strong in the transitional phase where employees are trying to adapt to a more competitive environment. It follows from this that we also expect that self-selection and a gradual adjustment to new conditions may reduce some of these effects over time. The available studies on employee consequences of contracting out cover, however, a relatively short time period which makes it impossible to present a firm conclusion on this issue beyond the obvious point that more studies and better research designs are needed. Future studies of the consequences of contracting out should ideally be sensitive to these dynamic effects extending beyond short transitional effects occurring during the first years of the contracting out process. Medium to long-term assessments are important to capture the full range of effects. This is an important element of research, as it may lead to both under- and overestimation of effects for employees. In our case it is likely that we overestimate the negative effects because the studies in our review mainly pick up the short-term transition effects such as uncertainty and stress, but are more silent on the long-term effects. It is likely, however, that

consequences of contracting out on structure and organizational processes are of an enduring character. Changes in workforce composition, working conditions, and salaries and benefits are quite fundamental ones which are likely to be sustained in the medium- to long-term.

How robust are the results of our review? It is a clear weakness that the total number of studies that explicitly address employee issues is still limited. This means that it becomes difficult to explain exactly how the institutional environments influence employee relations in detail. We cannot be sure that the sample of case studies included in the study are representative of the entire field of cases in a statistical sense. They remain a set of case studies that can give some indication of effects in different parts of the world. The small number also means that we cannot subdivide the results into specific sectors, countries or regions without losing explanatory power. It is therefore necessary to be cautious in interpreting the results beyond the general claim that the majority of the studies point to relatively negative results for employees. Accumulating more case studies would be an obvious way forward and might over time allow us to determine more precisely the institutional mechanisms generating different results in different contexts.

It is moreover possible that there is a publication bias in the results, in the sense that it is probably easier to present clear negative findings than no findings in papers for publication. Another potential source of negative bias is the fact that we do not have comparable reports about developments in services that have remained within the public sector. As described in the introduction, there has been a significant push towards NPM-inspired HRM strategies with a focus on downsizing, competitive pressures and more flexible work conditions within the public sector (Farnham and Horton 1997). Similarly, there has been a tendency to weaken the influence of unions within public service organizations over time. The overall result is a change in the institutional landscape for public sector organizations that may facilitate the same types of negative (and positive) consequences for employees as we have seen after contracting out.

Competition is one of the NPM tools that has been widely applied. The institutional forms have varied, and include choice, benchmarking and contracting. All three types have been applied internally in the public sector as well as with the inclusion of private actors. As noted by Hodge (2000) and Petersen et al. (2012), it may actually be competition, rather than contracting out in itself, that drives efficiency gains. Extending this argument, we can imagine that employee relations and HRM strategies depend more on the degree of competitive pressures in public and private organizations than on contracting out per se. In other words, we may see the same consequences of competitive pressure – positive or negative – within public organizations if the regulatory framework allows similar types of management responses.

A final conclusion from our study is a call for more studies and better research designs to document effects and further explore sector- and country-specific variations. Most studies in the review are based on self-assessments obtained in surveys carried out among employees who have experienced contracting out. More comprehensive and encompassing data could be provided if survey methods were more systematically combined with more objective indicators, e.g. changes in wages, number of sick days, and in job contracts. Quasi-experiments (with control groups) or similar research designs could give us a better insight into the various factors causing contracting out in the first place, and a chance of studying whether these factors have an impact on the consequences of contracting out for employees. Furthermore, it would be useful with studies that take a longer time perspective in order to avoid the possible short-term bias apparent in the existing studies in the field.

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