



Use of rules in decision-making in government outsourcing[☆]

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ABSTRACT

The paper reports research on the nature of use of rules in decision making process by government entities in outsourcing commercial activities. The study used multiple data sources such as in-depth personal interviews of multiple categories of respondents, documentary evidence, and observation. The findings indicated that Government organizations use un-written ground rules as the main means of managing outsourcing processes.

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1. Introduction

This paper addresses issues related to use of rules in decision making for outsourcing by Government entities in a not for profit context. Kardasis and Loucopoulos (2005) argue “all the rules that are applied consciously or subconsciously within an organization are hidden behind the rationale of the various enterprise structures and ways of working, and behind the decision paths that have been and are being taken at the various enterprise development stages” (p.329). The theoretical framework of the study is primarily derived from industrial marketing and more precisely, the buying center concept (Johnston & Lewin, 1996; Wind, 1967a). This paper particularly focuses on the subset of organizational buying behavior literature that deals with (a) decision making – use of rules, formal, informal etc., (b) government outsourcing, and (c) outsourcing in a not-for-profit-context. The paper investigates the nature of use of formal and informal rules in the decision making process of Government entities in awarding outsourcing contracts. Within the broad context of Government outsourcing, the particular aspect that is addressed is procurement against foreign aid funded projects.

In the organizational buying literature, a buying center is described as an “informal, cross-departmental decision unit” in which the primary objectives are the acquisition, importation, and processing of relevant purchasing related information (Spekman & Stern, 1979, p.56). While

buying centers in for-profit organizations usually comprise participants from the buying firms, the buying centers of Government entities include participants from both in and outside the entity.

The structure of the remainder of this paper is as follows. First, a brief review of the current literature is presented. This section focuses on role of rules in Government outsourcing, variance in application of rules in Government outsourcing and the consequence of inability to fully specify rules. Thereafter the research design is outlined followed by data analysis and implications of this research. The paper ends with conclusion.

2. Literature review

2.1. Role of rules in government outsourcing

Institutions are defined by Ostrom (1999, p.37) as “shared concepts used by humans in repetitive situations organized by rules, norms and strategies” and in performing repetitive and formalized tasks, formal organizational rules and regulations often govern them (Lau, Goh, & Phua, 1999). Therefore, outsourcing tasks in Government entities would be expected to be guided by the rules and regulations and follow a formal decision process. Written rules have the benefits of standardizing outsourcing processes and making them more transparent. According to Hoekman (1998, p.266) “government procurement is a key interface between the public and private sectors. Not only is public purchasing of fundamental importance in ensuring that government gets the best value for its money, but procurement practices figure prominently in the way potential investors and civil society at large view a country”. Jackman (2004, p. 107) argues the strength of regulation usually is a function of a rather crude cost-benefit analysis of the perceived risks set against the supposed burdens of rule making. Kardasis and Loucopoulos (2005, pp. 322–4) argue procurement rules are intentional rules that “concern purchasing of materials or sub-contracting of business

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services. Relevant activities are supplier/service provider selection, supplier relationships management, material procurement, service procurement and payables management". According to [Kardasis and Loucopoulos \(2005, p. 322\)](#) intentional rules "are expressions of business rules seen from a business context perspective. They express laws, external regulations, or principles and good practices, which constrain the way an organization conducts business. Laws are imposed by the legal system of the environment in which the organization operates (e.g. the State enforces laws on the estimation of taxes). Regulations are not legally binding but are imposed by other organizations as a prerequisite for interacting with them (e.g. an organization may have regulations about the content, structure and appearance of service offerings submitted by other companies to them)."

Organizations, particularly public organizations, also develop procedural rules "to relegate monitoring responsibility to the parties that have an interest in a specific agency decision" ([Greenstein, 1993, p. 159](#)). [Ng and Dastmalchian \(2001\)](#) argue that managers of public organizations generally have to deal with more stakeholder groups such as civil servants and clients and political leaders, compared to privately owned organizations. Therefore, public managers need to develop control-rules to insulate and protect themselves against the possible conflicting demands of various stakeholders. Some research suggest negative impacts of regulations such as less efficient processes on organizational productivity ([Majumdar & Marcus, 2001](#)) or in some cases findings suggest ineffective application of regulatory policy, particularly in government procurement ([Penska & Thai, 2000](#)). [Ng and Dastmalchian \(2001\)](#) argue "organizations develop control rules to "coordinate the activities of organizational members for efficiency purposes and to provide supervisors with a means to exert their authority. These rules also ensure that the activities and tasks expected of subordinates are well defined" (p. 18). [Ostrom \(1999\)](#) in her "Institutional Analysis and Development" (IAD) framework categorized the rules that may be important in government purchasing. These are entry and exit rules, position rules, and authority rules.

2.2. Variance in application of rules in government outsourcing

[Edwards and Wolfe \(2005\)](#) argue "compliance in general terms is the adherence by the regulated to rules and regulations laid down by those in authority. Not only does compliance mean adherence to the letter of the law it also is just as concerned with adherence to the spirit of the law" (p.48). Therefore, the existence of a set of rules or regulations is not a sufficient condition to have the work done in a manner that the spirit of the law would require. [Thai and Grimm \(2000, p. 231–232\)](#) argue that equity, integrity and economy (efficiency) are the three basic characteristics of a sound government outsourcing system which are not easy to achieve.

[Mac Lean \(2001, p. 168\)](#) argues, "organizational members violate organizational rules (and often the law) both on behalf of and at the expense of the organization". In some instances, breaking written rules may be acceptable from the organizational cultural point of view. There is evidence of organizational members applying "unwritten ground rules" (UGR) that operate in an organization ([Simpson & Cacioppe, 2001](#)) or interpret rules, regulations or laws in a manner biased to favor the implementing agency ([Nichols, 2002](#)). However, whether the statutory policy dictates the rules or evolves from organizational tradition or a combination of UGRs, regulations or traditions, "decision rules do exist" ([Webster, 1965, p. 374](#)). [Sinclair \(2000\)](#) argues that government outsourcing translates policy objectives into action and produces outcomes that are intended to influence society and "when a purchasing officer makes an award decision from a set of bids that he/she has received, he/she is operating within an operational context in accordance with formal and informal rules and norms that guide his/her day-to-day decisions. These operational rules-in-use are nested within a structure of collective choice rules" (p.293). Therefore, a study of this kind needs to map the decision rules that are applied.

According to [Kardasis and Loucopoulos \(2005, p. 322\)](#) principles/good practices are recommended ways of working; leading to the acceptance of an organization by its environment (e.g. a company may adopt the principle of equal opportunities for employing personnel). According to [Greenstein \(1993\)](#), "complex decisions would seem to be an attractive situation for delegated monitoring through procedural rules, since complex situations are virtually by definition, very costly for the principal to monitor". [Greenstein \(1993\)](#) argues that the enforceable procedural rules may not be ideal as these typically will prohibit use of subjective information and instead rely on quantitative data, they cannot be fine-tuned to all contingencies. If the rules are strictly enforced, agencies must satisfy these measures in every instance, whether or not this makes sense in every case and whether or not the regulatory body such a Congress in the case of the US, looking with hindsight, would have wanted them enforced.

[Greenstein \(1993\)](#) applied his arguments of high cost or high resistance, and in some cases, changing rules, and found that procedural rules cannot be fine-tuned for all possible situations. [Mattoo \(1996 p. 717\)](#) argues that "in a world where imperfectly informed procurers purchase from imperfectly competitive firms on behalf of imperfectly informed tax payers, it is not easy to devise rules which would be optimal in all situations. Consequently, they employed verifiable information that is appropriate in some cases but too rigid on others".

2.3. Consequence of inability to fully specify rules

The inability to fully specify rules ([Mattoo, 1996; Williamson, 1998; Evans and Schultz, 1996; Ostrom, 1999](#)) leads to the implementation of imperfect transactional instruments such as outsourcing rules and regulations, contracts and so on. [Jackman \(2004, pp 109–110\)](#) argues "Regulation gives, apparently, straight answers. In a given situation, a practitioner looks at the Handbook to see if there is a rule that covers the question or not. If there is a rule then, hey presto, they find the answer. The trouble is that many situations will not be covered by rules. In addition, the rules may not be clear enough, and hence the practitioner needs some legal compliance interpretation. Finally, the answer may not be sufficiently clear and leaves the practitioner making a decision on their own in any case."

Furthermore, the involvement of organizations external to a Government entity is important for its decision processes. In addition to suppliers' organizations ([Johnston & Lewin, 1996](#)), a buying center of a Government entity may also require interaction with monitoring or regulatory bodies ([Ostrom, 1999; Rasmussen, 2000](#)). Government entities are to work for multiple principals with control mechanisms ([Dixit, 1996; Pearson & Entekin, 1998; Williamson, 1998](#)) that may be unique to these organizations. Therefore, Government entity outsourcing warrants an investigation of how they apply rules in their outsourcing decisions.

Studies in this field are mostly concerned with private for-profit sectors and outsourcing behavior in the context of public purchasing has received limited attention ([Johnston & Lewin, 1996; Reid & Plank, 2000; Thai & Grimm, 2000](#)) and "most of the studies with respect to government purchasing have been conducted at a generic overview level" ([Templin & Heberling, 1994, p. 43](#)) or conceptual ([Luqmani, Habib, & Kassem, 1988](#)) or perceptual ([Karande, Shankarmahesh, & Rao, 1999](#)), but primarily based on an overview of how the selection criteria were viewed or processed. Some other studies, on public sector purchasing have dealt with the bidding process, with little attention as to how the rules are applied in a real life situation.

3. Research design

The discussions presented in the literature review section indicate a need to map the nature of rules and the ways the rules are interpreted or applied by Government entities in making outsourcing decisions. This research aims to address these issues. In view of the

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