Outsourcing as a Tool of Strategic Planning in Public Administration

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ABSTRACT

In the context of globalisation, the development of strategic planning becomes possible mainly due to effective asset management, including by concentrating resources on core activities, solving priority key tasks while minimising costs for "supporting" functions. In this regard, increasing the effectiveness of strategic planning in public administration is possible on the way of forming an economically profitable system of interactions, an important place among which is occupied by outsourcing relations. The study aims to develop practical recommendations on the use of outsourcing services to improve strategic planning in public administration. The main results of the work are that it defines the theoretical foundations for strengthening administrative and managerial processes in the public administration system, analyses various approaches to improving the public administration system, and proposes an algorithm for making a decision on the use of outsourcing in the public administration system and recommendations for assessing the practicality of transferring the functions of state bodies to outsourcing. The need to optimise the management strategy and to plan as the main direction of increasing the efficiency of the functioning of the public administration system predetermines the high degree of relevance of outsourcing of business processes and necessitates further comprehensive scientific substantiation of methods for its implementation.

Keywords: economic efficiency, outsourcing, public administration, strategic planning.

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1. Introduction.

Dynamic and profound changes taking place in many spheres of public life necessitate a systematic and continuous improvement of organisational structures and forms of activity of public authorities. To achieve socially significant results and improve the quality of public administration, public authorities must develop new programs and services, which in turn requires the active use of modern methods and technologies of management.

In recent years, outsourcing technology is gaining increasing recognition in management practice, which implies the transfer, based on a contract, of several functions, processes, and activities of an organisation that does not core to other organisations that have the necessary technical, technological means, resources, and managerial knowledge in the required competitive areas to ensure the required quality. Outsourcing, which emerged in the 30s of the last century in the United States, is now widespread throughout the world. It is widely used both in large commercial companies and in the public administration system, which makes it possible to increase their efficiency by reducing costs and focusing on the main activities and the introduction of innovations.

At the level of government, outsourcing services are poorly represented due to several objective factors that hinder the development of this market in the country. For example, one of them is the restriction of access to information in the activities of state authorities, the reluctance of state organisations to share their functions with third-party executors for fear of losing full control over their economic activities.

Thus, the purpose of the study is to develop practical recommendations for the use and assessment of the feasibility of outsourcing services for use in the public administration system.

2. Literature review: improving service management in public administration.

2.1 Different approaches to improving the public administration system.

Public administration is the process of regulating relations within the state by distributing spheres of influence between the primary territorial levels and branches of government [23]. The modernisation of the public administration system is inextricably linked with the determination of the most effective approaches that contribute to the improvement of administrative and managerial processes. A management approach is a method (methods) of delegating authority and responsibility [15], [18]. Management theory knows three main approaches to management: functional, process and project [1], [7].

The essence of the functional approach is shown in Fig. 1.

Figure 1. The essence of the functional approach to management

The result of the functional approach is the definition of boundaries between departments according to the principle of functional areas. Initially, a specific list of typical functions is determined, which is further detailed and tied to a particular authority, to the services and divisions of the organisation.

The second approach used in the public administration system is a process approach. According to ISO 9000-2015, a process is "a set of interrelated and interacting activities that transform inputs into outputs" [13].

The process approach is the systematic identification and management of an organisation's processes and the interactions of those processes. To separate the tasks of an enterprise, in any case, is necessary to strive for a clear separation of functions. This is precisely the division that will correspond to the objectives of manipulation of the process object and especially the rhythm of tasks [2]. The process approach answers the question "How to do it?" and is considered as the sum of all processes of a government body – planning, organisation, motivation and control. The planning function is the process of choosing goals and the necessary decisions. The organisational strategy is about creating an optimal organisational structure. The third process of management – motivation – is the motivation of employees to achieve the planned result. Finally, a control process is necessary to ensure the desired result. It involves setting standards, changing the effects and subsequent adjustments [20]. The essence of the process approach is shown in Fig. 2.

Figure 2. The essence of the process approach to management

The main difference between the process approach is its orientation, first of all, not on the organisational structure of the government body, not on the functions of subdivisions, but on the processes, the ultimate goals of which are the creation of public services that are significant for the population. At the same time, the organisation's management system focuses both on the management of each process separately, and all operations taking place in the organisation as a whole. The quality system of the enterprise ensures the quality of the process execution technology planning organisation motivation control decision-making communication [17], [19].

The basic concept of the third, project approach is the concept of a project as a particular enterprise with initially set goals, the achievement of which determines the completion of the project [6], [8].

The main principle of the design approach is its orientation towards the creation of a new, usually single, non-repeating product, for example, the development of a new methodology, the creation and implementation of new technology, etc. in project management, a result orientation is assumed, and sufficiently large freedom in direction. The design approach is shown schematically in Fig. 3.

Figure 3. Scheme of the project management approach

The differences in project management are innovative approaches that imply a higher responsibility of the management team for results and a decrease in the importance of hierarchy in the group [11]. As rightly noted by Magdanov P., project activity not only "does not tolerate

hierarchy, but also damages the existing vertical ties in the organisation" [16]. While maintaining the vertical management structure, the project approach to the management of the organisation can be used only partially.

2.2 Outsourcing as a strategic planning tool for the public administration system.

One of the ways to improve strategic planning is the optimal allocation of any kind of resources [3]. Outsourcing is a useful tool for strategic planning to improve business processes in public authorities using external sources.

The use of outsourcing in government and municipal authorities is associated with the expansion of government interaction with market structures based on contractual relations regarding the production of goods and services for state and municipal needs. Based on outsourcing, a radical rethinking of the activities of public authorities is taking place, in the course of which redundant and insufficiently effectively implemented types of activities are determined. Third-party organisations are involved in these activities. Based on the generalisation of various approaches to the definition of the concept of outsourcing, the author highlights the main attributes of outsourcing in government bodies. In particular, outsourcing concerning public authorities involves:

- 1) delegation (transfer) of activities (performance of work, provision of services) to third-party organisations: "to outsource work" or "to outsource activities" means to involve an external contractor for its implementation – a third-party organisation;
- 2) the establishment of uniform principles for the withdrawal of certain types of activities beyond the functioning (and beyond the physical boundaries) of public authorities;
- 3) the system of economic relations and actions arising from the involvement of external performers in the performance of certain types of work;
- 4) the contractual nature of the relationship arising in the framework of outsourcing;
- 5) a competitive basis for determining external performers;
- 6) retention of responsibility and control over the results of the performance of the type of activity transferred to outsourcing with the public authority [21], [22], [24].

It has been substantiated that outsourcing is a management strategy that involves the removal of certain types of activities previously performed by public authorities outside the framework of their functioning by concluding contracts with external performers on a competitive basis.

At the moment, we can talk about the existence of a whole range of outsourcing initiatives and practices reflecting various forms of interaction between public authorities and organisations involved in certain types of activities on a contractual basis.

The existing forms of outsourcing in public authorities are shown in Fig. 4.

Figure 4. The existing forms of outsourcing in public authorities

One-time outsourcing	→	Single purchase of cares and services
Resource Outsourcing/ Infrastructure Service Outsourcing	→	Acquisition of specific resources or services to support the activities of a government body
Outsourcing of individual business processes	→	Acquisition of one or a set of business processes within one or more government functions
Function outsourcing	→	The entire complex of business processes is transferred to outsourcing within the framework of one or several government functions
Transformational outsourcing	→	A radical rethinking of business processes based on outsourcing

It is shown that movement from bottom to top along the levels of the pyramid characterises the role of outsourcing in the activities of a public authority. It is emphasised that each level of the pyramid has an independent significance for improving the activities of a government body.

The outsourced functions are schematically shown in Fig. 5.

The distinctive features of outsourcing in public authorities include, first of all, the regularity and contractual nature of relations, the competitive basis, responsibility and control, the limited scope of outsourcing [9], [10], [12]. In particular, the primordial state functions and processes (the exercise of power – making decisions on the formation and use of resources, the development of rules of behaviour for citizens and organisations) cannot be transferred to private contractors. Only the processes that support the main activities of the body (administrative and management processes) can be outsourced.

Thus, outsourcing as one of the methods of management technologies used in government and government bodies answers the question "how to reduce the cost of performing work while maintaining high-quality performance?" [4], [5]. At the same time, outsourcing is just one of many tools to increase the productivity and effectiveness of government organisations.

Figure 5. Most often outsourced functions

3. Methodology

We believe that making a decision on using/not using outsourcing should be as transparent and straightforward as possible. We offer such a decision-making algorithm (Fig. 6).

From the point of view of the authors, for the implementation of outsourcing, it is necessary to analyse the entire set of tasks solved by the public authority, to keep records of all costs for the performance of processes, compare them with the values in the case of outsourcing and determine the feasibility of continuing their implementation on their own. Further, a program for the introduction of outsourcing is developed, based on competitive procedures, the selection of an organisation – the contractor with which the contract is concluded is carried out. As part of the implementation of the agreement, interaction with the executing organisation, coordination of joint activities is carried out. Based on the results of the fulfilment of all conditions of the contract, the outsourcing efficiency is assessed.

The primary condition for the successful use of outsourcing is the analysis of the economic feasibility of transferring non-core processes taking place in government bodies to a third-party organisation. Before deciding to outsource a specific function, the organisation's management needs

to assess the feasibility of this action. All methods for determining the feasibility of transferring a particular function to outsourcing in public authorities are diverse; nevertheless, they are all guided by expert assessments [14].

The main postulates of all methods are the assessment by the following factors, reflected in Table 1.

The result of the analysis of functions and types of activities is the formation by an authorised official of a preliminary list of functions and types of activities that it is advisable to transfer to outsourcing.

It is proposed to evaluate the results of outsourcing in relation to each project. The effectiveness of the implementation can be called the degree of achievement of the results of the outsourcing project. *The effectiveness of project implementation* is defined as the degree and nature of the use of resources to achieve the goals of the project.

Figure 6. Algorithm for making a decision on the use of outsourcing in the public administration system

The criterion for the effectiveness of an outsourcing project is the degree to which the goal is achieved during the implementation of a separate project.

The indicator of the effectiveness of the project is the amount of financial and other resources that are required to achieve the goal.

When assessing the effectiveness and efficiency of an outsourcing project, it is necessary to pay attention to the following aspects:

Table 1. Factors taken into account when assessing the feasibility of transferring the functions of state bodies to outsourcing

Factor	What issue is being resolved	It's content
Significance factor	Does a function, process, type of activity act as the main or auxiliary (providing)?	Only supporting processes can be outsourced based on their authority, goals and objectives
Resource factor	Which features are the first to need additional resources?	Identification of functions, processes and types of activities, for the implementation of which the priority direction of labour and material resources is necessary
Cost factor	Can outsourcing lead to budget savings?	An estimate of the total costs of the organisation associated with the performance of a function or activity that is expected to be outsourced
Quality factor	Does outsourcing help to improve the quality of the state function?	Determination of functions and types of activities, the implementation of which does not provide the required level of quality at the expense of the organisation's resources - the assessment takes place according to the degree of implementation of the administrative regulations
Time factor	Will outsourcing the function result in time savings?	The amount of time spent on the performance of a function or type of activity is estimated in relation to which the possibility of transferring to outsourcing is being considered

1. Objectives of the project. They should be formulated as specific as possible to reduce the number of possible alternatives. Goals must be measurable, directly or indirectly, and achievable.

2. Possible results with and without project implementation. This allows you to evaluate the effect of the project in comparison with the situation if it is not implemented.

3. An analysis of the costs and benefits that may be incurred directly or indirectly by the organisation. A project is economically viable if the project achieves an excess of benefits over costs.

4. Analysis of the budgetary effect of the project. What changes in the expenditure side of the budget can cause the implementation of the project?

5. Assessment of the risks associated with the implementation of the considered outsourcing project.

The evaluation of the project should be carried out on the basis of the criteria described above, according to the assigned weights. The weights of the bar are determined by its significance for the main activity of the organisation.

The criteria for evaluating the effectiveness of outsourcing can be divided into three groups:

- changes in the cost of performing operations;
- changes in administrative costs;
- change in the quality of services.

An indicator of the effectiveness of outsourcing when considering the first group of criteria is the difference between the budgetary costs of carrying out the process by the forces of the organisation and the costs of attracting a third-party organisation. Experts assess administrative costs and the quality of services received. A mechanism for determining the effectiveness of outsourcing by the

second and third groups of criteria is to conduct surveys of employees of the organisation to find out how the transfer of the process influenced their daily activities and the performance of their direct responsibilities.

The classical principle of measuring economic efficiency reflects the relationship between effect and costs in different forms. The traditional indicator characterises the effect, which is the difference between the result and the costs obtained from the unit of the latter. To achieve the best efficiency, the ratio should be maximised:

$$\text{Efficiency} = (\text{Result} - \text{Costs}) / (\text{Costs}) \rightarrow \max$$

The classical principle of determining economic efficiency is currently generally recognised by domestic and foreign scientists and is widely used in economic theory and practice to build a variety of indicators of economic efficiency.

4. Results

Considering all of the above, we considered it necessary to consider the possibility of outsourcing primarily the following in public administration (by Fig. 5): transport services, security services, cleaning services (cleaning) and catering services (catering).

In the formation of the outsourcing model, in addition to indicators of economic efficiency (direct financial calculations of profit or costs), we also assessed other components of economic attractiveness, such as the release of personnel and space to optimise different types of services, the possibility of obtaining a better product (services), the transfer of some risks to an outsourcer. Freeing up the managers' time allows for the transfer of efforts from administrative activities to the quality of the primary process itself. Besides, we have taken into account the strengths and weaknesses of outsourcing, as well as its opportunities and risks (Table 2).

Thus, the advantages of outsourcing of the considered types of services are greater, and optimisation of the cost structure from variable to fixed facilitates the process of strategic planning.

5. Discussion

Outsourcing as a tool and strategy for planning the management of an organisation is not yet well developed in Ukraine (38% of positive responses from respondents), even less in the public administration system (24%). However, it is actively used by foreign companies (55%). In Ukraine, the sector of cleaning and logistics services is developing rapidly; accounting outsourcing services began to gain popularity. Many organisations have considered the feasibility of maintaining a large staff and began to reduce staff costs, so the popularity of outsourcing will likely increase. As the scope of outsourcing expands, the old ones are replaced by modern concepts that are widely used by managers. However, do not forget that outsourcing, like any other phenomenon, has cons and pros.

Advantages: 1. Focusing on the main activity; 2. Access to resources and funds that are not available (professional personnel, financial, information resources, production assets); 3. Reducing the cost of outsourced functions; 4. Reducing risks through collective investment; 5. Quality improvement; 6. No need to have mobilisation assets available, invest in secondary areas of activity; 7. Dependence on subjective reasons for the suspension of business processes (illness of employees, conflict) is minimised; 8. Increase in labour productivity due to concentration in the main areas and more efficient use of human labour; 9. Since the amount of knowledge and qualifications of each specific specialist is limited, using outsourcing, you can attract "collective" intelligence; 10. Using someone else's experience and "algorithms" for solving problems; 11. Access to the latest technology.

Table 2. SWOT analysis of outsourcing in the system in public administration

Strengths	Weaknesses
<ol style="list-style-type: none"> 1. Reducing the need for own complex technologies and procedures, saving the workplace, personnel and training. 2. Gaining access to technological, intellectual, technical and other resources of a high professional level. 3. Reduction of infrastructure and costs for its maintenance. 4. Opportunity to concentrate on the main activities of the public administration authority. 5. The cost structure turns from variable to fixed, which facilitates the strategic planning process. 6. Reducing the price of the purchased service through the use of competitive bidding mechanisms (subject to competition in the service market). 7. Reduced overhead costs (rent, operating costs, information support, etc.) associated with a function outside the organisation. 8. The ability to expand the main activity (unlimited growth opportunities for the presentation of services). 	<ol style="list-style-type: none"> 1. This market segment is underdeveloped. 2. The bad faith of the service provider. 3. Lack of specialised knowledge of managers in public administration issues. 4. The imperfection of the legal framework.
Opportunities	Threats
<ol style="list-style-type: none"> 1. Reallocation of funds to ensure more efficient use of available resources. 2. Shifting risks, including financial ones (for example, associated with rising food prices), to an external organisation. 3. Opportunity to focus on more meaningful lines of business. 4. Improving the quality and efficiency of management 	<ol style="list-style-type: none"> 1. Loss of function or service. 2. Late execution of the service. 3. The service is not executed in full. 4. Violation of privacy and security principles. 5. Change in the cost of a service when the state of the market or the volume of purchased services changes. 6. Change of ownership in a company, bankruptcy. 7. Possible decrease in labour productivity of own personnel (loss of motivation, assessment of changes as unfavourable).

Disadvantages: 1. Loss of control over the transferred functions; 2. Information leak; 3. Deterioration of quality in case of bad faith of the outsourcer; 4. The emergence of dependence on a partner, especially if important functions or functions related to the circulation of funds are transferred to him; 5. The complication of logistics processes; 6. Social tension and open resistance of the personnel transferred to the side; 7. Possibility of collusion between the service provider (contractor) and the controlling employee of the customer company: prices are overstated, and the difference is divided in half; 8. The profitability of a business operator depends on the degree of economic efficiency of the manufacturer; 9. The threat of separation of senior management from business practice; 10. Limiting opportunities for training and growth of their specialists; 11. Use of outdated technology by the supplier, write-off of old fixed assets, etc.

When making a final decision to use outsourcing, it is necessary to weigh all its advantages and disadvantages.

6. Conclusion

Public administration is the process of regulating relations within the state by distributing spheres of influence between the primary territorial levels and branches of government. Improvement of administrative and managerial procedures is possible through the use of the most effective approaches to management – functional, process and project. An analysis of the experience of

strategic planning in public administration has shown that the outsourcing process is becoming increasingly popular, in which one organisation uses the resources of another to optimise its current activities.

The distinctive features of outsourcing in public authorities include the regularity and contractual nature of relations, the competitive basis, responsibility and control, and the limited scope of outsourcing. Supporting and several management functions are transferred to outsourcing. Outsourcing of crucial core functions of the organisation is impractical.

Thus, the need to optimise the management and planning strategy as the main direction of increasing the efficiency of the functioning of the public administration system predetermines a high degree of relevance of outsourcing of business processes and necessitates further comprehensive scientific substantiation of methods for its implementation.

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