Quality and outsourcing in Public Organizations

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Abstract
The aim of this research is to establish a link between the process of outsourcing and development of the process of Total Quality Management (TQM) with particular regard to public utilities. Outsourcing choices are one way to increase efficiency and quality in any type of organization, both public and private. The public sector can benefit from outsourcing in much the same way as the private sector. Indeed, the public sector is showing a greater impetus in its examination of outsourcing.
Public organizations are facing the changes that have affected the economy and society to increase the welfare of the consumers. They therefore need to seek high levels of efficiency, ensuring better use of resources to meet needs that characterize this period of history: on the one hand the need for quality services for the economic and social development of the country in line with the international challenges, on the other the need to contain the public deficit as a fundamental condition for sustainable and balanced development. The search for better ways of the use of resources is especially important in organizations that do not deal with the market through the mechanism of the exchange, especially in those organizations that establish public services that are provided without exchange in an economic sense.
Public organizations in the quest for efficiency, flexibility and innovation turn more frequently to outsourcing because the integrated service providers (Global Provider) are able to assume full responsibility for financial performance and quality of services provided.
First, the definitions of TQM are discussed. Second, link between outsourcing and quality is presented. Finally, we have highlighted the main factors of resistance to externalization in Public organizations and how these can be overcome by developing a risk management approach.

Key Words: Outsourcing, Total Quality Management, Risk Management

Introduction
This paper examines conceptual issues regarding the applicability and relevance of outsourcing principles in the public organizations to provide better services while maintaining or reducing costs (Lacity, Hirschheim et al. 2001). Many countries have chosen to outsource the investment and operation of non-competitive public services, such as water and waste management, public transports, mail services, information and communication technology services, and road infrastructures (Grout 2009).

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Public organizations are facing the problems that have affected the economy and society. Therefore National governments across Europe drastically cut spending in 2010. This trend is continuing to affect the European countries in 2011. After the recession the public sector continues to reduce costs. Many nations are considerably in deficit and are proposing severe austerity measures in order to repay and reduce the debt burden.

Governments therefore need to seek high levels of efficiency, ensuring better use of resources to meet needs that characterize this period of history: on the one hand the need for quality services (Gaster, 1995) for the economic and social development of the country in line with the international challenges, on the other the need to contain the public deficit as a fundamental condition for sustainable and balanced development. The search for better ways of the use of resources is especially important in organizations that do not deal with the market through the mechanism of exchange, especially in those organizations that establish public services that are provided without exchange in an economic sense.

Part of the solution for many will inevitably be found in an increased utilization of the outsourcing option for public services. Public organizations in the research of efficiency, flexibility and innovation turn more frequently to outsourcing because the integrated service providers (Global Provider) are able to assume full responsibility for financial performance and quality of services provided.

Outsourcing (Van Mieghem, 1999), of course, was already an increasingly commonly used (if not necessarily popular, in the strictest sense) state tool in the lead-up to the crisis.

The aim of this paper is to establish a link between the process of outsourcing and development of the process of Total Quality Management (TQM) with particular regard to public services (Andersson and Jordahl 2011).

The main contribution of this line of research is to demonstrate the idea that the outsourcing in Public Organizations is an instrument to deal with the crisis that raise the qualitative level of services, increase efficiency and maintain or reduce costs and to show that Outsourcing lays good foundations for an efficient TQM implementation.

This study draws from theoretical research about the nature of the Outsourcing, its role in society and contributions by research on Total Quality Management.

Achieving both quality and productivity without increasing costs is difficult in the public sector because of the unique role player and the complex relationship between politicians and administrators.

With Total Quality Management (TQM) it is possible to achieve continuous quality improvement without additional resources by emphasizing intensive examination of relationship between existing management processes, extended customer supplier requirements and response to valid customer demands (Juran and Godfrey, 2000). TQM is a participative, systematic approach to planning and implementing a continuous organizational improvement process. Its approach is focused on satisfying customers' expectations, identifying problems, building commitment, and promoting open decision-making among workers.

This paper contributes primarily to the academic debate by reviewing past attempts to theorise Outsourcing and efficiency, identifying gaps and weaknesses, and proposing the TQM implementation processes for improving quality (Deming, 2000).

The relation and interaction between outsourcing and TQM is not well researched in literature, which gives us the possibility to find new approaches. The basics of these two concepts are very different. Outsourcing is not only part of a company strategy; it is also the well defined action of outsourcing processes to suppliers, while TQM is approach to improvement of quality and productivity is a management philosophy, a set of tools and also a method of process improvement.

The implementation of these two concepts should cut costs and improve quality. We wanted to find out if and how there is an interaction between outsourcing and TQM concerning the public organization’s cost and quality.

The questions necessary to answer are: How is it possible to improve quality in public organizatons?

How is it possible to reduce costs in public organizations? How is it possible for public organizations to assure low costs and high quality at the same time by using TQM and Outsourcing? What are the risks and problems of externalization?

1. The culture of Public Organizations

Public organizations are being increasingly asked to guarantee highly innovative services to raise the quality of life of each citizen. These transformation processes require an organizational and qualitative commitment from all the social parties to ensure effectiveness, efficiency, integration, participation, networking, and community development.

It has become increasingly necessary to develop organizational skills to create added value for public service enterprises and for the entire social context (Mella, 2005).

Thus, only a public organization which is aware of this and is able to create value through work that is high in quality, creative and culturally innovative will be able to win over the public and interact with it to create synergies to raise the quality of the response to the demand for increased welfare (Devastato, 2006).

The governance of public organizations in their relations with the outside environment and the connected problem of managing available resources presents greater complexity than that for private enterprises.

The reasons for this complexity can be summed up in the following characteristics of public organizations (Rebora and Meneguzzo, 1990):

- Authoritarian governance, since they have certain powers that normally are not attributed to other institutes;
- Social visibility, due to the visibility of their behaviour and procedures, and thus to the attention they must pay to transparency and the public nature of their actions;
- Diversity with regard to the number of products and services that must be managed;
- Complexity deriving from this diversity;
- Politicalization due to the fact that their activities at times involve conflicts among a number of social groups and decision-making centres;
- Personalization: often the quality of the measures undertaken, and thus their results, depend in large part on the behaviour of organizations towards the consumer/citizen. Thus the performance cannot normally be standardized but must instead often be personalized;
- Externalities: often the activity of the organization impacts the outside world, causing changes in life conditions and in the environment;
- Collaboration: the results of a public authority are normally achieved thanks to working together with other institutions that it cannot directly control.

Achieving planning and control systems in this context entails two types of problems: a managerial culture oriented to rules and regulations, functional specialization, the task at hand, and technical aspects. Instruments suitable for the institutional, managerial and organizational characteristics of the public organization are not always available; consider, for example, the problems linked to the difficulty of measuring results or of defining close chains of managerial responsibility.

2. The main characteristics of Public organizations

Public organizations present interesting new challenges. Here we discuss five ways in which public organization differs from the manufacturing and service industries generally studied in the literature: attention to outcome, Government is an actor, achieve social or political goals, strong bureaucracy and high risk averseness, natural aversion of accountability.

Public organizations have to pay attention to the outcome. They are entities whose operational decisions affect the livelihoods of the collectivities and the economic and environmental conditions of the countries and local areas in which they operate. Public organizations are in the business of providing "public" services, services that have a widespread implication for the well-being of populations.

Another striking characteristic of the public services is the role and involvement of the government (central or local). In global manufacturing or service companies, governments are normally placed in a marginal position. Though governments theoretically have an important regulatory role, they are seen as essentially powerless to confront the forces of globalization that are unfolding in front of them.

Public organization has to respect legal requirements stem from laws and regulations, related to labour, environmental management, and other issues. In addition, however, how public organizations of services may operate and what they are expected to achieve must also contend with the expectations and visions that people have for the services in their communities. These expectations may exceed what the government has required.

Another characteristic of the public organization is the inefficiencies and rigidities associated with the bureaucratic and a hierarchical organisational structure (Huxham 1996, Kickert et al. 1997) with high-risk averseness.

This organization has a natural aversion of accountability and a strong resistance to any kind of control systems.

Public organizations have to achieve social or political goals for the sector. This means that public organizations may exceed the national standards for utilities and still fail to meet the public's expectations. (Tsogas, Komives and Fuller, 2008)

3. Making Quality Sustainable in Public Organizations

In technical usage (American Society for Quality, 2000), quality can have two meanings:

1) the characteristics of a product or service that bear on its ability to satisfy stated or implied needs;

2) a product or service free of deficiencies;

One quality term is more seen from the customers' perspective and the other expression is the manufacturers' point of view of quality. Juran (2000) presents two definitions: *"Quality means those features which meet customer needs and thereby provide customer satisfaction. [...]"* (Juran, 2000) Those definitions describe the customers' point of view of quality. It is very subjective and every end-user might have a different understanding of quality. Nevertheless, it is very important for organizations to know and fulfil customers' quality expectations. Quality in this case concerns the product's overall ability to perform required functions. The second definition must be seen from manufacturers' perspective. *"Quality means freedom from deficiencies – freedom from errors that require doing work over again (rework) or that result in field failures, customer dissatisfaction, customer claims, and so on. [...]"* (Juran, 2000) This perspective is rather objective. This definition tends to production and process quality, which means that higher quality, is usually linked with less costs (Juran, 2000). It is important for public organizations to achieve both quality definitions.

Regulations – whether cogent technical rules or voluntary technical regulations – thus represent the primary reference, even though still imperfect and capable of being perfected, for the construction and assurance of quality; conformity to regulations is, rightly so, considered synonymous with quality (within the limits, of course, permitted by the "beneficence" of the applicable regulation).

Thus, even for public authorities there is an increasing need to measure themselves by their capacity to implement practises and activities that go beyond a respect for regulations and that, though in a voluntary context, take proper account of the expectations and demands of their stakeholders (EIPA, 2005). The capability of a country's public sector to provide high-quality goods and services in a cost-effective way is crucial to fostering long-term growth (Špaček, 2010) and in order to produce value for the citizen. We can measure the value of the public service with the ratio between quality and costs for

citizen.
The development of the culture and practise of quality and the relevant regulations has gone through a long history of evolution (Dale, 1999):

a) starting with the direct corrective approach (quality control) typical of product certification and inspection activities;

b) shifting to the indirect, preventive systems approach (quality assurance), based on a rigid systems model still basically inspired by the traditional mechanisms of industrial production, represented by the ISO 9000 series standards in the 1987 and 1994 editions;

c) moving on to the pro-active systems approach, Total Quality Management (TQM) (Deming 1986, Juran 1988; Ishikawa, 1985; Crosby, 1986), which is highly flexible and applicable to any kind of socio-economic activity, structured around process and not systems elements and based on research on effectiveness and continual improvement, represented by the ISO 9000/2000 series standards (Thione, 2005).

We use the following definition of TQM:
Total Quality Management (TQM) is a philosophy, a set of tools, and a process whose output yields customer satisfaction and continuous improvement. TQM drive an organization towards a culture which is employee driven, problem solving, stakeholder oriented, values integrity and open and fear free. Results of TQM include error-free processes that deliver products and services fit for use, on time, with competitive pricing and good value. (Ghobadian and Gallear, 1996; Hradseky, 1995). TQM is aimed at satisfying or preferably exceeding the needs and expectations of the customers with a reduced amount of resources (Bergman and Klefsjö, 2003).
Alongside the classic demand for quality mentioned above, there has been a demand for new and more comprehensive forms of quality (Oppenheim and Przasnyski, 1999), aimed at satisfying a wider range of needs from a larger group of stakeholders (Clarkson, 1995), which can be appropriately expressed by the term "social quality" (simply put, quality of life) (Borgonovi, 2005).
This has resulted in the system of conformity assessment being asked not only, as in the past, to represent an instrument for regulating economic exchanges but also, and above all, for improving the "quality of life" in the most complete and meaningful sense of the term (Garvare and Isaksson, 2005).
In fact, in the modern socio-economic context production and service processes must be managed so as to ensure not only the conformity of results to the specific functional and performance requirements in question, but also environmental protection (understood as the eco-system these processes interact with), the protection of the health and safety of workers, the protection of information and, more generally, the minimization of the relative negative impact of these processes on society, while at the same time maximizing their positive impact (that is, in a socially-responsible manner) (Folley, 2005).
The role of the organizational and top-management climate in the success and consolidation of the organization or in its decay, of transparency, responsibility, communication, systems control, and the personal involvement of top management in the various levels of activity and in the welfare of employees develops respect and loyalty. (Goleman, 2006).

4. Outsourcing and the externalization strategy

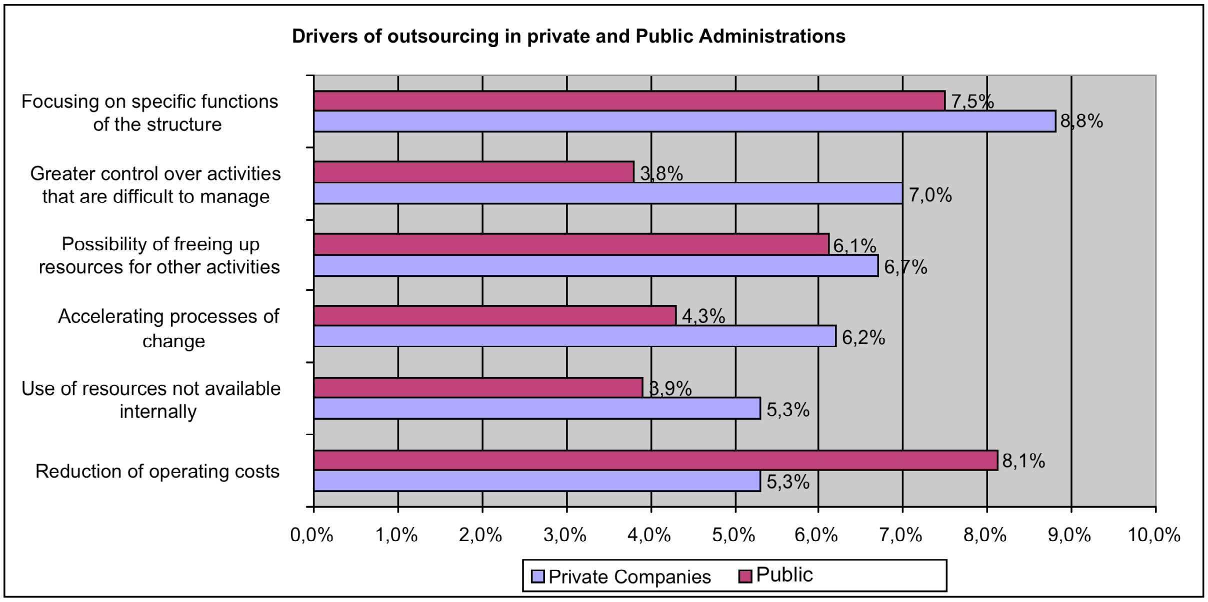
Outsourcing choices are one way to increase efficiency and quality in any type of organization, both public and private.
In business economics the term *outsourcing* – used first in 1982 (Van Mieghem, 1999) – takes on the more precise meaning of a contract to *externalize* processes or phases of processes – or activities needed to produce a given product originally produced in-house by the same organizational structure, where the activities are regularly entrusted – through a contract or in other forms – to an outside organization that produces it and sells it to the outsourcing organization. The externalizing organization is called the *outsourcee* and the one that produces in outsourcing, the *outsourcer* (or *supplier* or

provider).
From the point of view of production, outsourcing is an externalization strategy – "shifting outside" some of the processes already carried out inside the organization by the *outsourcee* – and not one of acquisition – "bringing inside" factors or services produced by outside organizations. Management always undertakes decision-making processes based on the criterion of maximum efficiency. In capitalistic firms – which finance their activities with Equity and Debt capital – this criterion has been shown to translate into the correlated criteria of *maximum economic efficiency* (maximizing operational results) and *maximum profits* (maximizing Return on Equity). In Public Organizations, maximum efficiency entails ensuring a supply of public goods and services at the maximum quality and the minimum production cost.
By extension, Williamson (1989), Chalos (1995), and Roodhooft and Warlop (1999) state that, from a theoretical point of view, the *propensity* for organizations – public or private – to turn to outsourcing is a function of the difference between the price charged by the outside producer (marginal cost of the "external service market") and the "in-house" marginal production cost. The organization turns to outsourcing to gain an advantage from the cost differential when the internal cost is higher than the external one.
The main factors behind the decision to outsource have been the subject of several studies. Deavers (1997) used a survey of over 1,200 companies to identify five main factors, which can also apply to any type of Public Organization:
1) the need for increased focus on the "core competencies";
2) guaranteeing access to the best (world-class) skills and competencies;
3) accelerating the benefits from re-engineering, even so far as rewriting the processes starting with a "blank page");
4) sharing the risks between the *outsourcee* and the *outsourcer*;
5) freeing up resources to concentrate the attention of management on the core competencies.

5. Public Organizations and outsourcing: the Italian situation

Outsourcing is not limited to companies. When searching for conditions of maximum efficiency all organizations adopt externalization to reduce costs and direct their resources to the core processes.
Even Public Organizations (PO) have undertaken, starting in the 1980s, an externalization process that has intensified in recent years, leading to a unique transformation in their role. In fact, while in the '80s the traditional model of the PO was based on the assumption that it was an organized system for the direct production of public goods and services, today this model has changed: from being a producer of public services the PO has become more focused on implementing the public authority by taking on the role of economic driver and by coordinating economic activity, in addition to its political-administrative role.
This has led, on the one hand, to broadening the functions of the PO, and on the other to increasing the capacity of customers and citizens to assess the quality of the economic, social and political services provided by the PO.
Thus, a modernization of the administrative structures of the PO is required to make these more streamlined, efficient and rational. To this end, even the externalization processes have been adapted.
Today outsourcing, which in the '80s was considered a means for improving the economic efficiency of public management, has increasingly become a strategic instrument for making the organizational structure more efficient, thereby permitting a reflection on, and a true restructuring of, the functions, processes and activities of the PO in order to satisfy the social stakeholders (Freeman, 1984) and gain political consensus.
According to a study by Ernst & Young (2007), the main drivers of outsourcing in the Public Organization in Italy are those indicated in Fig. 1.

Fig. 1 – *The motivations for outsourcing in companies and the Public Organization in Italy*



Ernst &Young, (2007), outsourcing in the Public Administration.

In order to understand the logic of outsourcing in POs it is useful to refer to the official GUIDE TO THE EXTERNALIZATION OF SERVICES AND INSTRUMENTAL ACTIVITIES IN THE PUBLIC ADMINISTRATION, published by the Department of Public Functions in Italy, which "represents one of the final outputs of the work by the 'outsourcing and externalization' workgroup. The aim of the Guide is to offer officials and managers a flexible and practical instrument that indicates ends, means, phases and benefits (and constraints as well) for successful externalization. The Guide is aimed at decision-makers, managers and public officials who are involved at various levels in policies for the externalization of activities or services, whether these are aimed at end-users or at "internal customers". It does not merely indicate an ideal pathway to pursue but seeks to highlight the key issues regarding outsourcing policies that deserve particular attention.

The Guide provides a precise definition of "externalization", which is "*defined as the transference, based on a contract, of the production of services and instrumental activities by public administrations to private companies, while the public administrations continue to finance the activities and assume the responsibility for satisfying public needs*" (page 8).

The Guide also states that the basic difference between an externalization contract and one for supplying services is the creation of a medium-term customer-supplier partnership or the continual check on the quality of the performance of the Public Administration.

The Guide (page 5) indicates the following types of Public Administrations interested in outsourcing:

a) central administrations;

b) national agencies, including universities, welfare agencies, CNR, central operational agencies, research agencies, and independent authorities;

c) regions;

d) regional agencies, including health and environmental regional agencies, public housing authorities;

e) health authorities.

The following services are listed as appropriate for externalization:

1) administrative support services, accounting, finance, human resource management, including

personal administration, temporary work, purchasing, accounting services, auditing and bookkeeping, legal services with the exception of government legal practise, declaratory orders;
2) facilities management, including property maintenance, technology maintenance, maintenance of facilities, energy management and use, building cleaning services, property management, security and custodial activity;
3) computer services and the like, and telecommunications services;
4) hotel services (cleaning, food, laundry) and security/surveillance services;
5) transportation, including overland transportation, delivery, airmail and overland mail;
6) services to eliminate sewerage and waste; disinfestation and similar services;
7) consulting services, including management consulting and the like, market research opinion polls, research and development, advertising.

The "externalization process" is recognized as a strategic choice, with relevant implications of a managerial nature, which the Public Organization makes to determine its role and relationship with external suppliers in order to:
a) undertake an overall assessment of its activity portfolio;
b) verify the coherence between the mission assigned to the administrative authority and the portfolio;
c) identify those areas of activities/services on which to concentrate professional, technological and economic/financial resources;
d) manage externally not only activities but "groups of integrated packages" of activities, and sometimes entire organizational processes.

Shifting our focus to the relationship with suppliers, it is recognized that outsourcing must develop a collaborative relationship with suppliers characterized by partnership, cooperation and shared objectives.

6. Outsourcing Analysis for the TQM Approach

The movement of ideas towards efficiency and free trade in all areas of production has provided a further spur to the spread of outsourcing.

In the 1980s the idea of the market and the firm as instruments of economic efficiency led to a shift toward the privatization of public enterprises and the transferring of many activities from the state to the private sector.

Supply side ideology, which inspired political movements and the economic policies of governments, affirms the superiority of the market economy even in the public sector. If public activity can be achieved under better conditions and lower costs by entrusting this to private enterprises, then the collectivity will obtain a clear advantage.

There are many examples of public authorities in the economic and political field that have undertaken the role of outsourcing as an agent of economic change and stimulus in order to achieve positions of greater overall efficiency.

The spread of outsourcing is also the result of a new conception of the ends of the capitalistic economy, according to which the production organization is viewed not in the traditional way as an instrument for the production of profit, according to classical economic theory, but increasingly as a producer of shareholder value and the satisfier of the interests of a vast group of institutional stakeholders (Pellicelli, 2003, 2007), in particular in order to develop Total Quality Management (TQM). From this perspective the creation of value and the search for total quality favour the creation of value for workers, clients, suppliers, the local community, and the state (Gazzola, Pellicelli, 2009).

This change in the ultimate aims of production in favour of the theory of the production of value for shareholders and the satisfaction of stakeholder objectives also imposes a change in *managerial conception*, which is increasingly oriented towards a Value Based Management perspective (Serven, 1998).

According to the Value Based Management approach, production organizations are increasingly assessed in terms of flexibility, the simplification of organizational structures, and the increase in their capacity to provide better services at lower costs; by introducing re-engineering to find new business models they move towards the core competencies, continually searching for specialization and professionalism. Restructuring and downsizing are more accepted now than in the past, which leads to greater changes as well in union relations, such as the reform under way in Public Organizations has shown.

7. A link between outsourcing and TQM: the model

The most important aspect of TQM is the customer focus. By regarding the customers' demands and needs the quality improves automatically because the customers will be satisfied with the help of TQM, which leads again to a reduction of Costs of Poor Quality, (Juran, 2000) (De Feo and Barnard, 2004) Outsourcing enables the public organizations to focus on its core competencies such as investigating and meeting customers' quality expectations. Thus, outsourcing concentrates on the customers, too. This improves the public organizations' TQM at the same time.

Outsourcing and TQM start with the same aim: to improve the efficiency of organizations (McFarlan and Nolan, 2005). Furthermore, both approaches focus on the same issues we are studying: costs and quality (Chakrabarty, Whitten, Green, 2008). Costs and quality are related to each other to fulfil the given goals.

Hence, both approaches not only overlap but also interdigitate, due to the fact that TQM is often used internally and outsourcing mostly has an external perspective. However, according to Rao et al. (1996) and Boaden (1997), TQM also implies collaboration with consumers and suppliers and other stakeholders (Donaldson and Preston, 1995).

The figure 2 presents the model with the link between outsourcing and TQM and how this interaction supports and influences costs and quality of a public organization.

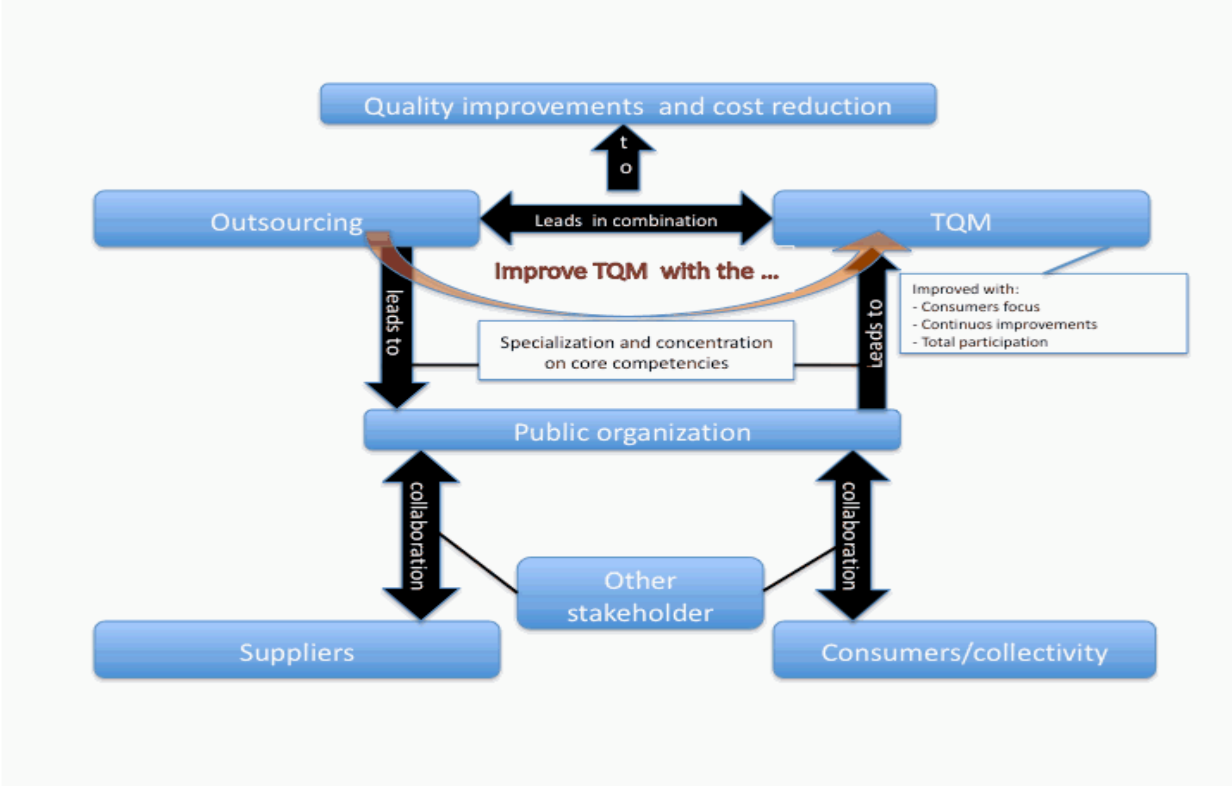
This figure shows that outsourcing leads to specialization and concentration on core competencies for public organizations. According to Kakabadse and Kakabadse (2005) the main goals of outsourcing have changed from cost discipline and control to more strategic goals like focusing on core competencies or the access to external competencies and the improvement of quality (Andersson, Jordahl, 2011).

The focus on core competencies has a great impact on quality in the understanding of deficiency freedom and customer satisfaction. Another outsourcing effect that improves quality is the access to new technologies and innovative components.

The focus on core businesses improves the organization's TQM. But an efficient TQM is only possible if the public organizations collaborate closely with its stakeholders. If outsourcing and TQM were implemented properly the combination of both would lead to quality improvements and cost reduction for the end-consumers and for the collectivity.

Outsourcing and TQM, supplement each other and fit together very well to assure the efficiency of the public organizations with high quality and low costs at the same time. This is due to the fact that outsourcing is often used to reduce the costs and TQM alone leads to quality improvements. They work well separately in organizations, but outsourcing lays ideal foundations for an efficient TQM implementation, Outsourcing supports TQM. An implementation of both and a close cooperation of the public organizations with its stakeholder leads to an efficient TQM, improve quality and reduce cost.

Fig. 2 – *A link between outsourcing and TQM (*Heller, Quaing, Zelfel, 2008 with modifications)



8. Obstacles and risks with externalization

Outsourcing is not without its problems. We've to underline that also for the Public Sector: "Before outsourcing any process or function, it's essential to assess the risks enterprise-wide" (Beasley, Bradford, Pagach, 2004).

Researchers are unanimous in recognizing there are many obstacles to adopting a long-term outsourcing strategy. The areas most mentioned in this regard are the following: 1) Many organizations have difficulty defining what their core competencies are and what it is an outside supplier is better at doing than they are. A frequent obstacle to outsourcing is that there is not a sufficient number of adequately qualified suppliers. It is common opinion that often the real problem is not adopting effective methods to select suppliers but the availability of a sufficient number of suppliers from which to choose. 2) The success of an outsourcing strategy also depends on the professionality of the supplier's management. Many organizations do not have sufficiently developed programs for selecting, training and monitoring suppliers or potential suppliers. 3) Many organizations fear the risk of losing control over their intellectual property or seeing this eroded (Auriol and Picard 2009).

Also Researchers have presented their suggestions to the principal problems of the outsourcing.

Bodine *et al.* (2001) have presented a risk matrix as an evaluating tool for management in outsourcing decisions. It can help management to identify general and context-specific risks associated with the decision to enter into an outsourcing arrangement.

Quinn and Hilmer (1994) have classified three types of strategic risks the organization faces when outsourcing: loss of critical capacity or critical competencies; weakening of the capacity to coordinate more than one function; loss of control over the supplier. When the organization gives up a component to outsourcing it also transfers the technological knowledge to produce it, thus running an initial risk: in fact, there is no assurance the supplier can update or improve the activity. As a result it could lose the capacity to remain or return competitive, and at the same time old and new competitors might have the chance to catch up, since they, too, can turn to the supplier. Outsourcing often means dismantling or transferring organizational structures, which are then difficult to reconstruct if, in order to do so, certain activities must be started up again internally. Quinn and Hilmer suggest a "dual" strategy that consists in not fully transferring a function but maintaining its critical activities within the organization (in particular the capacity to innovate), only transferring the less important activities, those which any organization could acquire.

Moreover there are specifically and difficult obstacles to externalize services in the Public Organizations. One of the main problems is the ability of staff and community to accept the change, or even the consideration, in spite of current budget pressures and economic realities.

Furthermore Public Organizations has to consider many elements than the private companies: political climate, unions, local economies, employment situation, the investments required and available, etc. Government officials must carefully weigh the potential negative consequences: job loss, skills transfer, unemployment costs, and disruption of local economies, against the promised benefits.

A benefit of outsourcing is its cost effectiveness. This often means that the same amount or more work is performed than before the outsourcing exercise with less labour. The organisation outsourcing its work invariably sheds jobs. If this were not the case, there would be no, or little, cost savings to the outsourcing organisation. Public organizations cannot laying off employees that "may not" be providing the highest service value.

There are also risks for a potentially outsourced activity (Murphy 2003). The decision to outsource should consider the impact of a poor performance or non-performance on residents; citizens are more sensitive to the results of the services that are directly involved. For these services, public organizations have the highest risks (Sullivan and Ngwenyama 2005). Furthermore, when the organization decide to outsource a service it is necessary to verify the existence of potential suppliers. If the suppliers are only a few potential vendors, the community's ability to negotiate on price and features is low.

Sometimes outsourced activities are carried out using some resources that cannot be transferred easily. When this happens a community will have difficulty and no doubt incur substantial costs, in replacing an existing supplier (Padovani and Young**,** 2006)

Although some private sector consulting groups may be able to provide some "general" expertise, it comes at a much higher and less flexible cost.

In developing economies there are also problems because private competition is limited and government contracts are not always awarded in a competitive and transparent manner.

9. Outsourcing and TQM. The Role of Risk Management

Outsourcing in Public Organizations has in fact led to an increase in the level of quality of externalized services – along with a cost savings – and a noticeable degree of organizational and service innovation, which has made the usefulness of an outsourcing policy in Public Organization services even more evident.

There are also varying amounts of resistance to externalization in Public organizations.

There are two main reasons for the resistance to externalization: on the one hand, the fact the political cycle and the cycle for the benefits of outsourcing do not coincide: often the latter are perceived in the medium term, when the shorter political cycle has led to a change in leadership. Thus, preference is given to short-term actions that play out within the political cycle, which explains the aversion to outsourcing. Moreover, when turning to outsourcing many leaders and public managers prefer to use short-term contracts which may not favour the full attainment of results in terms of the efficiency and effectiveness of the externalized service. Furthermore, the accounting systems often do not allow a comparison of the investments and of the positive and negative financial flows linked to the externalization processes.

On the other hand, the typical organization logic in the public sector does not provide incentives for,

nor reward, “entrepreneurial” behaviour by management or policy makers.
Due to the peculiarity of public administrative processes, the externalization decisions needed to improve efficiency and quality require not only greater decision-making and implementation capacity but also the will and the capacity to minimize the risk that such decisions may produce “anomalous” or “illicit” advantages for certain groups while burdening the collectivity with the costs of such decisions.
Thus a trade-off is required between the interests of the various parties, the conflicting objectives, and the difficulty of formulating a long-term externalization strategy. To achieve this it is necessary to make sure the outsourcing decisions are not limited to specific and limited processes; the externalization choices must be included in the strategic planning and management approach of modern Public Organization.
Public Organizations can considerably improve their performance by adopting outsourcing, but under the condition that they develop an internal capacity for risk management (Klein and Myers 1999) that protects them from and manages the possible risks from a relationship with the private sector in all areas, from outsourcing to partnerships, cooperation with the private sector to project financing (Aubert, Patry, et al, 2000).
The realization and success of externalization is directly linked to the assessment of the critical factors for success and the minimization of risk through the development of a risk management approach.
The main components of this risk management (Padovani and Young**,** 2006) function in Public Organizations can be summarized as follows.

a) *Development of internal competencies*: before choosing outsourcing, management, together with the political decision-makers, must carefully assess how strategic such choices are for the Public Administration and how efficient use can be made of the competencies and internal resources that will be freed up following the externalization of the activities they have been employed in.

b) *Responsibility toward suppliers*: the supply relationship that is created with outsourcing must be contractually regulated and indicate who is in charge of the process; in many administrations a Contract Department has been created which is responsible for the activities/services entrusted to third parties, with the task of controlling the quality of the services provided.

c) *Re-employment of the* human, technological, logistical and immaterial (knowledge, know-how) *resources* that are made available after externalization. If this re-employment is managed appropriately the Public Administration will be able to utilize in the best way possible the personnel available to the organizations through the creation of an internal labour market and the setting up of job creation processes.

Conclusion

Today’s public services are confronted with a big challenge because consumers expect the highest possible quality at the lowest possible price.
Our main research question was “How is it possible for public organizations to assure low costs and high quality at the same time by using TQM and Outsourcing?” In the analysis, we examined the relation between TQM and outsourcing. Their connection is that both methods try to improve the efficiency of public organizations and concentrate on quality improvement and cost reduction.
Quality provides: ‘‘competitive services of excellent and durable quality, delivered in the shortest possible time, at minimum cost, and in a manner that emphasizes human dignity, work satisfaction and mutual and long-term loyalty between the organization and all its stakeholders’’ (Bohdan and Przasnyski, 1999). This position is adopted by the American Society Quality (ASQ) code of ethics, which states that quality is ‘‘knowledge and skill for the advancement of human welfare and in promoting the safety and reliability of services for public use’’.
TQM successfully strikes a balance between the goal of organization and doing the right thing in terms of respecting the interest of wider stakeholders (Ghobadian, Gallear, Woo and Liu, 1998).

The founders of modern quality management and organization excellence - Crosby, Demings and Juran among others - considered ethics, principles and respect for people as key principles. For example, Crosby (1986) stated that: ‘‘the organizations will prosper only when all employees feel the same way and when neither customers nor employees will be hassled’’. Deming’s (1986) 14 points highlighted the ‘‘driving out of fear’’. He advocated an organizational climate where dealings between managers, employees and customers were conducted on an ethical basis. Juran (1993) spoke of a system of values, beliefs and behaviours, individual and team, created within the organization, which are necessary for organizational success. He espoused the view that TQM should be recognized for its focus on people through the quality of working life and employee satisfaction (Vinten, 1998).

Today outsourcing, which in the ‘80s was considered a means for improving the economic efficiency of public management, has increasingly become a strategic instrument for making the organizational structure more efficient, thereby permitting a reflection on, and a true restructuring of, the functions, processes and activities of the public organization in order to satisfy the social stakeholders and gain political consensus.

Outsourcing choices in Public Organizations led to an increase in the level of quality of externalized services and a noticeable degree of organizational and service innovation, which has made the usefulness of an outsourcing policy in Public Organization services even more evident (Ghobadian and Gallear and Hopkins, 2007).

TQM and outsourcing work not only separated very well in public organizations. Outsourcing lays good foundations for an efficient TQM implementation. Outsourcing and TQM supplement each other and fit together very well to assure the efficiency of the public organizations with high quality and low costs at the same time.

Public Organizations can considerably improve their performance by adopting outsourcing and TQM (Radder, 1998), but under the condition that they develop an internal capacity for risk management that protects them from and manages the possible risks from a relationship with the private sector in all areas, from outsourcing to partnerships, cooperation with the private sector to project financing.

Risk management should be a continuous, iterative process of problem identification and resolution. The emphasis must be on proactive, not reactive management. Don't rely on risk recovery measures to clean up after an unwanted event occurring, or reduce the consequence if it does. The risk management structure needs to be embedded into the fundamental role of the Public Service

Having a risk management framework is not the solution to every problem within a public organization but it is how the organization executes it and its attitude to it that is the key.

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