

# *Human Resource Outsourcing in the Municipality Administration on the Example of Municipality of Varna*

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**Abstract:** *The present stage of social development is characterized by dynamic uncertainty. Both business organizations and public sector organizations are under pressure, driven by the necessity to perform their key activity in terms of continuous requirements for cost cutting and penury of time and human resources. The complexity of modern organizational processes has led to emergence of service providers able to manage effectively the reallocation of labour flows and to offer effective solutions for human resource management (HRM). These functions relate to outsourcing human resources (HR functions outsourcing), just one of the various outsourcing of business processes.*

**Keywords:** *New Public Management, outsourcing, municipality administration.*

**JEL:** *H83; R28, Q58.*

## **Introduction**

The integration of Republic of Bulgaria into the European Union and constant growth of social demand for improvement present serious challenge to the municipal administration and its civil servants. These facts combined with the administrative reform dictate focused efforts in order to apply rules and mechanisms for human resource management in local government with a view to improve the quality and effectiveness of administrative services. Human resource management in municipal administrations should contribute to enhance public confidence and perceptions of civil servants in the public sector as a highly qualified staff, able to deal professionally with requirements set and to work in service for the public interest. However, given that the largest item of expenditure in the municipal budget is the payroll, one may forecast that the expected level of expenditure requires a reduction of payroll numbers. Thus, in order to maintain the quality of services offered to citizens and businesses the outsourcing is a solution to explore.

The classical **definition of outsourcing** is: *a model for optimization of organizations' activities involving transfer of non specific processes and functions to external, specialised suppliers.* Non specific functions are common to

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management of each organization, such as: accounting, IT, office and small items supplies, logistics, marketing, personnel management and similar.

It is proven that outsourcing is winning strategy for the private sector worldwide, but by developing approaches for proper transfer and administration, public organizations are able to achieve the same advantages. The problem of applying outsourcing in the public sector is widely examined and discussed, but the approach of theoreticians and practitioners in terms of choosing organizational strategy for the public sector is far from being united and one.

As far as the New Public Management (NPM) refers to outsourcing as a tool leading to quality enhancement of public services, and just one option in public administration reform, world leaders in the implementation of human resource outsourcing (HRO) in public sector, such as the administrations of USA, UK and Australia, have already acquired significant experience and enjoy good practices in its application. The state Victoria in Australia has pioneered the practice. It has begun to outsource its payroll management, its HR policy and information systems as far back as 1996. Cost cuts effectiveness reached some 30%.

The advantages achieved by outsourcing the HR function apply not only to organizational efficiency, but, not least, to civil servants. Outsourcing has ambiguous impact on human resources. For many civil servants the responsibilities under the outsourcing appear to be quite attractive, because of unveiling new and different opportunities such as better communication, faster feedback, fast problem solution, computer training courses, career development programs for motivation and career development of 'do-it-yourself' type. These elements raise the spirit of those employed in public administration and generally improve the quality of service provided by the civil servants. However, for some civil servants, outsourcing creates several problems: some of the assistants chose to transfer themselves to the outsourcer, while other are dismissed because of the inevitable cutback in payroll. Outsourcing can cause changes in hire contracts for civil servants, which are associated with complex benefits such as medical, insurances, social security etc.

Outsourcing is not a smooth process, and as many authors claim, it is no panacea. Public organizations set different goals than those of the private sector and it is impossible to apply directly the private sector model of outsourcing to public administration units. The approach should take into consideration such aspects as political climate, trade unions, local economy, the situation in terms of employment, and available and needed resources for investment.

Managers in public administration should very carefully consider potential negative consequences, such as dismissals, transfer of skills, costs of social assistance to unemployed, destruction of local economic climate, against the possible benefits from implementing the outsourcing model. Faced with the need for large investments in new HR systems and processes of modernization in human resource management in times of persistent shortage of resources, the public sector

should thoroughly analyze the possibilities how to make best use of outsourcing. An assessment methodology should be developed on outsourcing, which should identify those processes and functions that have the greatest prospective for transfer of performance to an external specialist provider.

### **1. Outsourcing through the prism of the New Public Management**

Outsourcing, i.e. contracting out services from the private sector on certain processes within the public management, is not a new concept for public managers. The business model of contracting out from such activities as the implementation of infrastructure public projects to consulting services is applied more and more frequently due to increased popularity of New Public Management concept. The ideas that support this concept are in essence associated with rationalization of government and public services functions through adoption of methods and best practices of private sector companies and organizations.

Since the Eighties and until present the transfer of management models evolved in the private sector in the public one is dominating trend in public policy. The concept of New Public Management (NPM) is part of that management trend, focusing on cost efficiency and organizational flexibility. The NPM model is sort of 'ideological comrade' of neoclassical liberalism and its main purpose is to transfer and apply successfully management principles from the private to public sector. The key concepts of NPM are: *effectiveness, efficiency, delivery, flexibility, assessment and performance measurement*. Obviously the list does not contain the normative ideas of *equality, common good and justice*.

The traditional model of Old Public Administration (OPA) considers government as leading organization responsible for law enforcement and management of public order. Focused on bureaucracy and administration structure, the OPA is characterized by clumsiness and inefficiency of administrative processes. The increasing processes of market globalization and liberalization make the ineffectiveness and inefficiency of OPA more and more visible. The success of TNC approaches within the framework of dynamic uncertainty prompted for the shift of reformists focus on the shortcomings of the traditional bureaucratic model, which led both researchers and practitioners in the field of public administration to study the practices of the private sector with the idea to transfer them to management in the public sector. Thus was born the concept of New Public Management. Comparative analysis between NPM and OPA is proposed in Table 1.

The transition from 'administration' to 'management' defines the change of paradigm. Instead of an organization focused on implementing procedures and laws, government came to be perceived as an organization with resources to provide high quality services to the society. Leaders in implementing the NPM ideas are the developed countries in Europe and North America, since they are pioneers in establishing strong capitalist markets, which could contribute to such a

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change in the dynamics of delivering of public services, the private sector there is sufficiently stable to serve both as model and as potential provider to public organizations. Liberal economic system and understanding in these countries contain the prerequisites for emergence and future development of the concept.

**Table 1. Comparative analysis of OPA and NPM**

	<b>Old model of public administration</b>	<b>New Public Management</b>	
<b>Required qualifications for recruitment and staffing</b>	Recommendations from academic institutions or training according established curricula	→	Technical skills and experience
<b>Structure and decision taking process</b>	From top downward	→	From bottom to top
<b>Participation of private sector in service provision process</b>	Centralized with limited participation of private sector	→	Decentralized (openness to private sector participation)
<b>Users of public services</b>	Citizens abiding procedures and law	→	Clients and tax payers to serve
<b>Ways to overcome issues and challenges</b>	Legislation or institution of new agencies / departments	→	Innovations and use of new technologies

**The business model of outsourcing satisfies these criteria**

Public organizations do not differ much of large corporations, given the fact that the key objectives in exercising their functions and powers are cost cuts and increased operational efficiency. Like private corporations, the bodies of executive power cannot afford to be linked to voluminous processes implemented on a routine basis. Despite the difference in the strategic lines, as the private sector is driven by profits, while public sector aims to ensure that all citizens will reach those services and benefits that the government should provide, public and private sectors tends to limit their express participation in functions that are not contributing directly to the realization of their goals, but are just auxiliary. Organizations from both sectors need to release resources from functions that do not improve their core competencies.

Precisely in order to achieve these objectives, public sector managers are turning to the outsourcing model. Data management and IT infrastructure are examples of processes that are necessary for the activity of large organizations. These processes are not only demanding large resources, but both sectors have an interest to maintain the fixed costs as low as possible in order to maximize the

value of the services and / or products they provide. Similar to optimization of profits in the private sector, by reducing fixed costs, governments are able to enhance delivery of public services to citizens, not only by expanding access to such services, but as well to increase their benefits. Among the most experienced countries in outsourcing public sector administrative processes are the U.S., UK, Australia, Canada, India, Hong Kong, Japan, and Singapore.

Outsourcing relationships in which they enter, often include supply of IT-solutions to such segments of the public sector as pensions and social security, income and property declarations, welfare improvement programs as distribution of food coupons and unemployment benefits, as well as other e-government initiatives. An additional reason for turning the government structures to outsourcing is their will for greater technical efficiency.

In addition, both sectors use outsourcing model to add value to services they provide to end users. Contracting out certain functions such as application development and customers relationships dramatically improves the quality of services. Businesses benefit from increased customer satisfaction, especially as users' feedback helps to improve attitudes of products and services end users. On the other hand, government can ensure services as distribution of food stamps, disaster assistance and relief, health care, pensions, etc., accessible to a larger number of taxpayers through use of software or web-based applications delivered by outsourcers. Governments face problems similar to private bodies, as both types of organizations possess similar profile (**Table 2**), namely large in numbers workforce, necessitating important infrastructure in order to cope with voluminous data to complete an ever growing variety of processes. These similarities with private corporations provide the basis for the idea of introducing a business model, as the outsourcing, in the public sector.

Priority for NPM are the efficiency and effective spending of tax payers funds. Public services users are treated as customers who deserve competent and effective services. Another specific point advocated by the NPM is the implementation of new technologies with a view to improve otherwise inherently slow bureaucratic procedures. Outsourcing is considered as an opportunity in this field. Outsourcing of administrative processes is a practice which is recommended by practitioners and proponents of NPM, because the model combines the use of technology and technical expertise, two elements that are often in short supply in the executive. Moreover, NPM is gaining momentum in most public organizations worldwide, because this management model is recognized by many international organizations. In fact, the World Bank and International Monetary Fund have included in some recommendations to their member countries the requirement need to increase the effectiveness and efficiency of their administrations through technological advances. However, the majority of public bodies, following the international trend, apply the outsourcing business model first, and foremost, to cut costs, and secondly to increase the added value of their services using the power of expertise of outsources. Governments are turning to outsourcing with a view to

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achieve the gradual transformation of overall activities of the administrations. The main drive for outsourcing in public sector are the provision of quality services and optimization of using taxpayers' money.

**Table 2. Similarities and differences between the public and private sectors**

	<b>PUBLIC SECTOR</b>	<b>PRIVATE SECTOR</b>
<b>Number of users</b>	Covers the entire state population, i.e. all citizens on local/national level	For TNC – millions of clients located around the world
<b>Numbers of employees and departments</b>	Departments of HR, finances, accounting, IT, research and other to each public body	Departments of HR, finances, accounting, IT, research and other to any local/regional branch
<b>Main goals</b>	Maximum range of supply for high quality public services like welfare, registration / licensing, health care, education and others.	Optimum profit for each shareholder / partner / co-owner
<b>Operation related issues</b>	Complex bureaucratic structure, limited expertise, high cost for direct contracting of experts	Complex business organization with units in different locations, which should adhere to local regulations
<b>Strategy for achieving the main goals</b>	Costs limitations, standardization and innovations	Costs limitations, standardization and innovations

Reform movements in public HRM aim to reduce the traditional practices of the system for public services. The systems for public services suffer of growing criticism for bureaucratic rigidities, inefficiencies and ineffectiveness. Supporters of the new public management (NPM) insist that reform in public management of human resources is crucial for improving effectiveness of government. During the last two decades, the objective of reform has been to provide greater discretion to managers in public sector with regard to staff related decisions. In an effort to achieve it, reformers have implemented policies aiming at decentralization and deregulation of public human resource management key functions, namely by decentralizing rules and procedures related to them. In an effort to increase productivity, reformers in the field of public HRM focus on such market mechanisms as merit pay, privatization and outsourcing.

## **2. Aspects of human resource outsourcing in the public sector organizations**

Researchers in the field of public administration put much efforts to assess both the scope of efforts to reform the management policy for public sector staff and the impact of reforms on the ratio of employees to employment / work load in the public sector. Reflecting the traditional standards of HRM in the public sector, many texts focus on the history and functions of HRM, which are common to all levels of government. Suitable tool for classification of these features offer Klingner and Nalbandian, who introduced the acronym – PADS (**Table 3**).

**Table 3. Traditional functions of HRM in the public sector**

<b>Planning</b>	<ul style="list-style-type: none"><li>• Job description;</li><li>• Classification;</li><li>• Compensation;</li><li>• Employment / human force planning.</li></ul>
<b>Acquisition</b>	<ul style="list-style-type: none"><li>• Recruitment;</li><li>• Assessment;</li><li>• Selection.</li></ul>
<b>Development</b>	<ul style="list-style-type: none"><li>• Equal opportunity employment / positive discrimination;</li><li>• Training;</li><li>• Performance management / achievements.</li></ul>
<b>Sanction</b>	<ul style="list-style-type: none"><li>• Healthy and safe labour conditions;</li><li>• Professional relationships;</li><li>• Labour relations / collective bargaining.</li></ul>

The functions of ‘Planning,’ traditionally have focused on the development of job descriptions, analysis of tasks and competencies required for classification purposes, relating job classification and compensation systems that meet current labor market analysis and strategic planning of workforce with respect to possible ‘lack of skills’ or future personnel changes. The functions of ‘Selection’ refer mainly to outlining the parameters of recruitment, assessment and selection, which are traditionally highly standardized and legally defined. The process should provide potential candidates with equal conditions for employment opportunities. The functions of ‘Development’ focus on such issues as how to allow employees to receive adequate training for the full performance of their duties; to ensure a healthy and safe work environment; to establish frameworks to assess correctly staff performance in order to improve their future productivity. The functions included in ‘Sanctioning’ aim to handle issues with employees who do not meet expectations neither to quality of their work, nor for staff requirements, as well as approaches to such employees in case of collective bargaining. Far from being exhaustive, the above schema frames the key features in the HR management in the

public sector and consequently could be estimated through outsourcing. Usually, decisions concerning recurrence to outsourcing are based on findings for key and auxiliary activities within the organization and analysis of the appropriateness to delegate certain functions of outsourcers. Suitable for outsourcing transfers are considered only those functions that are not included in the organization core activities, i.e. non-key functions and processes. On the initial stage of determining auxiliary functions suitable for outsourcing, the analysis of options is carried out by evaluating cost effectiveness of alternatives to implement features, and/or processes, already highlighted that are not considered essential to the organization. The first classification of outsourcing, already considered classic, was proposed by Gartner Group. It is based on the division of technical and business levels and types of environments (**Table 4**). Four areas stand out in outsourcing: BPO (Business Process Outsourcing); BSP (Business Service Provider); ITO (IT Outsourcing); ASP (Application Service Provider).

**Table 4. Areas of outsourcing**

	<b>Dedicated Environment</b>	<b>Shared Environment</b>
<b>Business Level</b>	BPO	BSP
<b>Technical Level</b>	ITO	ASP

The present article discusses the problems forming part of the outsourcing of BPO. BPO can be classified on patterns of interactions of commissioner and contractor. Traditionally, three main types of outsourcing are defined within this pattern. These are tasks outsourcing, resource outsourcing and processes outsourcing.

- *Tasks outsourcing* ranges among the simplest and most common form of interaction. This model implies transmission of a project, limited by budget and deadlines for implementation by an external contractor.

- *Resource outsourcing* is the next stage of developing outsourcing relationships. For our purpose the most interesting aspect of this area is the outsourcing of human resources. In the context of constantly evolving and more complex technology it is economically inexpedient to maintain a state of numerous experts professionals. They are attracted only for a certain period to perform specific tasks and work. Moreover, the commissioner directly manages the rented resource. Such an approach saves the necessity to keep in the organization highly paid staff during downtime, training and incidental expenses.

- *Processes outsourcing* is an area of natural development for outsourcing model. Typically to external contractors for outsourcing is transferred the entire process rather than the solution of a task. This approach allows for complete achievement of such benefits as cost reduction and optimization, concentration of activity profile area, opportunities for scaling and enhancing the potential of growth.

The **types** of outsourcing human resources are:

- **outstaffing** - exclusion of permanent staff from the organization payroll and shaping labor or civil and legal relationship with staff through a company-provider;
- **staff-leasing** - is a form of exchange in personnel headcount, in which a provider transmits for a fixed term certain number of collaborators, who are in employment or other formal civil law relationships with the company, under the administration of an assigning company. Following the expiration of this period the assistants leased may be, but not necessarily, included on payroll within the assigning company;
- **outplacement** - is a program involving so-called 'soft' dismissals. The purpose of outplacement is to provide employment and psychological support to redundant staff and help develop their career;
- **temporary staff** - provision of temporary staff is a form of amending staff levels similar to staff leasing, but distinguished by its relatively shorter periods and initial orientation to temporary employment.

The **rationale** behind the trends in direction to outsourcing of HR functions in both the public and the private sector is the same. Public organizations face many challenges. They hold *innate limitations of expenses, organic budget for technology* and, similar to their counterparts in the private sector, experience *difficulties in finding and retaining the most talented employees*. The key questions to find answer for is: 'Is there a similarity in the conditions for which government and private sector organizations release their HR departments from onerous, transactional processes and procedures in order to acquire strategic advantages and increase value added?' The actuators are the same, i.e. avoid capital investment in technology and improve services at work. Therefore it may be concluded that the main catalytic factors behind HRO are:

- Cuts in current expenses;
- Avoidance of capital expenses;
- Converting fixed costs into variable, i.e. when the amount for payroll is reduced, the cost of operating salaries and related benefits shall decrease.

Since August 2004 is marked a trend in which national and state governments 'quickly adopt the private sector attitudes' in terms of outsourcing key functions in human resource management. The reasons for governments to focus on HRO, may be summarised in four main groups:

- The world economic crisis of 2002, and even more the one that followed in 2008, generated severe budget deficits. Increased deficits threaten governments' ability to provide key services. At the same time a community of business-oriented civil servants emerged, who embraced the principles governing the private sector as *efficiency, technology related solutions, customer satisfaction, productivity*, including **outsourcing**. This group strives to transfer know-how from the private sector in view of higher productivity in the public one. At local level, managers increasingly perceive that outsourcing is a way of 'filling' funding gaps from state budgets. Despite the never ending talk about the danger of cutting civil

servants employment and regardless of their political persuasion, people realize that precisely because of increasing demands of growing population, the risk of layoffs of civil servants is unlikely. In any way the trend of increasing public pressure for efficient delivery of services is maintained.

- Where they exist, the IT systems are obsolete. Frequently for their renewal huge investments are required, i.e. costs that are far beyond the administration fundings. Unlike private companies, financing of improvements to existing technologies is not possible for many public organizations, given the rapid pace of technological progress and constant pressure to reduce costs.

- Young and tech-savvy people working for public administration require web-based HR services. Avoiding capital expenditure appears to be the biggest concern for governments, because many of them are still operating with mainframe systems inherited from decades. Given the budget deficits, they could hardly afford even routine upgrades of the software used.

The specific **reasons** for the use of human resource outsourcing, however, are several:

- ♦ Existence of formal restrictions on permanent staff recruitment (limited payroll);
- ♦ Completion of projects that need personnel with command of special skills;
- ♦ Filling-in staff numbers during holidays and sick leave of employees;
- ♦ Streamline the administrative burden;
- ♦ Extension of trial period when appointing new permanent personnel;
- ♦ Involving the workforce in season oriented processes;
- ♦ Dissatisfaction of managers in the public sector from the quality of services performed by internal (institutional) HR-team;
- ♦ Need for higher level skills and experience.

Outsourcing agreements often include a number of on-line services for employees, such as access to employees personal information, insurance plan or transaction information (receipts for cash withdrawals), even training programs. From the point of view of services for employees, outsourcing inevitably means improvement toward new, often cutting-edge services, introducing better working environment for employees and at the same time provide HR managers with tools for effective management. Such new opportunities for employees include:

- ♦ On-line information about salaries;
- ♦ Registration to on-line courses in the organization Intranet;
- ♦ Filing of insurance claims, or download information on health insurance policy from home.

Therefore, convenience and reducing (avoiding) of certain costs are not the only attractive aspects of HRO. On one hand, outsourcing enables organizations to centralize highly decentralized, fragmented, and scattered in many locations processes with the model of shared services. As a result, achieved performance increases the public organizations ability to recruit and keep talented employees.

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Tech tools and processes that most public sector organizations are unable to sustain with internal resources, are accessible through outsourcing, and thus to provide better and more secure services for the employees themselves. This is a particularly serious issue for public organizations, which generally cannot compete on labour market with the packages offered to attract and retain talent by the private sector.

In addition, outsourcing enables organizations to focus on the administration of non-key activities in order to achieve strategic objectives, i.e. to provide high quality services to citizens and businesses. By outsourcing repetitive operations and providing self-service mechanisms for staff 24 hours, 7 days a week, HR professionals have more time and energy to spend for such activities as leadership development, motivation programs to increase employees awareness for the organization mission. Moreover, outsourcing provides previously unavailable information in the hands of HR professionals, enabling them to analyze and ensure the future needs of the organization of the workforce in the short, medium and long term, i.e. five, seven, ten years ahead.

**The advantages** provided by the human resource outsourcing may be summarised as follow (**Table 5**):

**Table 5. Advantages of human resource outsourcing**

<b>ADVANTAGES</b>		
<b>Management</b>	<b>Administrative</b>	<b>Legal</b>
<ul style="list-style-type: none"> <li>• Change in operational numbers of personnel on payroll;</li> <li>• Assessment of new assistants qualities without need of recruiting them on permanent basis;</li> <li>• Opportunity for operative access to expert assessment;</li> <li>• Day-to-day management of personnel numbers in organization various projects;</li> <li>• Focus of HR managers on motivation programs and achievement supervision</li> </ul>	<ul style="list-style-type: none"> <li>• Budget redistribution;</li> <li>• Absence of staff file turnover;</li> <li>• Cuts in expenses for additional pay;</li> <li>• Cuts in administrative expenses;</li> <li>• Transformation of fixed expenses into variable ones.</li> </ul>	<ul style="list-style-type: none"> <li>• Lacking formal labour related liabilities with collaborators.</li> <li>• In cases of labour related disputes filed in court, the legal burden is for the outsourcer;</li> <li>• Provider is responsible for the social security benefits package for collaborators;</li> <li>• Provider is responsible in front of labor and tax inspections for formal contracts concerning relationships with public sector organizations.</li> </ul>

The administration of HR is too detailed and protracted element of human resource management, requiring resources and expertise from significantly higher level. One of the main advantages of HRO is that it provides experienced specialists from different areas of HR administration to provide highly professional services in the field. Certainly, even in the past, HR departments at national and local levels have used external consultants to perform non-routine activities in fields where they suffered of shortage of people, or time, or experience. The tasks of hired experts range from information analysis on employees, workforce forecast (i. e. cost of labor related payments in reduced payrolls), trainings, development of training curricula and more. At present actions are taken to implement HRO in substantial manner from such activities as automating the calculations of wages and health and social security (the two most resource demanding processes), to self-handling processes, recruitment and staff management, and even development of on-line training programs and qualifications. **HR functions and services** subject to outsourcing can be summarized as follows:

- Transaction processes – payroll, social security and other benefits;
- Development and integration of IT infrastructure;
- Selection and appointment;
- Online HR software solutions – employees self service (Self-service web-sites and call centers for employees);
- Management of relationships with suppliers (for example of medical insurances);
- Re-design of training processes for employees - preparing and updating employee handbooks, workplace policies and procedures;
- Development of strategies – management of sick leaves/holidays (absence management), development and management of new HR forms, retention/keeping of qualified and valuable employees;
- Compilation of specialised analyses, such as HR information summary, productivity comparative analysis, employees screening and assessing, providing employee performance reviews;
- Maintenance of personnel files – elaboration of data base and archive;
- Producing health and safety related programs for employees;
- Unemployment claims management services.

In public sector the administration of wages and benefits is often quite complicated process, and it is clear why these functions are completely, rather than partially outsourced. Outsourcing services encompass conception of hotlines for employees of large administrations served by operators with capacity to answer staff related questions and offer solutions in problematic situations.

**The structuring of the project to outsource** is key moment. Any organization deciding to proceed with outsourcing of some or all of its features should review a number of reasons, including:

- Which are the processes or functions easy to submit for outsourcing and to what extend, for example should only a part of HR be transferred, i.e. calculation of wages, not social and health care insurances?
- How to select the supplier?
- What model for outsourcing is the most appropriate?
- How to draft the outsourcing contract in order to ensure reliability of performance?
- How will the relations during outsourcing project be managed?

Public sector organizations considering a transition to outsourcing model, often face many **constraints** such as negative *social attitudes (pressure), legislative and regulatory obstacles, resisting unions and trade unions*. Very often, due to the complexity of the process and high levels of risk, it is appropriate to resort to the help of consulting companies specialized in the field. An important objective in outsourcing in the public sector is to obtain value-added services, not just to automate or improve performance of existing ones.

When **choosing a provider**, public managers should have knowledge of possible **outsourcing models**. Leading providers, such as providers of service packages of type 'from inception to the end,' have their origins in the world of business process outsourcing, IT outsourcing and management consultancy business. Other providers offer operative specialists, some with experience and knowledge in specific functions such as calculation of work salaries, and emerging experts in the field of HR outsourcing of average prices. There are two main categories of services provided by HR outsourcers:

1) **Traditional human resource outsourcing (HRO)** → Providers included in this category have developed a common technology platform that serves discrete HR processes, including calculations of wages and benefits, to all client organizations. Known for its ability to provide large volume services at lower costs, these providers seek continuously to improve the technological platform developed for the benefit of all its customers.

2) **HR business processes outsourcers (HR BPO)** → In many, though not all instances, suppliers who fall into this category bring together staff, processes and technological approaches of the client organization, but accommodate cost services to operate on suitable to each individual client technology platform. Some HR BPO eventually standardize technology platforms for their customers.

Both models are gaining momentum on the market of outsourcing services. How do public bodies decide which approach is appropriate for them? The choice depends on several **criteria**:

- **Investment intensity for outsourcing** → Customers selecting as provider applying the model of transaction processes should normally be preparing for an

initial 'platform integration fee,' with a relatively small future investments. However, the traditional model of HRO is more attractive to customers who do not have still developed a platform. Conversely, the selection of HR BPO provider, would mean a small initial investment, but with potential increase of costs at a later stage, as the outsourcer customizes its services for the client platform, and it is more attractive for organizations that already have invested in developing their own platform.

- *Value determination* → On their emergence on the HR outsourcing market, suppliers competed mainly on price and ability to provide required services. With market growth and increasing competition between outsourcers, competitive efforts shifted toward provision of value added outsourced functions such as analysis of workforce; tools on the salaries planning and methodology for performance management. To choose the most suitable supplier public organizations which outsource should carefully consider which features are most important and how much they are willing to invest in this value.

Besides the selection of an outsourcer, **the process of structuring and managing the contract details for outsourcing** is a real challenge, too. A common mistake is to leave the negotiation table without establishing a current process for relationship management with outsourcer. In order to define the strategy, process and update the contract and prepare service level agreements (SLA) it is recommended to make use of external experts consulting assistance, such as legal advisors, before, during and after the initial discussions on the project for outsourcing.

Unfortunately, a signed contract does not guarantee the performance quality of outsourced project as expected by both contracting parties. Some typical errors that are allowed in the design and management of outsourcing relationships could raise significant problems after launching the project. Among the most common deficiencies are:

- *Lacking clear definition of the scope of services* → For most outsourcing organizations it is easier to define the final product sought out from outsourcing than to describe parameters of desired service. To avoid misunderstanding and unnecessary tension, client organizations should draw up detailed specifications of the business that they wish from outsourcer, including allocation of responsibilities between the two contracting parties.

- *Lack of procedure for active management of process relationships* → Client organizations often make the impulsive mistake, day after day, to embark on solving problems that emerge with the implementation of the outsourcing project. Such a reaction is wrong and often leads to sinking back in functions subject to outsourcing. To avoid such inefficiency, public outsourcing organization should bear in mind that the resolution of daily obstacles is task of the outsourcer. It is client privilege to monitor the performance of suppliers and manage the relationships as far as to achieve the target quality standards for services. The activities of HR professionals are transformed from the management function to

the function to manage the outsourcer, two distinctly different activities, where it is again appropriate to seek support from consulting companies that provide specialized training models for monitoring services, training and services to solve dispute.

- *Application of market competition to obtain higher quality services* →

As result of permanent struggles and sunk costs, a large part of outsourcing civil servants make useless efforts to improve relations with the HR outsourcer instead to let market competition work in their favour, and using the option to replace a bad provider with more reliable one. Of course, the process of renewal takes time, but acting in such manner the outsourcing organization has an alternative to improve the quality of activities by requiring more from the outsourcer and supporting its claims with decisive actions. With this perspective in mind, the advice of practitioners is to provide clauses for corrupt completion of tasks in the outsourcing contract in order to reduce risks.

- *Contracting sufficient time for completion of services included in the contract* → Although much of assignors are tempted by short-term relationship, the advice of practitioners is to negotiate at least five-year contract for comprehensive outsourcing contract in the field of HR. Seven, or even 10-year, contracts are not uncommon for outsourcing in the public sector. The construction of multifunctional program can take months while implementing the first service of the contract. Depending on the nature of data, parameters of the IT-systems and the need for integration, commissioning can take a year or even more. Given the investment of time and resources on both sides of the contract it is appropriate to provide specific schedules for required outcomes.

- *Lacking equity during the negotiation process* → In the process of negotiation is too easy for experts authoriser to outweigh the administrative staff, who are often requires to finish at home those activities that their counterparts meet with 2 or 3 times longer hours. It is necessary to avoid inequality of competence between negotiators and in the ongoing management of relationship. Situations in which non-expert administrative staff discusses details of the outsourcing contract with a narrow specialized and highly qualified outsourcer experts, for example, legal advisers to software company, should be avoided.

### **3. Status and trends in human resource outsourcing on the example of Municipality Varna**

Expressed as one of the conditions for membership of Bulgaria in EU, the administrative reform implies modernization of the administrative system, including the administration management toolbox. Development and implementation of outsourcing related mechanisms for administrative and management processes is considered as part of the concept for state functional discharge.

## **Human Resource Outsourcing in the Municipality Administration on the Example of Municipality of Varna**

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The Republic of Bulgaria is divided into 28 districts, each of which focuses economy, governance, national and local particularities of the corresponding region. The districts are subdivided into municipalities, which act as units of local government. Each municipality is autonomous, with its own budget and property. The region of Varna is divided to 12 municipalities with total population of 489 809. The population of Municipality Varna alone counts 346 000 people, which is 70% of the district's population.

In accordance with the distribution of activities performed in support of public authorities, the administration in the Republic of Bulgaria may be classified as general and specialized. The general administration supports the implementation of public authority powers as head of the administration, and creates suitable environment for the activities of both specialized administration and technical tasks performed by the secretariat. The Administration Act provides for general administration including the following departments: 'Office,' 'Finance and Economy,' 'Legal,' 'Property Management,' 'Human Resources,' 'Defence and Mobilization Management,' 'Information Services and Technology,' and 'Administrative Services.' The administrative management of each department is carried out by Director General – for a Directorate General, Director – for Department, Head – each Department and Supervisor - for Sector. The Directors General may be assisted by the Deputy Director General. The names and number of Directorates General and Directorates in both general and specialized administration, their functions and staff numbers are determined by **Rules** of corresponding administration.

Today the Bulgarian administration operates in uncertainty and turbulence, largely due to EU membership. The accelerated pace of change demonstrate the ineffectiveness of traditional structures, leading to recognized need to build capacity for continuous adaptation of the management of the administration to new environment. The application of outsourcing in the executive bodies of local and national level depends to large degree of:

- ✓ existence of required background information, methodology and practical tools for its implementation;
- ✓ decisions taking framework in accordance with the design of administrative processes;
- ✓ need to ensure transparency, consistency and efficiency in the activities of administrative bodies during development and implementation of outsourcing projects;
- ✓ promoting competition between Bulgarian and international private sector partners, in their capacity as potential outsourcers, giving them confidence that the process of negotiation is an effective, fair and based on best international practices.

It is necessary to stress that so far in Bulgaria, the executive bodies hardly demonstrate examples of outsourcing projects. The Municipality of Varna is not an exception to this trend, and even more importantly, towards application of HRO.

The Rules of the Municipality of Varna, as approved by the mayor on January 01, 2010 provide for the scope of activities implemented by the **Directorate ‘Human Resource Management and Administrative Services.’** The administrative staff within the Directorate is divided in two departments: Department ‘Human Resource Management and Internal Administrative Controls,’ and Department ‘Administrative Services, Record Keeping and Archives.’ The total number of personnel amounts to 53 persons, 50 on labour payroll and three in their own motion. Virtually all analyzed functions of human resource management in the public sector, which could be transferred to outsourcing are performed by municipal employees. The process includes more than 50 resource demanding internal administrative activities undertaken within the Directorate.

Both theoreticians and practitioners in the field of Bulgarian public administration should focus on the causes and factors impeding the implementation of outsourcing as a tool to accelerate the transformation of the Bulgarian administration, not only locally, but also nationally, through the implementation of business tools, provided by the New Public Management, and its adaptation to government needs. The main factors impeding the transition to outsourcing are few and with big importance:

1. Ignorance of the nature of outsourcing and how it works;
2. Low level of entrepreneurial culture by managers in both public and private sector;
3. Inability to distinguish outsourcing from other forms of cooperation between public entities and private sector;
4. Incompetent and even low skilled employees in the administration, low motivation and weak drive to innovativeness;
5. Low level of financial and legal preparedness of public structures in Bulgaria for transition to outsourcing;
6. Lack of political will to accelerate the process by implementing the principles of the New Public Management;
7. Risk of introducing corrupt practices in view of the general weaknesses demonstrated by the Bulgarian administrative system and marked in the EC report;
8. Lack of legislative and regulatory framework on local and national level.

The last factor in this list counts as one of the most serious obstacles for municipal administration, along with reduced budgets. The legal framework in Bulgaria is fragmented and contradictory. Some regulations in force add different meanings and content in the concept of public-private partnerships (PPP), while outsourcing is frequently confused with it and has no clear rules. The information dealing with issues in implementing PPP in Bulgaria is both too large and too scattered, but in practical discussions on national level the two concepts are used together, without clear distinction and outsourcing often marked as a form of PPP, on the application of which is dedicated the emphasis in all strategic documents, analytical reports and manuals. Generally, attitudes toward public-private

partnership, respectively, outsourcing, in Bulgaria move within the continuum: there is a need for specific legislation / no need of such. To a large extent such attitudes not only create uncertainty, but also hinder potential participants in outsourcing projects when understanding the basic objectives, stages of implementation and responsibilities of administration and business at the conclusion of the outsourcing contract. In the absence uniform and harmonized system of PPP at national level, during recent years some municipal councils in their capacity of local government authorities, have adopted regulations governing terms and conditions for implementation of PPP on municipal territory.<sup>2</sup>

The Municipality Varna has adopted local regulations that virtually reproduce the pattern of national legal regulation of the PPP, given the fact that there is no uniform legal rules for the PPP, but many acts in force contain specific rules for individual sectors. However, without entering into unnecessary in-depth controversy, the fact that the European Commission is opposed to special regulation and formalization of public-private partnership, respectively, to outsourcing, since it is based on similar approaches, deserves attention, and with its legislation provides guidelines for the implementation of the rules to public procurement and concession procedures. The situation in many countries of the EU, for example in Austria, Germany, Estonia, Italy, Hungary, and Malta, follows these rules. In Municipality Varna, as in most other locations, the most preferred form of cooperation between the two sectors is the concession. Notwithstanding the absence of theoretical or legal definition of outsourcing in Bulgarian legislation and law, the public administration used increasingly the concept, summarizing that: *'Outsourcing is a contractual relationship between private parties and public sector to implement administrative and management processes and functions.'* In broader sense, outsourcing is interpreted as *'covering a range of different types of cooperation between the public and private sector partners.'* In narrower sense, outsourcing should be seen as a *'form of partnership aimed at jointly developing and implementing specific projects.'*

Perhaps it would be otherwise sufficient to assume the undisputed fact that PPP and outsourcing are based on the same characteristics: taking away functions, processes and activities from day-to-day operations of the public organization. But if the PPP may be considered as typical award of activities related to establishment of public services, outsourcing is primarily concerned with internal processes and activities of state bodies. Therefore, PPP and outsourcing are based on similar performances, but act in opposite directions: PPP - from outside the state organization, and outsourcing – from the inside of state organization.

Therefore, in order to implement outsourcing, efficiency and clear benefits for the public authority must be achieved through careful planning, analysis and due diligence. Effectively steered within the framework of outsourcing, such

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<sup>2</sup> For example the municipalities of Plovdiv, Pzardjik, Momchilgrad, Velingrad, Strelcha, Varna, Vratsa, Lovech, Pernik, Sandanski, Etropole, Peshtera, Strumiani, Shoumen, and Dimitrovgrad.

partnership helps for optimal implementation of administrative processes, transfer risks, or payments when the service is already in provision, and etc.

The implementation of outsourcing as mechanism for the public authorities at local and national level in Bulgaria depends to large degree on common moral code, more transparency, consensus in adopting rules and to much lesser extent of a legal definition for outsourcing. The legal framework is, undoubtedly, in position to configure added benefits for both the society and the administration, but no less important are skills and attitudes to innovation of human resources in public authorities. The effective and efficient use of new management tools in Bulgaria is based on the European and the Bulgarian laws. However, this requires market economy, civil society and a certain level of business culture.

### **Conclusion**

The challenges raised by such events as the recent financial crisis make the allocation of financial resources in public organizations much more complex than in private sector. When cost cuts are the main cause for outsourcing of HR functions in public sector, the quality of services provided may suffer. The greatest is the tension, however, in the local authorities. More and more taxpayers require and expect efficiency and quality of public services delivered. Local authorities are constantly seeking opportunities to reduce costs, without compromising the quality of their key services for citizens and businesses. Among the options considered, primary is the alternative of outsourcing certain functions, or sharing of certain back-office activities with other public sector organizations. On the other hand, the entrepreneurial culture of the Bulgarian managers is at low levels and there is insufficient political commitment to accelerate administrative reform. Among other causes the arrest of development of outsourcing in Bulgaria is in concert with the general state of the market. The Bulgarian market for services is underdeveloped and therefore many types of activities cannot be awarded to outsourcing because of lack of qualified suppliers. The ratio between price and quality remains unsatisfactory, as is reliability of external suppliers. Questions such as: drafting formal requirements for contractors; signing agreements for level of services or for follow-up during completion stages; or generally accepted practices and standards, are difficult to solve as the processes are in initial stages. Psychological reasons and public pressure, especially given the high unemployment rate in the country, would hardly allow break-through situation with attitudes in the Bulgarian market that OHR applies to collaborators who are unnecessary or shall be dismissed.

Taking into account existing obstacles it is viable to conclude for the necessity to generate conditions suitable to establish outsourcing advantages, and in particular for improvement of quality through practical and applied discussions in Bulgaria in the field of human resource outsourcing. It is necessary that public managers learn on a wider basis about the good practices in other member states. Within the framework of dynamic ambiguity human resource outsourcing provides

solutions to part of the tasks facing the Bulgarian public organizations. HRO allows to address in an optimal way effective personnel management without unnecessary waste of resources for implementation of auxiliary functions. Users requirements for public services are clearly growing, suggesting recruitment of human resources with necessary knowledge, skills and competencies to perform their duties with required quality. A small, local administration, however, is unable to attract the best professionals. At this stage of European integration processes the Bulgarian municipalities are still not in capacity to afford it.

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