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**OUTSOURCING IN LOCAL SELF-GOVERNMENT:  
DEFINITIONS, CLASSIFICATION AND CHALLENGES**

*The article attempts to define outsourcing, to give its classification, to analyze the problems in transferring public management functions to external organizations from public authorities, in particular, from local self-government bodies. The advantages of outsourcing are considered; the features of outsourcing are revealed; the types of outsourcing are studied and classified; the recommendations on outsourcing implementation into the system of local self-government of Ukraine are developed.*

**Key words:** outsourcing; public authorities; local self-government; management processes; external organization; delegation.

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**АУТСОРСИНГ У МІСЦЕВОМУ САМОВРЯДУВАННІ:  
ВИЗНАЧЕННЯ, КЛАСИФІКАЦІЯ І ПРОБЛЕМИ**

*В статті здійснена спроба визначення аутсорсингу, його класифікації, аналізу проблем передавання публічно-управлінських функцій зовнішнім організаціям від органів публічної влади, зокрема – системи місцевого самоврядування. Аналіз вітчизняної та зарубіжної літератури дозволив здійснити систематизацію уявлень щодо сутності аутсорсингу, визначити його як стратегію управління, яка передбачає виведення окремих видів діяльності, які раніше виконувалися органами публічної влади, за рамки їх функціонування шляхом укладення контрактів на виконання робіт (надання послуг) із зовнішніми виконавцями на конкурсній основі. Загальним у розглянутих визначеннях можна назвати прямий зв'язок аутсорсингу з делегуванням, залученням до діяльності публічної влади ще однієї сторони.*

*Розглядаються переваги аутсорсингу: можливість концентрації на пріоритетних напрямках діяльності; отримання доступу до нових технологій; поділ ризиків; вивільнення ресурсів на інші цілі; розширення фінансової бази; збільшення оборотних коштів; зниження операційних витрат; отримання ресурсів, відсутніх всередині організації.*

*Зроблено висновок, що аутсорсинг стосовно органів публічної влади передбачає: делегування (передачу) видів діяльності (виконання робіт, надання послуг) стороннім організаціям; встановлення єдиних принципів виведення певних видів діяльності за межі функціонування органів публічної влади; систему економічних відносин і дій, що виникає при залученні зовнішніх виконавців до виконання певних видів діяльності; договірну природу відносин, що виникають в рамках аутсорсингу; конкурсну основу визначення зовнішніх виконавців; збереження відповідальності і контролю в органі публічної влади за результатами виконання виду діяльності, що передається на аутсорсинг.*

*Виокремлені ознаки аутсорсингу в органах публічної влади. Досліджені різновиди аутсорсингу, що використовуються в органах публічної влади, надано їх класифікацію у розрізі системи місцевого самоврядування.*

*Представлено результати проведеного дослідження з впровадження аутсорсингу в діяльність органів місцевого самоврядування Одеської області, де використовувався відповідний алгоритм проведення структурно-функціонального аналізу.*

*Розглянуті проблеми аутсорсингу дозволили надати шляхи їх вирішення. Надано методичні рекомендації із впровадження аутсорсингу в органах місцевого врядування.*

**Ключові слова:** аутсорсинг; органи публічної влади; місцеве самоврядування; управлінські процеси; зовнішня організація; делегування.

Постановка проблеми

The actualization of the quality and efficiency of governance is largely due to the implementation of administrative reforms in Ukraine. The dynamic and profound changes in the system of public administration of Ukraine necessitate the systematic and constant improvement of organizational structures and forms in activity of powerful authorities at all levels of governance. Aiming to achieve socially significant results and to improve the quality of public administration, public authorities are to develop new programs and services, use actively modern management methods and technologies. However, the analysis of organizational management processes leads to the conclusion that the public authority often acts simultaneously in several roles: first, in the role of an initiator, executor and consumer of the results (of a management process). Such combination of roles leads to high costs with low outcomes. Outsourcing presupposes the involvement of private companies into the activities of public structures on some problems solution.

The concept of outsourcing appears for the first time in the public sector of Ukraine within the framework of the annual NATO Ukraine Action Plan (2007) [7]. The Plan envisaged the provision of services to the Armed Forces of Ukraine using outsourcing. The similar tasks were provided by the Development Strategy of the State Border Guard Service [4]. However, the numerous cases of effective introduction of outsourcing need their methodological principles, clear definition, analysis of best practices and challenges and development of the appropriate recommendations on their implementation.

Аналіз останніх досліджень і публікацій

Theoretical approaches to define "outsourcing", its features, methods of decision-making aiming to improve management systems based on outsourcing, etc. were considered in the works by T. Vasylykiv'ska, D. Dyukareva, A. Kovaliova, O. Nyshenko, A. Savchenko, S. Sukhonyak, and others. At the same time, the publications on this topic reveal a lack of data on the application of the principles of outsourcing in public authorities of Ukraine. Among the few works that examine the problems of outsourcing in the functioning of public authorities there are the works by I. Kveliashvili and A. Mordovets.

Виділення невирішених раніше частин загальної проблеми

In the contemporary researches of Ukrainian scholars, the emphasis is made on the features of outsourcing in the commercial sphere and private companies. In the Ukrainian literature on management, insufficient attention is paid to the possibilities to apply this management technology in the public sector, including the implementation of management processes in public authorities. The methodological basis for the implementation of outsourcing in public authorities has not yet been developed. In particular, in the sphere of local self-government. Meanwhile, the introduction of outsourcing in public authorities is impossible without defining approaches to assessing its feasibility, mechanisms for control and monitoring the implementation of activities outsourced by local self-government authorities to other (non-governmental) organizations. The lack of a holistic concept on using outsourcing to improve management

processes in the Ukrainian public authorities determines the content of the article.

Мета

The objective of the article is to define theoretical (definition and classification) and practical (challenges and recommendations) provisions of outsourcing aiming to improve management processes in local self-government.

Виклад основного матеріалу

Outsourcing is derived from the English phrase «outside resource using» as «using of external resources», where «source» is interpreted as «root cause».

Outsourcing can be described as a form of management organization in which the "source" is transformed into the external environment. At the same time, quite often in the literature outsourcing includes the use of any services provided by external contractors. The essence of outsourcing is to transfer or delegate to specialized contractors some activities that were previously performed by the organization itself (vertical disintegration) or that could be performed by the organization. Thus, while realising outsourcing, a fundamental decision is made for an organization, that is "produce itself or buy on the market".

In a contemporary world there is a significant deepening and expansion of the labor division, and outsourcing is becoming a management strategy of an organization, the components of which are:

- careful preliminary assessment of the feasibility of contracts with the external contractors;
- transformation of management processes through expanding the organization's interaction with external contractors on a contractual basis;
- continuous monitoring and evaluation of the effectiveness of the organization's interaction with external contractors.

The researchers are gradually gaining the opinion that outsourcing acts as a management model that connects all the decisions in the organization regarding some definite activities of the external contractors [1, p. 80-82]. It is important to emphasize the strategic nature of outsourcing: outsourcing is a kind of management strategy of an organization, aimed at attracting external assets instead of doing the work itself.

In the literature there are many concepts close to outsourcing in terms of its content: e.g. cooperation, contracting. The main differences of outsourcing are its strategic nature, its focus on combining the best available resources and competencies within one organization. Under modern conditions, the use of outsourcing is an important criterion in increasing competitiveness and in the survival of an organization.

Nowdays, both large corporations and relatively small companies are actively using this important tool to ensure business competitiveness. Outsourcing is used in many areas and sectors of the economy. It is one of the most actively used strategic decisions.

Outsourcing is based on mutually beneficial integration of efforts and specialization. Mutually beneficial relations are aimed to provide strategic advantages both for an organization that outsources a certain type of activity, and for a third-party organization, that is – the executor. The main value of outsourcing is that this management

tool allows an organisation to optimize its functioning by focusing on the main activities. Outsourcing is characterized as the use of specialized services of external organizations to create the value of the final product [5]. The advantages of outsourcing are [3, p.122-123]: the ability to concentrate on priority areas of any activity; access to new technologies; risk sharing; freeing up resources for other purposes; expansion of the financial base; increase in working capital; reduction of operating costs; obtaining resources that are missed within the organization.

Outsourcing helps an organization to solve operational problems, in particular to reduce costs, to increase its adaptability to environmental challenges, to improve the quality of products and services.

In most studies on public administration, the use of outsourcing in executive authorities and local self-government bodies is associated with the expansion of interaction between public authorities and market structures on the basis of contractual relations (the production of goods and services). However, there is no widely accepted definition of "outsourcing in public authorities". It has not yet been developed, there are still discussions on this issue in scientific and applied literature. Abroad there are self-accepted definitions of this concept at the level of public authorities. For example, outsourcing can be interpreted as the transfer of activity that was previously performed in public authorities or could potentially be performed by public authorities to the third parties. In other cases, outsourcing can only be the involvement of third-party organizations into new tasks' execution (for example, the administration and technical support of the Internet site by a private company) [2].

In some foreign studies, public outsourcing refers to a wide range of phenomena, including both the involvement of a third party into the activities required for the public sector and the transfer of functions from one public organization to another non-public organization on a contractual basis.

Within the broad interpretation of outsourcing, some researchers add even more uncertainty to the conceptual framework, proposing to distinguish between generally similar terms «to outsource a public function» and «outsourcing of activities». In the first case, the term is defined as «removal (liquidation) of a public function and transfer of public functions to market participants or self-regulatory organizations», in the second case outsourcing involves «attracting external resources to solve public tasks». While transferring public functions to market participants or self-regulatory organizations, the responsibility for their implementation (and relevant decision-making powers) are also delegated.

In the examined definitions there is the direct connection of outsourcing with delegation, with involvement of another party into the activities of public authorities. In particular, outsourcing is a way of delegating (transferring) certain activities to other organizations that do not have the status of public authorities. The contract, which is the basis for the emergence of outsourcing, will specify the date of its termination.

Some researchers consider that the concept of outsourcing in public authorities appeared within a privatization strategy. Outsourcing is one of the types of privatization of public functions, which involves the

transfer of certain activities to an external organization on a contract basis while maintaining overall control in public authorities. Along with outsourcing, the following forms of privatization are also distinguished:

- public franchising: the State retains control over the quality of the provided service, and responsibility for its provision is transferred to private entities. The main control mechanism is the regulation of the service provision procedures, setting standards (for example, market pricing). As an example of franchising is the activities of electric and gas companies;
- creation of consortia and joint ventures. A contract is concluded between a private and a public organization, according to which the agency is obliged to provide services and the private firm is obliged to "produce" them. For example, in the United States, such a model manages the AIDS program. The management company is a private company, and the authorized government agency provides disposable syringes and information materials;
- the so-called «total privatization», which means the waiver of responsibility to implement any process, self-exclusion from the sphere of production/provision of a service, transfer of state or municipal property to individuals or organizations. An example of this relationship is the privatization of health care organizations.

One possible approach for defining the concept of outsourcing was proposed by the advisors of the international consulting company Accenture. According to this approach, outsourcing is the transfer of a particular process or function of an external organization by concluding a contract while maintaining the overall responsibility of the public organization [6, 7]. In particular, the public organization is responsible for determining the requirements on State contract management, evaluation of the effectiveness of the involved organization [6, p.4].

So, the concept of «outsourcing» regarding self-governemnt authorities involves:

- delegation (transfer) of activities to third-party organizations;
- development of uniform principles for removing certain types of activities outside self-governemnt authorities;
- system of economic relations and actions involving external contractors to perform certain activities;
- contractual nature of outsourcing relationship;
- competitive basis for determining external contractors;
- responsibility and control in a public authority over the results of outsourced activity.

Outsourcing is based on mutually beneficial integration of efforts, mutually beneficial relations aimed at providing strategic advantages for both the organization that outsources an activity and for a third-party organization – the executor [5, p.262].

The various types of outsourcing create the need of their arrangement, their classification.

Any classification in theoretical terms allows to understand the essence of the object of study, to identify certain relationships, to choose the appropriate economic and administrative mechanisms and to apply the law according to the consequences of decisions.

## LOCAL GOVERNMENT

1. Depending on the type of outsourced function, the following types of outsourcing (as a way to optimize the activities of local public authorities) are distinguished:

- outsourcing of the main function,
- outsourcing of the supporting function, which is necessary to perform the main function,
- outsourcing of the supporting function, which is not necessary, but creates more favorable conditions for the main function.

2. Depending on its scope, outsourcing in the activities of local public authorities may be:

- simple outsourcing (is realized towards supporting functions or public services provided under a civil contract; as a rule, it is not aimed at satisfying common interests);
- outsourcing within some territory (is a way to optimize the activities of local self-government or government agencies within some territory; covers the common interests of local residents);
- inter-community;
- inter-regional;
- nationwide (national).

3. Depending on the features and methods of legal regulation of relations in the field of outsourcing, we can also identify:

- outsourcing in the public sphere;
- outsourcing in the private sphere (for example, a public authority can optimize its activities through a civil law outsourcing agreement with a commercial organization. In this case it will operate in the private sphere).

4. Depending on the entity that acts as an outsourcing customer, we can identify:

- outsourcing of government agencies,
- outsourcing of local self-government,
- outsourcing of state and municipal organizations (in various organizational and legal forms),
- outsourcing of enterprises,
- outsourcing of other entities which provide public and municipal services.

5. Depending on the method which is used while transferring a function to outsourcing (according to current legislation), the following criteria can be distinguished:

- outsourcing on the basis of a contract concluded through a tender, auction, etc. in accordance with the law;
- outsourcing on the basis of other civil law agreements;
- outsourcing on the basis of administrative agreements;
- outsourcing on the basis of decisions of a public authority on the transfer of powers to a subordinate organization.

6. Depending on the meaning of the term «transfer» outsourcing can be divided into two major groups:

- transfer of the outsourcing function with the simultaneous exclusion of this function from the transmitting entity;
- transfer of the outsourcing function with the simultaneous preservation of this function within the transmitting entity (delegation).

7. Depending on the type of activity performed under the outsourced function, we can distinguish:

- outsourcing related to unique (highly qualified) activities;

- outsourcing related to ordinary activities that require high qualifications.

8. Depending on the quantitative composition of entities that are parties to outsourcing, we can identify:

- simple outsourcing based on a bilateral agreement,
- outsourcing with a plurality of people on the customer's side,
- outsourcing with multiple people on the side of the outsourcer,
- outsourcing with a plurality of people both on the side of the customer and on the side of the outsourcer.

Thus, the classification related to the essence of outsourcing emphasizes its multifaceted and complex nature.

In the process of outsourcing implication into the activities of local self-government bodies of the Odessa region, as a rule, the following algorithm is used for structural and functional analysis. First of all, the collection and processing of information on the exercised powers and functions of each executive body of local self-government is carried out.

For this purpose, the powers and functions fixed in the regulations of these bodies, the job regulations of employees, the practice of exercising powers and functions are analyzed.

On the basis of the analysis, a general list of functions, fixed by the current regulatory legal acts, is compiled regarding the principle "as it is", the main business processes are formulated (within which the function is performed). In our case the total number of analyzed functions at the level of amalgamated communities of Odessa oblast was 960. The revealed functions were classified into the following types: political functions; statutory functions; development of proposals, including monitoring of affairs in the defined area of regulation; control (supervision); issuance of permits for a certain type of activity and (or) specific actions; registration of acts, documents, rights, objects; provision of administrative services; property management; public procurement, implementation of targeted programs; economic and personnel functions; other functions.

Based on the analysis, a unified register of functions and powers of local self-government bodies of the amalgamated communities was compiled, proposals were formulated to eliminate the duplicate or redundant functions and administrative procedures, the composition, formulations and forms of implementation of the function were clarified, and also the possibility of transferring individual business procedures to outsourcing was assessed. A number of administrative procedures were identified, the implementation of which is possible through the outsourcing. The requirements for the implementation of procedures are quite formalized, and, besides in Odessa region there are companies which are specializing in the implementation of similar activities.

As a result, the following main directions for the introduction of outsourcing into the activities of the executive bodies of local self-government of the amalgamated communities were proposed, which may be in demand by local authorities and other regions of Ukraine.

Regarding the formation of an outsourcing management system. The functions on assessing the feasibility of

outsourcing should be entrusted to a special commission at the level of the amalgamated local community, which acts as a permanent coordinating body that ensures the decision-making on improving municipal management. The commission should play a key role in outsourcing management and organization of activities in this area within all bodies of the amalgamated local community. In particular, it must fulfill the following functions:

- consideration of proposals on outsourcing (regarding the execution of special administrative processes);
- development of reports on the feasibility of outsourcing regarding the execution of special administrative processes;
- monitoring the effectiveness of outsourcing in accordance with the performance assessment indicators.

To determine a unified procedure and terms for outsourcing initiatives, it was recommended at the level of amalgamated local communities to make a special decision of the local council «On outsourcing in the executive bodies of local self-government». This document should become the basic document for the implementation of outsourcing, it should fix its goals and conditions, the procedures for decision-making, measures to assess the effectiveness of outsourcing.

The decision to outsource some administrative processes should be based on:

- assessing the economic feasibility of outsourcing, that is, comparing the cost for executing an administrative process within the executive body of local self-government and the activities of an external organization;
- assessment of the possibility in increasing the level of accessibility, efficiency, quality of an administrative process implementation in outsourcing.

The procedure for decision-making should be as follows.

Stage 1. Development of proposals for the transfer of individual administrative processes for outsourcing and their submission to the Commission.

Stage 2. Consideration by the Commission of the received proposals, making a decision on the feasibility of outsourcing.

Stage 3. Development of a procurement plan and budget request.

Stage 4. Approval of the budget request.

Stage 5. Development of tender documentation.

Stage 6. Conducting a competition and determining the winner.

Stage 7. Contract conclusion.

Stage 8. Implementation of the contract. Control and coordination of mutual activities.

Stage 9. Evaluation of the outsourcing project efficiency

#### Висновки

Outsourcing in public authorities is a special management strategy, which provides the withdrawal of certain activities that were previously performed by public authorities, beyond their operation by concluding contracts on activities (services) with external contractors on a competitive basis. Current trends of outsourcing in the public sector of Ukraine and foreign countries include the following: first, the transition from one-time

outsourcing of some special activities to outsourcing of management processes and large-scale process of transformation of outsourcing; secondly, the change in the reasons for outsourcing (from “to reduce costs” to “to transform activities in order to improve the efficiency of management processes”; third, the focus of government officials on tasks related to the management of contractual relations; fourth, the development of partnership between public authorities and external contractors on the basis of long-term agreements; fifth, the change in the content of contracts, the formation of a special type of law governing contractual relations between public authorities and external organizations; sixth, the formation of an institutional framework for contract management.

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