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## DEVELOPMENT OF OUTSOURCING AS A TOOL FOR ENSURING THE EFFECTIVENESS OF PUBLIC AUTHORITIES: DOMESTIC AND FOREIGN ASPECTS

*The article is devoted to the actual problem of outsourcing development in Ukraine. The essence of the concept of «outsourcing» is substantiated and its main features are defined. The feasibility of outsourcing some functions of public authorities to ensure their effective operation and the practice of this type of cooperation in Ukraine and the world has been investigated. The problems and prospects of outsourcing development in the public authorities of Ukraine are outlined. The necessity to support the state of this line of activity, to improve the control over outsourcer activity and to improve the quality of partnership relations, as well as the need to improve Ukrainian legislation in the field of outsourcing, have been proved.*

**Key words:** outsourcing; public authority; public administration; business processes; restructuring; efficiency of activity.

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## РОЗВИТОК АУТСОРСИНГУ ЯК ІНСТРУМЕНТУ ЗАБЕЗПЕЧЕННЯ ЕФЕКТИВНОЇ ДІЯЛЬНОСТІ ОРГАНІВ ПУБЛІЧНОЇ ВЛАДИ: ВІТЧИЗНЯНИЙ ТА ЗАРУБІЖНИЙ АСПЕКТИ

*В статті досліджено теоретико-практичні підходи щодо формування сприятливого середовища використання аутсорсингу в діяльності органів публічної влади в Україні та за кордоном. Встановлено, що сутність даного інструменту полягає у фокусуванні наявних ресурсів організації на виконанні основних функцій, в той час як допоміжні передаються стороннім організаціям – аутсорсерам. Визначено основні ознаки аутсорсингу, які відрізняють його від інших форм міжорганізаційної співпраці, та види аутсорсингу в залежності від конкретних видів діяльності, в яких спеціалізується аутсорсер: в області інформаційних технологій; науково-виробничої діяльності; логістичних функцій; функцій управління організацією; фінансових банківських операцій; корпоративного навчання; людських ресурсів та ін.*

*Обґрунтовано передумови розвитку аутсорсингу у діяльності органів публічної влади України, до основних тенденцій його використання в публічному управлінні віднесено: розширення практики і масштабів застосування таких договорів в діяльності органів публічної влади; прагнення органів публічної влади в значній мірі трансформувати власну діяльність з метою підвищення ефективності процесів; зміна характеру діяльності посадових осіб органів публічної влади: концентрація уваги державних службовців на вирішенні завдань, пов'язаних з управлінням контрактними відносинами; встановлення партнерських відносин між органами державної влади та зовнішніми виконавцями на основі довгострокових угод; формування особливого розділу права, що регулює контрактні відносини між органами публічної влади та зовнішніми організаціями.*

*Встановлено, що широкому розповсюдженню застосування аутсорсингу в українських органах публічної влади перешкоджають недосконалі законодавча база, нестача бюджетних ресурсів, відсутність методичної бази, а також опір самих державних службовців та посадових осіб місцевого самоврядування.*

*Доведена необхідність підтримки державою даного напрямку діяльності, вдосконалення контролю за діяльністю аутсорсера та покращення якості партнерських відносин, а також необхідність вдосконалення українського законодавства в сфері аутсорсингу. Науковий пошук, проведений шляхом порівняння, дав змогу виявити основи використання аутсорсингу в органах публічної влади, а саме: рішення про використання аутсорсингу в кожному конкретному випадку має ґрунтуватися на всебічному аналізі його переваг і ризиків. З цією метою необхідним є здійснення попереднього, поточного і підсумкового аналізу ефективності аутсорсингу з метою моніторингу і корекції результатів реструктуризації. Обґрунтована необхідність створення і забезпечення широкого застосування бібліотеки типових контрактів, що були б адаптовані до українських умов і враховували б кращий міжнародний досвід, а також методичні рекомендації щодо вибору і порядку використання різних типів контрактів.*

*Подальші дослідження потрібно сфокусувати на побудові різноманітних оптимальних моделей аутсорсингу в органах публічної влади, виявленні ризиків під час застосування даного інструменту та методів управління ними.*

**Ключові слова:** аутсорсинг; орган публічної влади; публічне управління; бізнеспроцеси; реструктуризація; ефективність діяльності.

## Постановка проблеми

The profound changes occurring in many spheres of public life determine the need for a systematic and continuous improvement of the organizational structures and forms of activity of public authorities. One of the ways of improving the activities of both the organization as a whole and the individual processes occurring in public bodies is to ensure the widespread use of such an instrument as outsourcing.

Modern management outsourcing refers to the performance of certain functions or business processes by an external organization that has the necessary resources for it on a contractual basis. In essence, this tool is a management strategy that involves the removal of certain functions previously performed by public authorities, beyond the scope of their activities by concluding contracts (contracts) with outsourcers on a competitive basis. Thus, using outsourcing, public authorities aim, primarily to improve the quality and efficiency of certain processes, concentrating efforts on key areas of activity, and free up resources and reduce the cost of performing certain functions [20].

World experience has shown that outsourcing can potentially save 10-50 % of public money by increasing competition in the procurement sector [5]. That is why the research of successful foreign experience of such relations around the world and determining the conditions of its implementation in the domestic practice of public administration currently is urgent for Ukraine.

## Аналіз останніх досліджень і публікацій

The problem of outsourcing in different sectors of the economy is investigated in a number of works of modern foreign and domestic authors, such as: J. B. Haywood [19], J. Bravar, L. Edinson, R. Morgan, S. Wilson, L. Ligonenko [13], O. M. Lizunova [12], N. B. Rudik, B. A. Anikin [1], F. M. Filina [18] and other.

However, despite the considerable elaboration of outsourcing by the mentioned authors, there are still many issues outside the research related to the industry specific nature of outsourcing usage. This applies in particular to the theory and practice of outsourcing in public administration. Given its rapid development, the study of this tool requires constant scientific research, actualization of knowledge in this field, comprehensive analysis and generalization of modern practice of outsourcing, formulation of relevant scientific and practical recommendations.

## Мета

The purpose of the article is to analyze the role and importance of outsourcing in public administration and relevant experience of domestic and foreign practice, in order to identify on this basis the peculiarities and shortcomings of these processes and to provide recommendations for eliminating such deficiencies.

## Виклад основного матеріалу

First of all it is important to focus on the essence of this concept in terms of the science of «public administration» and the regulatory framework of Ukraine. In the conventional sense, outsourcing is the transfer by an organization of certain processes or functions to the service of another organization specializing in the relevant field.

Unlike services, which are sporadic and periodic in time, outsourcing acts as professional support of the constant functioning of individual systems and infrastructure of the enterprise based on a long-term contract [17].

There is no single viewpoint in the definition of outsourcing agreement in scientific sources. In particular, L. Myhalyuk defines outsourcing agreement as an agreement of the parties based on the principle of freedom of contract and free expression of the parties regarding the settlement of relations arising from new non-regulated activities aimed at acquisition, change or termination of civil rights and obligations to achieve the required result and eliminate the drawbacks of the legal regulation of new relationships [14, p. 36–40].

A. Zagorodniy and G. Partin under outsourcing mean the transfer of part of the service functions of the enterprise to a third-party contractor or supplier, provided they are guaranteed the appropriate level of quality and efficiency of their implementation on the basis of transformation or updating of business processes and technologies and with the possibility of transition of part of the personnel enterprise to outsourcer [9, p. 88].

O. Didukh believes that outsourcing is an enterprise management tool aimed at improving the efficiency and competitiveness of operations, which involves entering into the contract between the customer and the supplier (outsourcer) in order to perform the latter as the main and secondary functions of the customer for a specified fee reorganization and optimization of business activity, and in some cases temporary involvement of staff [6, p. 177, 178]. J. Cross sees outsourcing as a strategy for managing a company, not just as a form of partnership, it involves a certain restructuring of the internal processes and external relations of the company [11].

O. Yermoshin holds a similar point of view, considering this kind of relations as a management strategy, which enables to optimize the functioning of the organization by concentrating non-core functions on a contractual basis to other organizations specializing in a specific field and having relevant experience and knowledge. in her [7].

As for the interpretation of the concept of outsourcing in public administration, by definition of S.V. Sytnyk, outsourcing is a modern tool of public administration, which provides for the conclusion of a contract for the transfer of certain functions, traditionally owned by public authorities, to civil servants from the public to the private sector in order to improve the quality of services provided to the public [16, p. 17].

To sum up, we can conclude that the outsourcing agreement means the entering into a bilateral agreement, which provides for the performance of functions by third-party organizations with higher qualification on a paid basis. The bilateral agreement involves the participation of two parties – the customer and the contractor, the so-called outsourcer. Reimbursement means the performance by the outsourcer within the framework of the contract of the entrusted functions by the customer for remuneration.

Section 4 of the National Classifier of Ukraine «Classification of Economic Activities» DK 009: 2010 defines outsourcing as an agreement whereby a customer instructs a contractor to perform certain tasks, such as part of a production process or a full production process, the provision of recruitment services, ancillary functions [15].

Therefore, the essence of outsourcing is to focus on the main activity, and other functions and processes are transferred to special companies – outsourcers.

It should also be noted that there are a number of terms similar to outsourcing in the scientific literature:

- shrinking;
- downsizing;
- spin off;
- externalization, which is the transfer of control over the performance of any function of a company specializing in this field [2].

Therefore, we consider it is to be appropriate to list those features that distinguish outsourcing from other forms of inter-organizational collaboration.

1. Target nature of outsourcer activity: The outsourcer produces a product (providing a service, performing work) only if an outsourcing order is available.

2. Absence of risk in outsourcing activity: outsourcing guarantees the purchase of manufactured goods (services provided; work performed) and his (her) timely payment.

3. The product (service, work) is provided in accordance with the customer's specifications. Which include not only detailed product specifications, but also technology of production and the organization of an effective control system.

4. The product (service, job) is intended for outsourcing for commercial purposes.

5. The parties to the agreement may only be legal entities.

6. The outsourcer discloses the outsourced structure and size of its costs, and then sets the normative value of the operator's goods (services, work).

7. The outsourcer forms its production capacities (quantity, structure, nomenclature, geographical location) based on outsourcing requirements.

8. In order to ensure the optimum quality of service delivery, the outsourcer makes changes to those internal procedures of work of the customer, which are related to the process that is transferred to him for execution.

9. The outsourcer, if necessary, transfers to the operator its own key competencies and assets required to complete the process or task (technology, equipment, etc.).

Finding more effective methods of providing services to citizens and businesses has been a constant task of public authorities around the world for the last several decades. In Europe and North America, there has generally been a tendency for governments to reduce the role of public services in certain areas of their activity and to encourage the private and non-profit sectors to increase their role in this matter.

In Ukraine, outsourcing projects are considered first of all as a way to reduce the costs of supporting certain processes, and only then are evaluated from any other point of view. Depending on the specific sphere in which the outsourcer specializes, there are several types of outsourcing:

- IT outsourcing;
- outsourcing of research and production activities;
- outsourcing of logistics functions;
- outsourcing of organizational management functions;
- outsourcing of financial banking operations;
- corporate training outsourcing;

- outsourcing of human resources, etc.

It should be noted that in our country IT outsourcing is widespread, which can help Ukraine to become a powerful player in the global technology market, that is because nowadays Ukrainian companies which provide these services occupy prominent positions in the world market. According to the IAOP, 13 Ukrainian outsourcing companies were ranked in the Top 100 Best Outsourcing Companies of 2017 [21]. Thus, since 2014, an electronic system of public procurement through the Internet has been implemented in Ukraine.

For a year now, the ProZorro system has been functioning as a reliable, functionally developed tender tool. When registering in the system in connection with their activity, private firms receive a notice of the ongoing tender. By the end of 2017, ProZorro's e-procurement system has saved UAH 2.9 billion of budget funds. Almost 8,000 customers from the state have joined the system. This actually makes more than 90 % of all government procurement and has already been joined by 25,000 suppliers [8].

Among the achievements of international activity is the participation of the Ukrainian delegation in a series of meetings of the WTO Public Procurement Committee in Geneva, Switzerland, where the Ukrainian delegation proposed the creation of a unified portal for the aggregation of Open Tender Announcements through the ProZorro GoGlobal Initiative. Data Standard.

An important event of the year was the Open Contracting 2017 International Conference, which was the occasion of the regular meeting of the Open Governmental Organization 5 (Amsterdam, the Netherlands), where representatives of the Ministry of Economic Development presented Ukraine's experience in public procurement reform, experience and benefits, obtained from the implementation of OCDS, in particular the use of the analytical Bi-module.

It is interesting that the research has been conducted on the demand and quality of outsourcing services in Ukraine.

According to the surveys, 36 % of respondents outsource various manufacturing business processes, including:

- IT services – 40.5 %;
- logistics – 35.1 %;
- procurement process – 27 %;
- marketing business processes – 21,6 %;
- recruitment – 18.9 %;
- accounting – 13.5 %;
- wage calculation – 13.5 %;
- information processing and systematization – 8,1 %;
- outsourcing of medical representatives – 8.1 %;
- staff record and administration – 5,4 %;
- various administrative functions – 2.7 %.

In addition, 31 % of respondents indicated that they were using the services of the external staff, including 48.4 % – for short-term projects, 35.5 % – for long-term projects, 29 % – outstaffing.

The survey found that 41.2 % of respondents that were using outsourcing received savings on their own resources, 37.6 % – achieved optimization and acceleration of their own business processes, 32.9 % – improved efficiency, 14.1 % – improved quality and control over the work processes.

Although, currently, the development and implementation of the system, principles and mechanisms of outsourcing of administrative and management processes in the territory of Ukraine have been implemented only in separate executive bodies. At the present stage of management, Ukraine is less adapted to the conditions dictated by the outsourcing market, and this is significantly reflected in its attractiveness index indicators (41st place with a value of 5.03) [3].

The widespread outsourcing of public authorities in Ukraine is hampered by an imperfect legal framework, insufficient budgetary resources, and resistance by officials themselves. The development of outsourcing is largely constrained by the lack of a methodological framework for outsourcing, which should be enshrined in the relevant legal acts. At present, it is necessary to create and make widely available a library of standard contracts that would be adapted to Ukrainian conditions and take into account the best international experience, as well as methodological guidelines for the choice and order of use of different types of contracts.

There are major specifications in the understanding of goals and approaches to the implementation of outsourcing projects between Ukrainian and Western companies. In post-industrial economies (to which not only Japan, the United States and the developed countries of Western Europe, but also a large number of Latin American and Southeast Asian countries already belong), the main goal of outsourcing internal processes for the organization is the innovation it can obtain in the result of a strategic partnership with an outsourcing company, as well as addressing social responsibility issues.

The main trends of outsourcing in public administration include:

- 1) expanding the practice and scope of application of such contracts in the activities of public authorities, transition from one-off outsourcing of individual operations to outsourcing of business processes and large-scale process of outsourcing transformation;
- 2) changing the reasons for applying for outsourcing in public authorities from the desire to reduce costs to the desire to significantly transform their own activities in order to increase the efficiency of processes;
- 3) changing the nature of the activity of public officials: concentration of attention of civil servants on the tasks related to the management of contractual relations;
- 4) establishing partnerships between public authorities and external contractors on the basis of long-term agreements;
- 5) modification of the content of contracts, formation of a special section of law regulating contractual relations between public authorities and external organizations;
- 6) formation of institutional framework for contract management.

The major leaders in outsourcing among OECD countries are the United Kingdom, the United States, Canada, Australia, New Zealand, Sweden, Denmark, Finland and the Far East (Singapore, Hong Kong, South Korea). The OECD regularly assesses the total amount of outsourcing in the public sector.

This applies a methodology that uses an expanded definition of outsourcing as the total volume of goods and services purchased by the public sector (including all levels of the budget system) in the non-government

sector. According to OECD experts, the functions of public authorities outsourced to OECD member countries can be divided into three groups.

The first group includes the functions performed by the so-called «blue-collar» (cleaning services, garbage collection, catering, security services, etc.). All the functions of this group do not belong to the key missions and tasks of the government. Their implementation involves a set of standard operations that do not imply high requirements for the qualifications and educational level of performers. That is why, as a rule, the functions of this group can easily be outsourced.

The second group of functions can be attributed to those whose performance imposes sufficiently high requirements for the professional skills of performers. This group of functions include those related to information technology, finance and accounting, personnel management, legal support, operational functions related to document flow, and more. Over the last 20 years, public sector outsourcing in the OECD has been primarily linked to outsourcing of this particular group of functions. Outsourcing of IT related features is the most popular.

The third group of government functions that can be outsourced include the key functions of public authorities. Outsourcing of these features is quite rare in public administration. It should be noted that even in developed democracies, the feasibility of outsourcing key functions of government is often challenged and is the subject of intense debate among politicians and experts [4].

Thus, international practice proves that a number of government and municipal powers, especially those related to services, can be implemented with high efficiency by the commercial sector. The implementation of the model of a service state, whose purpose in the face of public authorities is to provide the population with quality, timely and accessible services, requires a significant improvement in the quality of the state's activity in providing such services, which is impossible without the involvement of external resources.

However, since outsourcing can also have a negative impact on the financial and economic performance of the customer, the decision to use outsourcing in each case should be based on a comprehensive analysis of its benefits and risks. It is essential to perform preliminary, current and final analysis of outsourcing efficiency for monitoring and correction of restructuring results. In our view, such decisions should be aimed, in particular, at analyzing the actual state of the processes in the public authority; analysis of the experience of involvement of external organizations; developing a methodology and evaluating the feasibility of outsourcing individual processes; forming a clear structure for managing outsourcing processes; continuous evaluation of outsourcing results.

Thus, the effective implementation of outsourcing in the activities of public bodies requires a preliminary answer to the following questions:

What is the specificity of public services provided by public authorities?

What might be the outsourcing models for service?

What are the possible negative effects of outsourcing?

Outsourcing should become an effective strategy for the activity of public authorities. To do this, it is necessary to develop an appropriate detailed methodology for all components of outsourcing and to capture the roles

and functions of all outsourcing actors. In general, it is advisable to carry out the following steps from the point of view of the sequence of actions of implementation of the outsourcing tool in the activity of public authorities:

- identifying the functions of a public authority that can be outsourced;
- evaluation of the efficiency of outsourcing of functions of a public authority;
- outsourcing of functions of a public authority;
- monitoring the implementation of the functions of a public authority by external organizations and reporting on their performance.

Consideration should also be given to the fact that the transfer of functions of a public authority to outsourcing may affect its activities as a whole. Building relationships with a third-party organization may require some organizational and functional changes in the activities of a public authority, such as changes in structure and staffing (including a reduction in the number of civil servants or local government officials).

Thus, the world experience shows that a positive result of the use of outsourcing technology in the activities of public and municipal authorities is possible. In this case, outsourcing allows to increase the efficiency of administrative and administrative processes, to control the costs of activities more effectively, to focus the attention of executive authorities on the main activity, to improve the quality of services, to ensure the availability of new technologies, etc.

#### Висновки

Outsourcing is a new, progressive form of cooperation between public authorities and organizations representing other sectors of the public arena, enabling mutually beneficial results both in the short and long term. Implementation of outsourcing in the activities of domestic public authorities promotes innovation and improves the quality of public services; reducing the risk of activity and freeing up internal resources for other purposes.

This type of cooperation has all chances and opportunities for intensive development both in developed countries and in Ukraine, although it is still in the development stage in our country. Successful application of this instrument in public authorities requires consideration not only of the restrictions and barriers encountered in its use in the world practice, but also the specifics of Ukrainian conditions, including such factors as low level of development of the services market, imperfection of the legislation in this field. sphere, peculiarities of administrative culture of officials of public authorities.

In order to overcome the aforementioned problems and to use outsourcing effectively in the activities of public authorities, further elaboration requires the improvement of the legislation of Ukraine in this field; assessing the cost-effectiveness of outsourcing in the activities of public authorities, as well as establishing a mechanism for trusting outsourcing providers.

Further research should focus on building a variety of optimal outsourcing models within public authorities, identifying the risks involved in using this tool, and how to manage them.

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