P. Gazzola, M. Pellicelli

Sustainable Management and Total Quality Management in Public Organizations with Outsourcing 2009/3

UNIVERSITÀ DELL'INSUBRIA
FACOLTÀ DI ECONOMIA

http://eco.uninsubria.it

In questi quaderni vengono pubblicati i lavori dei docenti della Facoltà di Economia dell’Università dell’Insubria. La pubblicazione di contributi di altri studiosi, che abbiano un rapporto didattico o scientifico stabile con la Facoltà, può essere proposta da un professore della Facoltà, dopo che il contributo sia stato discusso pubblicamente. Il nome del proponente è riportato in nota all'articolo. I punti di vista espressi nei quaderni della Facoltà di Economia riflettono unicamente le opinioni degli autori, e non rispecchiano necessariamente quelli della Facoltà di Economia dell'Università dell'Insubria.

These Working papers collect the work of the Faculty of Economics of the University of Insubria. The publication of work by other Authors can be proposed by a member of the Faculty, provided that the paper has been presented in public. The name of the proposer is reported in a footnote. The views expressed in the Working papers reflect the opinions of the Authors only, and not necessarily the ones of the Economics Faculty of the University of Insubria.

Printed in Italy in July 2009
Università degli Studi dell'Insubria
Via Monte Generoso, 71, 21100 Varese, Italy

Sustainable Management and Total Quality Management in Public Organizations with Outsourcing

Patrizia Gazzola[1]
Faculty of Economics, University of Insubria,
Via Ravasi, 2, 21100 Varese, Italy
Phone: +39.0332.395529 - Fax +39.0332.395509
pgazzola@eco.uninsubria.it

Michela Pellicelli[2]
Faculty of Economics, University of Pavia
Via San Felice 5, 27100 Pavia, Italy
Phone: +39.0382.986.247 - Fax (office) +39.0382.986228
michela.pellicelli@eco.unipv.it

Abstract

The aim of this paper is to explore how Total Quality Management (TQM) can act as a foundation and key catalyst for developing Sustainable Management and Corporate Social Responsibility (CSR) within Public Organizations. In the public sector we have too often experienced low quality services, which have generated and perpetuated low expectations. The result has been great dissatisfaction and frustration, but not much action (Gaster, 1995). As any other organization, the Public Organization can apply TQM and thereby accomplish some improvements.

CSR is an emerging topic within organizational research and praxis. It has parallels to sustainable development, environmental protection, social equity and economic growth.

This paper shows specifically how to incorporate sustainability into a quality system by using a model that shows the relation between investment in quality and the variables *fame* and *reputation*.

The interest in the nature of the relationship between TQM and CSR is long-standing. The aim of the quality movement is to enable organizations to deliver high quality services in the shortest possible time to market, at minimum cost, and in a manner that emphasises human dignity, work satisfaction, and mutual and long-term loyalty between the organization and its stakeholders. As such, TQM has a strong ethical dimension, advocating the importance of considering the interests of stakeholders (Oppenheim & Przasnyski, 1999). In this paper outsourcing in Public Organizations is considered as an instrument for raising the qualitative level of services and thus for developing CSR.

First, the definitions of CSR are discussed. Second, the ethics in quality are described, followed by a discussion on existing quality models with regard to CSR. Third, the relationship between TQM and CSR is considered. We have analyzed the strong similarity between TQM and CSR, and outsourcing analysis is used to illustrate the combined CSR/TQM approach in Public Organizations. Finally, we have highlighted the main factors of resistance to externalization in Public Administrations and how these can be overcome by developing a *risk management* approach.

1. Sustainable Management for Public Organizations

In order to survive, contemporary organisations have to satisfy the needs and expectations of a number of stakeholders (Foley, 2005).

Depending on the actual context and dimensions of the public organizations, the stakeholders may include government, employees, clients and consumers, business partners (contractors and suppliers), related institutions, communities, or other actors with a strong influence on the organization (Freeman, 1984; Schilling, 2000; Foley 2005). Due to the demands of their stakeholders, organizations are often encouraged to work with a large variety of issues ranging from the economy, to quality and the environment, and to safety and social responsibility.

However, the stakeholders might not be the only actors that are affected by the organization, and

[1] The abstract and the conclusion were co-written by the authors; sections 1 to 8 were written by Patrizia Gazzola.
[2] The abstract and the conclusion were co-written by the authors, sections 9 to 12 were written by Michela Pellicelli.

satisfying the needs and expectations of the stakeholders does not necessarily mean that the organization is contributing to global sustainability. All those others actors - the interested parties - that lack the possibility of influencing organizational activities risk having the ability to fulfil their needs compromised. Therefore a gap between organizational and global sustainability might exist.

For organizational management, a range of management concepts has been developed over the years with the aim of promoting either organizational sustainability or global sustainability, or both. The points of departure for this thesis are three existing management concepts. The first is *environmental management* systems (EMSs), which have been developed to help organizations improve their environmental performance (Fresner, 1998). The second is *quality management*, whose aim is to increase customer satisfaction and improve organizational performance. The third is *stakeholder theory*, which is used as a way of including actors other than consumers that affect or are affected by organizational activities (Radder, 1998).

2. Sustainable Development and CSR

Sustainable development is often defined as "development that meets the needs of the present generation, without compromising the ability of future generations to meet their own needs" (WCED, 1987). A commonly used description of global sustainability is the *triple bottom line,* which describes global sustainability as an interlinked connection of environmental, economic and social sustainabilities (Elkington, 1999). Total economic activities should add enough value to guarantee everybody a decent life without damaging the ecological system in such a way that the survival of future generations is endangered (Garvare & Isaksson, 2001).

A promising new way to define "sustainability" for organizations, and to help them make it real, is to examine Corporate Social Responsibility (sustainability) (Hamner, 2006).

CSR is "the voluntary integration by firms of their social and environmental concerns and their business operations and relations with the interested parties".

"To be social responsible means not only fully satisfying the legal obligations but going further and investing more in human capital, in the environment, and in relations with the other interested parties" (Green Book of the European Commission, July 2001).

This is a clear message to organizations: they must voluntarily contribute to the progress of civil society and the preservation of the environment by bringing social and ecological valuations into the business transformation and into the governance relationship with stakeholders.

That growth is held to be sustainable which unites the economic, environmental (Clarkson, 1995) and social activities of every human activity, while maintaining its impact on the economic and financial capacity of the system in which it takes place.

CSR includes three areas of interface between the organization and its stakeholders:

a. the social area, with the aim of improving the influence of the public enterprise and sustaining social development in the community it operates in or in other regions;
b. the environmental area, with the objective of effectively managing the material and energy resources, reducing to the minimum possible level the environmental impact of the organization's activities;
c. the economic area, which can be included under the concept of corporate governance, understood as the respect by the organization's top management for the basic rules of behaviour in order to guarantee a transparent and effective strategic governance (Gandolfi, Klaus, Carletti & Gaffuri, 2003) aimed at the creation and distribution of value.

The objectives of public organizations must thus be achieved by balancing short-term priorities and long-term needs; in fact, only in this way will the strategies of public organizations concide with the need for a sustainable growth that respects the fundamental cultural and social values. Thus, focusing on structural and human capital, as the European institutions themselves suggest when they defined the meaning of CSR, means making social responsibility an important investment in sustainable growth and at the same time an equally important investment in the organization's reputation and longevity.

The European system has always asked the various organizations to assume a responsibility for the quality of life of their employees and their rights, for the territory they operate in, and to show respect for the environment.

3. The Ethical Foundations of Responsibility

By the ethics of responsibility we mean the managerial characteristic whereby organizations must be responsible to the outside world for the actions of their management; not only, in accordance to law, in terms of their objectives, but also to the collectivity in terms of, for example, employment and investment, the justice of their actions, and so on.

The changes generally under way in the economic and social contexts ensure that the increased attention paid to satisfying stakeholder expectations influences the success of the organization in meeting new challenges:

a. globalization presents organizations with new responsibilities regarding the economic situation in poor countries;
b. reputation depends increasingly on environmental policy;
c. the social sensibilities of customers has increased and is more focussed on the organization's behaviour and ethical values;
d. the increasing weight of human rights and workers' rights imposes new constraints on the management of human resources in the entire supply chain;
e. the growing importance of human capital underscores the need for personnel policies that make the most productive use of employees;
f. the various stakeholders demand increasing levels of correctness and transparency (Molteni, 2004)

These factors have led to a clear evolution in the concept of *social responsibility*, with a shift from a respect for stakeholder expectations to the responsible behaviour of the organization with respect to the entire socio-environmental system (Vaccari, 1998).

Social responsibility thus defines a transparent organizational behaviour based on ethical values (Crivelli, 2001) and a respect for employees, society and the environment (Borzaghi, 2003). In particular, the ethical aspects of *correctness, responsibility, transparency,* and the *respect of fundamental rights* play a crucial role, since the *social legitimization* of management's action depends on these, without which the organization could not survive and grow; however, this legitimization cannot be acquired unless the organization can publicly demonstrate that it has taken into account the compatibility of its development plans with the shared values of the social environment it operates in.

4. From Quality Management to TQM

Quality may be described in many ways. Most descriptions involve characteristics that are desired by the customers. In the beginning of the quality movement, the main objective was to minimize variability and reduce the number of defective products in order to satisfy the customers (Bergman & Klefsjö, 2003).

The modern quality movement originates from Japanese industry in the 1950s and is primarily based on the foundations laid by authors such as Edwards Deming, Joseph Juran and Kaoru Ishikawa (Bergquist & Garvare & Klefsjö 2006).

Bergman & Klefsjö (2003) have compiled a number of definitions of quality:

- “Fitness for use” Juran (1988)
- “Conformance to requirements” Crosby (1984)
- “Quality should be aimed at the needs of the customer, present and future” Deming (1986)

- “The degree to which a set of inherent characteristics fulfill the requirements, i.e. needs or expectations that are stated, generally implied or obligatory” ISO (2000).

The evolution of quality management is sometimes argued to have gone through four stages: quality inspection, quality control, quality assurance and total quality management (Dale,1999). The first stages may be described as more defensive, with product attributes being checked against requirements. The evolution then proceeded towards wider, more pro-active and holistic approaches that prevent problems from occurring at the source (Bergman & Klefsjö, 2003).

We use the following definition of TQM:

“TQM is a structured attempt to re-focus the organisation’s behaviour, planning and working practices towards a culture which is employee driven, problem solving, stakeholder oriented, values integrity, and open and fear free. Furthermore, the organisation’s business practices are based on seeking continuous improvement, the devolution of decision making, the removal of functional barriers, the eradication of sources of error, teamwork, honesty, and fact-based decision making” (Ghobadian and Gallear, 1996). TQM is a management system consisting of values, methodologies and tools aimed at satisfying or preferably exceeding the needs and expectations of the customers with a reduced amount of resources (Bergman & Klefsjö, 2003).

Management that chooses a management model that aims to satisfy stakeholders will thus be guided toward Total Quality Management (Kok & van der Wiele & McKenna & Brown, 2001).

The aim of a process is to deliver products that satisfy the customers. Therefore, definitions of a process often include the characteristic of activities that are repeated over time. It is the activities that create value to the customers that should represent the focus (Bergman & Klefsjö, 2003). Quality (Donabedian, 1980) is no longer viewed as the end point in a static context but as a pathway of continuous growth in a dynamic context.

The objective of a strategy based on Total Quality is to satisfy all stakeholders (consumers, suppliers and social groups, employees, etc.). The organization's output is no longer only its service: it also produces quality. Control must above all be carried out on the process, not at the end of the operation: if the process is of high quality the result will surely be one of quality: if the process has zero defects, so too will the service. The final quality of a service depends on the level of quality of each sub-process that leads to the final outcome.

The guiding values include:

1. consumer focus
2. increased responsibility for collaborators and continual improvement (introduction of teams and work groups to solve problems, along with the constant improvement of services)
3. improvements to the production process through rigorous methods of statistical control (not choosing suppliers based on price alone but working with them in the field as well)
4. redefining the supervising role and improving the system's capacity to upgrade equipment and assist personnel (allowing supervisors to indicate to management the problems to be eliminated)

Quality control is no longer the prerogative of a single function but of the entire firm and its customers, who continually redefine the standards.

From the organizational point of view, the redefinition of the standards in firms adopting TQM is carried out by the operational nucleus, which not only controls the standards (which previously were entrusted to managers and controllers) but also contributes to their definition. What remains to the quality function is only to determine strategies for quality policies.

From the systems point of view, in addition to negative feedback, which reduces waste, a self-observation process is set up which provides feedback standards evaluation: a second-level control system that represents the capacity for continual learning.

From the point of view of task organization, this new system relies on human capacities, motivation, and the ability of the personnel (Dixon, 1994).

From the point of view of human resource management, we must take into account the need to train personnel, transfer decision-making power to the operational area, develop teamwork, and motivate the personnel.

Generalizing, the principles of TQM (Hakman & Wageman, 1995) are the following:

1. Process orientation (JIT, process and input quality, quality circles)
2. Customer focus (co-makership and research, satisfaction)
3. Involvement of operational nucleus (quality circles, training)
4. Continual improvement (quality circles, statistical instruments and control mechanics)

The ultimate aim of the TQM approach, improving competitiveness, is achieved by improving customer satisfaction through the best possible product quality (Invernizzi & Molteni, 1992).

5. The Complexity of the Governance of Public Authorities

The governance of public enterprises 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 & 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 centers;
- 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 perfomance 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 mangerial 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.

Public authorities 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.

Thus, only a public enterprise 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).

6. Making Quality Sustainable in Public Organizations

We can point out several features peculiar to public services that determine their specificity and thus make them unique; these can be reduced to two conceptual constructs: the intangibility and immateriality of the processes and results. This explains the difficulty in identifying precise indicators, since this would entail measuring the intangible and standardizing the "non-quality", given that we are dealing with situations where:

• the services cannot be stored and there is the problem of determining the size of the production capacity;

• the service provided cannot be adjusted;

• there is a very close relation between the human elements regarding both the operator and the customer-client;

• the quality of a service is a parameter of operational coherence, the reproducibility of the processes, and effectiveness and efficiency;

• managing the service means coming into contact with a number of partners with different needs, demands and evaluation parameters, among which the customer, households, buyers, operators, etc.;

• the "instrument of work" (the operator) and the "object of work" (the customer who must satisfy a need) are two people who put into play and use experiences, desires, fears, aspirations, meanings, competencies, ghosts, projections, and symbols

The above assumptions imply the need to define a pathway for the specific quality of the service to be provided that avoids a mechanical transposition of the models of quality borrowed from manufacturing systems, since these do not reflect the characteristics of social services (Pollitt & Bouckaert & Loffler, 2007).

Quality means the capacity to satisfy needs, moral and material, social and economic, which are translated into certain requirements that are not generic but concrete and measurable.[3]

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 development of the culture and practise of quality and the relevant regulations has gone through a long history of evolution:

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 (quality management), 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).

Alongside the classic demand for quality mentioned above, there has been a demand for new and

---

[3] This definition was adopted by the *Annuario Ufficiale del Sistema Italiano di Qualità* [Official yearbook of the Italian System of Quality]; www.annuarioqualità.it

more comprehensive forms of quality, aimed at satisfying a wider range of needs from a larger group of stakeholders, 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.

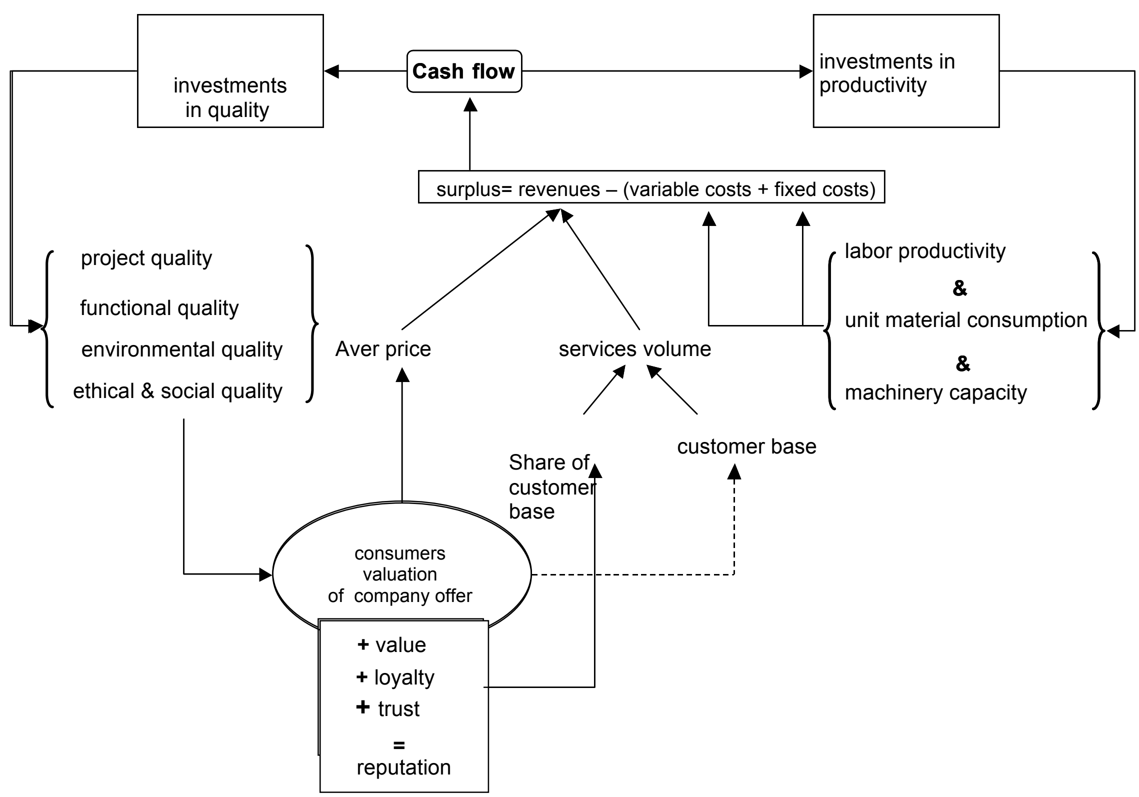
In fact, in the modern socio-economic context production and service processes must be managed so as to ensure not only the conformity of results to the specific functional and performance requirements in question, but also environmental protection (understood as the eco-system these processes interact 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).

The model in Fig. 1 shows how investments made to produce socially-responsible behaviour that leads to improvements in environmental, ethical and social quality as well as in productivity lead to an improvement in reputation and positively influence company performance.

Starting from the investments in quality and productivity, the model shows how such investments can be decisive for the fundamental variable of notoriety and reputation. In fact, such investment influences the perception that stakeholders have of the firm, allowing them to assess its reliability, and generates an appreciation of the firm, which are the engines behind the trust of customers and the environment.

The investments in CSR depend on the environmental quality of the public organization. In fact, each investment in CSR is an investment that can maintain the value-loyalty-faith triad of the consumers and is therefore synonymous with reputation (Gazzola & Mella, 2006).

Fig. 1 – The relation between quality and CSR (Gazzola & Mella, 2006, with modifications).



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. A relationship of trust creates correct behaviour within and outside the organization, and CSR thus takes on an existential value by improving internal and external relationships, thereby favoring not only the relations with suppliers and customers but also with the local community in which the organization operates, leading to a strengthening of the social network and a medium- to long-term return (Goleman, 2006).

8. TQM and Corporate Social Responsibility

TQM is one of the most durable management innovations of the past three decades, and it has been implemented worldwide in service, manufacturing, private, public, large and small organizations (Ghobadian & Gallear, 2001). Corporate Social Responsibility (CSR), on the other hand, is a more recent phenomenon and dates back to the 1980s (Carrol, 1991). However, CSR, like TQM, impinges on all facets of organizations.

The issue that has interested scholars in the field of TQM and CSR is the degree of overlap between these two powerful and all-embracing concepts. Clearly, if the two concepts have a great deal in common then TQM, with its greater penetration in organizations of all shapes and size, can act as a key catalyst for developing CSR within the organization (McAdam & Leonard, 2003). TQM is perceived as organization-friendly and compatible with the primary goal of organizations (Ghobadian & Gallear, 1997), while it is possible for managers to reject CSR on the grounds that moral principles are incompatible with those of rational principles (Donaldson & Werhane, 1988; Ahmed & Machold, 2004).

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 & Liu, 1998). Similarly, CSR accepts the legitimacy of the goal of the organization, but it considers value-based behaviour - for example, valuing people and the environment – as the root to sustainable performance. Hence, TQM can play an important part in facilitating a deeper penetration of CSR in a broad range of organizations (Ghobadian & Gallear & Hopkins, 2007).

Ethics in business is not merely philanthropy but an essential foundation upon which organizations are founded and through which business improvement can be achieved and better communities developed (Moir, 2001). Similarly, total quality management (TQM) is founded on ethics, which leads to organization improvement theory and practice. Thus, it can be argued that CSR has always been a major influence in organizations and that it is now growing more rapidly. CSR has a strong affinity to the principles of quality management.[4]

Quality practitioners and researchers have the responsibility of ensuring that the ethical basis of quality is not overlooked and that quality management takes a leadership role in promoting ethical practices (Zairi & Peters, 2002).

Therefore, CSR will not simply happen because an organization has TQM: to make it happen it is necessary to address the issue explicitly. Moreover, it is necessary to adjust the elements of TQM so

---

[4] Similarly, Vinten (1998) stated that the TQM concept intersects with the legitimate ethical and instrumental dimension of CSR. Wicks and Freeman (1998) share this sentiment and point out that TQM is driven by a set of interrelated concepts that simultaneously feature management practice and moral values. In its aims, TQM encompasses concepts and practices that strive to work for the benefit of all stakeholders. Moir (2001) argued that both TQM and CSR shared similar ethical anchors.

that they consciously address facets of CSR (Ghobadian & Gallear & Hopkins, 2007).

9. Outsourcing, Productivity and Efficiency

Outsourcing choices are one way to increase efficiency and quality in any type of organization, both public or 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 Administration:
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.

10. Outsourcing Analysis for the TQM/CSR 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) in order to favour Corporate Social Responsibility (CSR). 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.

According to the Value Based Management and Corporate Social Responsibility 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.

11. Outsourcing in Public Organizations

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 Administrations (PA) 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 PA 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 PA 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.

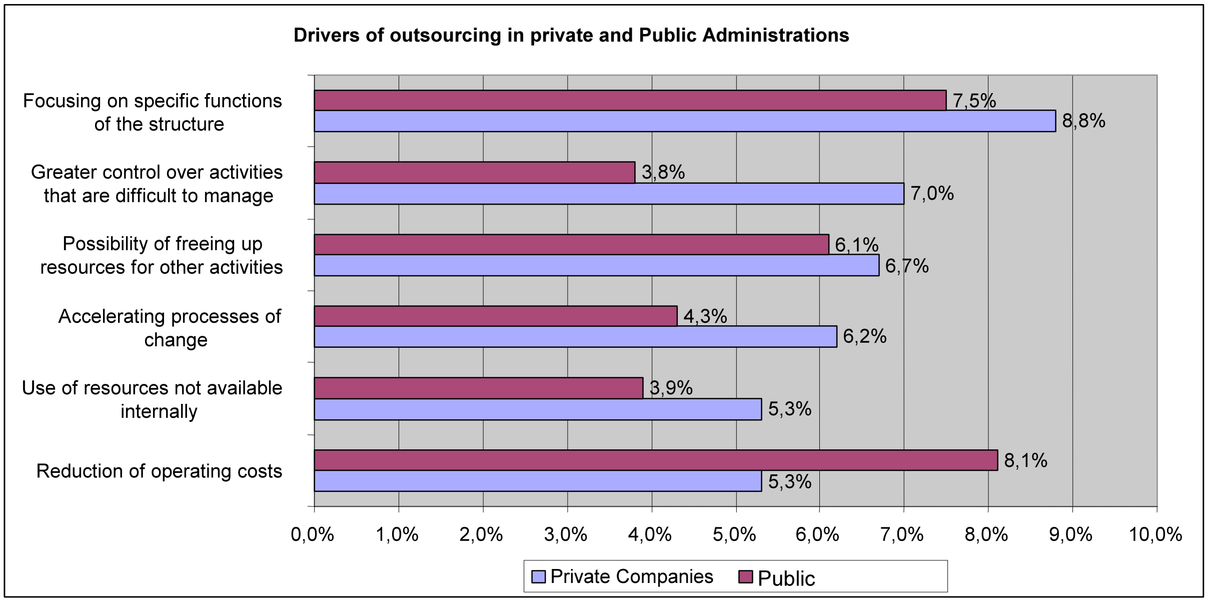
This has led, on the one hand, to broadening the functions of the PA, and on the other to increasing the capacity of customers and citizens to assess the quality of the economic, social and political services provided by the PA.

Thus, a modernization of the administrative structures of the PA 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 PA in order to satisfy the social stakeholders and gain political consensus.

According to a study by Ernst & Young (2007), the main drivers of outsourcing in the Public Administration are those indicated in Fig. 2.

Fig. 2 – *The motivations for outsourcing in companies and the Public Administration*



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

In order to understand the logic of outsourcing in PAs 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, 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 Administration 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.

12. Outsourcing and TQM. The Role of Risk Management

Recent research has shown that 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 Administration services even more evident.

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

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 Administrations.

The aforementioned discussion reveals the close relation between TQM and CSR; Public Organizations can considerably improve their performance by adopting outsourcing, 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.

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 function in Public Administrations 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

Quality provides: ‘‘competitive services of excellent and durable quality, delivered in the shortest possible time to market, 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 & Przasnyski, 1999). This position is adopted by the American Quality Society (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’’. Thus, TQM has a foundational similarity to CSR in that it has an ‘‘ethical anchor’’ considered essential for CSR development (Moir, 2001; Woods, 1991). Organizations are becoming more aware of how consumers view their impact with regard to CSR. Thus, using existing TQM conduits of organizational change to develop CSR in organizations will not compromise the underlying principles of CSR or TQM (Kok & van der Wiele & McKenna & Brown, 2001).

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. This principled basis of quality is one of the key factors that identify it as a key area of influence in CSR.

In short, TQM, both historically and currently, is consistent with both the legitimate ethical and instrumental sides of CSR. This congruity suggests the possibility of incorporating CSR into organizations more effectively and with shorter timescales by using existing TQM organizational change conduits and processes (Vinten, 1998).

A contemporary Public Organization with outsourcing must not only effectively manage the quality of its services but also master and implement the ethical and instrumental sides of CSR.

Outsourcing choices in Public Organizations has in fact 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 Administration services even more evident.

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 PA in order to satisfy the social stakeholders and gain political consensus.

There is also a close relation between TQM and CSR. Public Organizations can considerably improve their performance by adopting outsourcing, 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.

References

Abraham K., Taylor T., (1996), "Firms' use of outside contractors: theory and evidence", *Journal of Labor Economics*, 14, 394-424.

Ahmed, P. K. and Machold, S. (2004) "The quality and ethics connection: toward virtuous organizations", *Total Quality Management*, Vol. 15 No. 4, pp. 527-545.

Anderson J., Weitz B., (1986), "Make-or-buy decisions: Vertical integration and marketing productivity", *Sloan Management Review*, Spring 3-19.

Bergman, B. & Klefsjö, B. (2003). Quality from customer needs to customer satisfaction. Second edition. Studentlitteratur, Lund.

Bergqvist, B. Garvare, R. & Klefsjö, B. (2006). "Quality Management for tomorrow." To appear in Quality Management and Organizational Excellence: Oxymorons, empty boxes or significant contributions to management thought and practice (eds. Foley, K., Hensler, D. & Jonker, J.). Standards Australia International Ltd., Sydney.

Bohdan, W. and Przasnyski, Z. (1999), ''Total quality requires serious training'', *Quality Progress*, October, pp. 63-73.

Borgonovi E. (2005), Principi e sistemi aziendali per le amministrazioni pubbliche [Principles and corporate systems for public administrations], Egea

Borzaghi P.M. (2003) (ed.), *Social Dialogue*, SEAN, anno I,V No. 6, luglio

Carrol A.B. (1991), The pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders, in Business Horizons, June-August.

Chalos P., (1995), "Costing, control and strategic analysis in outsourcing decisions", *Journal of Cost Management*, Winter 31-37.

Clarkson M.B. (1995), a stakeholder framework for analyzing and evaluating corporate social performance, *Academy of Management Review*, volume 20, n. 1

Crivelli G. (2001), *Global Compact. La responsabilità sociale delle imprese secondo l'ONU* [The social responsibility of the firm according to the U.N.], Etica ed Economia, Nemetria, 2

Crosby P. B., "Quality without tears. The art of the hassle-free management", McGraw-Hill, New York 1984.

Crosby, P. (1986), *Quality Without Tears: The Art of Hassle Free Management*, McGraw-Hill, NY.

Dale, B.G. (1999). Managing quality. Third edition. Blackwell. Malden, Massachusetts.

Deavers K., (1997), "Outsourcing: a corporate competitiveness strategy, not a search for low wages", *Journal of Labor Research*, 18 (4), 503-519.

Deming, W.E. (1986), *Out of The Crisis*, MIT Press, NY.

Devastato G. (2006) Creare valore –produrre senso: il modello attivo di qualità sociale del Cnca [Creating value – producing meaning: the active model of social quality of the Cnca], Convention proceedings, La Qualità Welfare 2006

Dixon N. (1994), The organizational learning circe, McGraw Hill, London

Donabedian A. (1980), The Definition of Quality and Approaches to its assessment, Health Administration Press, Ann Arbor, Michigan

Donaldson, T. and Werhane, P. H. (Eds). (1988), *Ethical Issues in Business: A Philosophical Approach*, Prentice Hall, Engelwood Cliffs, NJ.

EIPA (2005), Study on the Use of the Common Assessment Framework in European Public Service. European Institute of Public Administration (IPA), Maastricht

Elkington, J. (1999). Cannibals with forks: the triple bottom line of 21st century business. Capstone, Oxford.

Fixler D., Siegel D., (1999), "Outsourcing and productivity growth in services", *Structural Change and Economic Dynamics*, 10, 177-194.

Foley, K.J. (2005). Meta-management: a stakeholder/quality management approach to whole-of-enterprise management. SAI Global, Sydney.

Freeman R.E. (2003), Stakeholder Theory and Organizational Ethics. Berrett-Koehler Publishers

Freeman, R.E. (1984). Strategic management: a stakeholder approach. Pitman Publishing Inc., Marshfield, Massachusetts.

Fresner, J. (1998). Cleaner production as a means for effective environmental management. Journal of Cleaner Production. 6(3): 171-179.

Gandolfi A, Klaus R.,Carletti C., Gaffuri J., La responsabilità sociale delle imprese: attori, modelli. Cos'è cambiato e cosa sta cambiando [The social responsibility of firms: actors; models. What has changed and what is changing], Quaderni di Management E.G.V. Edizioni srl, issue 4/2003

Garvare, R. & Isaksson, R. (2005). Organisational Sustainability Management through Minimised Business Excellence Models. Proceedings from the 3rd nternational Working Conference Total Quality Management – Advanced and Intelligent Approaches. Belgrade.

Gaster L. (1995), Quality in public services: managers' choices, Open University Press, Buckingham

Gazzola P, Mella P. (2006), Corporate performance and Corporate Social Responsibility (CSR). A necessary choice?, Economia Aziendale 2000 web, 3/2006, at: www.ea2000.it: 1-22.

Gazzola P., Pellicelli M. (2009), The corporate responsibility report between private interest and collective welfare, Economia Aziendale 2000 web, at: www.ea2000.it, , 1/2009, 109-138.

Ghobadian A., Gallear D. (1997), "TQM and organization size", *International Journal of Operations and Production Management*, Vol. 17 No. 2, pp. 121-163.

Ghobadian A., Gallear D. (2001), "TQM implementation: An empirical examination and proposed generic model", *OMEGA- International Journal of Management Science*, Vol. 29 No. 4, pp. 343-359.

Ghobadian A., Gallear D., Hopkins M. (2007), TQM and CSR Nexus, *International Journal of Quality and Reliability Management*, 2007, 24(2): 704-721

Ghobadian, A and Gallear, D. (1996) "Total Quality Management in SMEs", *OMEGA - International Journal of Management Science*, Vol. 24 No. 1, pp. 83-106.

Goleman D. (2006), Intelligenza sociale [Social intelligence], Rizzoli

Green Paper (2001), European Commission, “Green Book. [Promoting a European framework for Corporate Social Responsibility], COM (2001) 366

Hakman J.R., Wageman R. (1995), Total Quality Management Empirical, Conceptual, and Practical Issues. Administrative Science Qauterly. 40: 309-342

Hamner B., (2006), Integrating market-based sustainability indicators and performance management systems, Palgrave Macmillan Journals 2006

Heshmati A., (2003), “Productivity growth, efficiency and outsourcing in manufacturing and service industries”, Journal of Economic Surveys, vol 17, no.1.

Hill C., Jones G. (2005), Strategic management, Houghton Miffflin, Boston.

Invernizzi G., Molteni M. (1992), Analisi di bilancio strategica. Strumenti per valutare posizione competitiva, vulnerabilità, patrimonio intangibile [Analysis of the strategic balance. Instruments to assess the competitive position, vulnerability, intangible assets]. Etas Libri SpA, Milan

Juran J.M., Juran's quality control handbook, Ed. MCGraw-Hill New York 1988

Juran, J. and Gryna, F. (1993), *Quality Planning and Analysis*, McGraw-Hill, NY.

Kok, P., van der Wiele, T., McKenna, R. and Brown, A. (2001) “A corporate social responsibility audit within a quality management framework”, *Journal of Business Ethics,* Vol. 31 No. 4, pp. 285-297.

McAdam, R. and Leonard, D. (2003) “Corporate social responsibility in a total quality management context: opportunities for sustainable growth”, *Corporate Governance*, Vol. 3 No. 4, pp. 36-45.

Mella P. (1992), Economia aziendale [Business economics], Utet, Turin.

Mella P. (1997), Controllo di gestione [Management control], Utet, Turin.

Mella P. (2005), Performance Indicators in Business Value-Creating Organizations, Economia Aziendale 2000 web, at: www.ea2000.it, 2/2005, 25-52.

Mella P. (2008), Aziende 1, FrancoAngeli, Milan.

Moir, L. (2001) “What do we mean by corporate social responsibility?”, *Corporate Governance: The International Journal for Effective Board Performance*, Vol. 1 No. 2, pp. 16–22.

Molteni M. (2004), "Responsabilità sociale e performance d’impresa. Per una sintesi socio-competitiva" [“Social responsibility and corporate performance. A socio-competitive synthesis”], Vita e Pensiero, Milan

Oppenheim, B. W. and Przasnyski, Z. H. (1999) “Total quality requires serious training”, Quality Progress**,** Vol. 32 No. 10, pp. 63-73

Pellicelli M. (2003), Value based management. Un approccio manageriale al tramonto? [Value based management. A managerial approach on the wane], Economia Aziendale 2000 web, at: www.ea2000.it3/2003, 71-84.

Pellicelli M. (2007), Creazione di valore e Value Based Management [Value creation and Value Based Management], Giappichelli, Turin.

Pollitt C., Bouckaert G., Loffler E. (2007), Making quality sustainable: co-design, co-decide, co-produce, co-evaluate, Ministry of Finance Edita Prima Ltd, Finland

Radder, L. (1998). Stakeholder delight: the next step in TQM. The TQMMagazine. 10(4): 276-280.

Rebora G., Meneguzzo M., Strategia delle amministrazioni pubbliche [Strategy of public administrations], Turin, UTET, 1990

Roodhooft F., Warlop L., (1999), “On the role of sunk costs and asset specificity in outsourcing decisions: a research note”, Accounting, Organization and Society, 24, 363-369.

Schilling, M.A. (2000). Decades ahead of her time: advancing stakeholder theory through the ideas of Mary Parker Follett. 6(5): 224-242.

Thione L. (2005), Qualità e pubblica amministrazione [Quality and public administration], Relazionie Sincert 2005

Vaccari A. (1998), *Principi in pratica. Bilancio sociale e cittadinanza d'impresa* [Principles in practice. Social balance and corporate citizenship], Liocorno, Rome.

Van Mieghem J.A., (1999), "Coordinating investment, production and subcontracting, Management Science, 45 (7), pp. 954 – 970.

Vinten, G. (1998) "Putting ethics in quality", *The TQM Magazine*, Vol. 10 No. 2, pp. 89-94.

WCED (World Commission on Environment and Development) (1987). Our common future. United Nations Environment Programme, Nairobi.

Wicks, A. C. and Freeman, R. E. (1998) "Organization studies and the new pragmatism: Positivism, anti-positivism, and the search for ethics", *Organization Science*. Vol. 9 No. 2, pp. 123-140.

Williamson O., (1989), "Transaction cost economics". In Schmalensee R., Willig R., (eds.), Handbook of Industrial Oraganization, Volume 1 (pp. 136-181), Elsevier.

Wood, D. (1991) "Corporate social performance revisited", *Academy of Management Review*, Vol. 16 No. 4, pp. 691-718.

Zairi M., Peters J. (2002), The impact of social responsibility on business performance, Managerial Auditing Journal, Vol. 17 n. 4 pp. 174 – 178.