

OUTSOURCING THE GOVERNMENT’S MOST IMPORTANT FUNCTIONS:
THE IMPACT OF OUTSOURCING CRITICAL DUTIES ON U.S. FEDERAL
GOVERNMENT BEHAVIOR

by

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To the memory of Dr. Michael “Doc” Stoddard

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by

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DISSERTATION

Presented to the Faculty of

The University of Texas at Dallas

in Partial Fulfillment

of the Requirements

for the Degree of

DOCTOR OF PHILOSOPHY IN

PUBLIC AFFAIRS

THE UNIVERSITY OF TEXAS AT DALLAS

May 2022

ACKNOWLEDGMENTS

I would like to extend my gratitude to those who helped guide me through the graduate program and the process of writing this dissertation. I am especially grateful to Dr. James Harrington, who patiently helped me navigate the dissertation process and provided invaluable feedback and recommendations which greatly improved the quality of this paper. I would also like to extend my gratitude to the professors at The University of Texas at Dallas's (UTD) Public Affairs program, who provided vital support for my studies as a student while I worked full time. I am especially thankful to those professors who supported the independent studies which helped develop many of this paper's themes. I also would like to thank my wife who has supported me throughout my studies.

April 2022

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The levels of outsourcing in the U.S. federal government have increased substantially over the last two decades. The U.S. government now relies on outsourcing to provide many of its products and services. Prior research shows that outsourcing has a negative effect on job satisfaction in the U.S. public sector. This paper expands on that research to understand the impact of outsourcing a certain category of products and services, known collectively as nearly inherently governmental (NG) activities. This paper uses time panel analysis from 2010 to 2019 to understand the influence of outsourcing NG duties on federal employees, and the results show a statistically significant negative association. This paper also analyzes the impact of outsourcing on work intensification because outsourcing could increase the workload of the remaining employees, who are now required to execute contract management duties. This result contradicts this paper’s hypothesis and shows a marginally significant negative relationship between outsourcing and work intensification.

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CHAPTER 1

INTRODUCTION

In the last few decades, one of the most significant changes for the American public sector is the incorporation of market-oriented practices into government, known collectively as New Public Management (NPM). NPM seeks to infuse private sector values into public administration to decrease costs, increase efficiency, and crystallize objectives. NPM, advocates argue, brings independence and accountability to government, while also changing the incentive structure for civil servants (Caron and Giaque, 2006). Through NPM, public managers focus on outcomes and results rather than inputs, because as one proponent stated, when public officials "...are funded according to outcomes, they become obsessive about performance" (Osborne and Gaebler, 1999).

NPM advocates believe that bureaucrats should "steer" rather than "row" toward government objectives by becoming "skillful buyers" that can "shop around for the most effective and efficient service" (Osborne and Gaebler, 1999). The primary mechanism for "steering" the government is outsourcing, which is considered one of the most important facets of NPM (Lane, 2000). "NPM puts in place a contracting state," one observer wrote, "where personnel and other resources are to be managed by means of a series of contracts...contracting will remove many of inefficiencies of the public sector" (Lane, 2000). Outsourcing enables the government to become more flexible and efficient by shifting the delivery of services - but not the responsibility of the service - to the private sector (Osborne and Gaebler, 1999). Under the philosophy of comparative efficiency, the private sector should be able to execute the activity cheaper and more efficiently. In this regard, the contracted agent will not attempt to reform or

improve the government activity, but instead provide cost savings to the government agency (Dolovich, 2009).

NPM skeptics argue that outsourcing and similar measures can undermine bureaucratic job performance and satisfaction. NPM values, with a focus on self-interest and efficiency, may conflict with the altruistic beliefs that often motivates individuals to seek government employment (Perry and Wise, 1990). NPM individualizes public administration and forces bureaucrats to be motivated by self-interest and extrinsic motivators, rather than constitutional values (van Bockel et al, 2006; Denhardt and Denhardt, 2000). Self-interest can conflict with a public service ethos that stresses fairness, honesty, and trust (Hood, 1991). The resulting emergence of incongruent value systems within a public organization can disrupt the organizational culture of the agency and break the psychological contract undertaken by new employees when they first joined government (Bilney and Pillay, 2015; Mowday, 1982; Kessler et al, 1999).

In this light, bureaucrats often oppose NPM measures and employment in the public sector is a predictor of opposition to privatization and contracting out (Fernandez and Smith, 2006). In prior research some NPM measures, including outsourcing, has proven to result in a negative impact on job satisfaction in the U.S. federal sector and outsourcing also retains a negative association with organizational performance (Yang and Kassekert, 2009; Lee and Lee, 2020; Lee et al, 2019).

This dissertation expands on this research to understand if some types of contract obligations have a greater impact on job satisfaction than others. In particular, this paper examines the impact of outsourcing critical government functions on federal employee behavior.

The outsourcing of critical tasks could negatively influence employee job satisfaction more so than standard contracts, due to the inherent values and motivations of government employees. These critical tasks are known as nearly inherently governmental (NG) obligations or duties that approach inherently governmental functions.¹ Inherently governmental functions cannot be outsourced to the private sector, but those “approaching” those types of duties can be contracted out to businesses. This study determines if outsourcing NG duties has a disproportionate impact on employee job satisfaction compared to other types of outsourcing. In addition, this paper examines the relationship between work intensification and outsourcing. Outsourcing could lead to additional duties for government employees which might increase their workload, raise their level of occupational stress, and lower their job satisfaction. This paper evaluates these dynamics to understand the influence of high outsourcing levels on federal employee behavior.

1.1 New Public Management: Background, Purpose, Theory

The theories that undergird NPM include public choice, principal agent, and transaction cost theory (Hood, 1991). Of these three theories, public choice is the driving force behind NPM. Public choice, with origins in economic theory, maintains that people are rational actors who will behave in their own self-interest. Public choice theory posits that individuals in a market setting are rational “maximizers” of their own well-being and will select the option that best serves their needs (Russell, 2011).

¹ The Federal Acquisitions Regulations defines NG duties as: “Certain services and actions that are not considered to be inherently governmental functions may approach being in that category because of the nature of the function, the manner in which the contractor performs the contract, or the manner in which the Government administers contractor performance.”

Public choice theorists apply this philosophy to collective decision making and government. Bureaucrats, they argue, will seek to be “rational maximizers” of their budgets to obtain power and influence and as a result, they will not implement socially optimal solutions (Niskanen, 1971; Russell, 2011). Civil servants exploit the government’s position in a monopoly to expand their budgets and staff. In government, purchased goods and services are based on budget allocations, which enables bureaucrats to expand the size of their offices. Government services retain a monopoly, so there are no market pressures within government to force managers to strive for efficient practices. Government workers lack concern about going bankrupt or losing their job if they are inefficient or wasteful (Blom-Hansen, 2003). The absence of these disincentives creates an environment where bureaucrats will avoid looking for efficiencies or cost savings. In fact, public managers will seek to expand their budgets and staff in an effort to retain more influence within the bureaucracy. According to the Leviathan theory, politicians will also seek to enhance the power and size of government through tax coercion (Brennan and Buchanan, 1978). Politicians, if they remain unchecked, will enlarge their portfolios by increasing tax revenues, and existing electoral processes are not able to guard against such actions. Brennan and Buchanan (1978) argue that that tax revenue becomes the equivalent of private income to government leaders, unless constraints are placed on the use of such funds.

The government can undertake these actions because it monopolizes the supply of public goods and control tax functions (Brennan and Buchanan, 1978). Politicians, who are revenue maximizers, are insulated from their constituents and are not compelled to respond to electoral pressures to constrain spending.

In the private sector, market dynamics guard against this potential for artificial growth. Private sector companies are forced to undergo cost savings to compete against other businesses. If they fail to do so, another company will sell the good or service for a lower price and crowd them out of the market. To avoid this, businesses focus on per unit costs to prevent unwarranted growth. (Niskanen, 1971). These market-related per unit outputs are provided at a price, which contrasts with a government agency that offers a total output for a cost (Niskanen, 1971). The government's monopoly enables it to select its customers and provide an "all or nothing" choice to its customers (Niskanen, 1971).

Public choice theorists, concerned about the growth of leviathan government, propose alternatives to the government's monopoly on goods and services. They seek to apply lessons from the private sector to the government to induce competition and improve efficiencies. The introduction of market-related forces will reduce the temptation for government bureaucrats to expand their staff and budgets, and force them to consider the possibility that a private sector entity could produce their office's good or service. The best example of this philosophy is the Office of Management and Budget's A-76 circular, which allows for certain government practices to be competed with the private sector. The process examines if the private sector can produce a specific good or service more cheaply than the government. If the private sector can produce the good or service cheaper than the government, then that good or service will be outsourced in a bidding competition. Policies like the A-76 circular help guard against the Leviathan theory and prevent the government's growth. In this regard, one of the primary reform measures recommended by NPM advocates to constrain the growth of government is outsourcing (Niskanen, 1971). Contracting out government products and services will shatter the

government's monopoly and bureaucratic power because the contracted firm will not be dependent on the government to perform its work (Niskanen, 1971).

NPM not only aims to limit the government's growth, but also to reduce the size of government. A smaller government can be more productive, efficient, and cheaper (Denhardt and Catlaw, 2008; Pollitt, 1995). The four tenets of NPM support these goals through downsizing and entrepreneurship, decentralization, performance measurement, and the use of a planning and control cycle (Kolthoff, et al, 2006). NPM will fragment large, inflexible state monopolies and replace them with smaller, more competitive matrixed entities that rely on partnerships and outsourcing to achieve their goals (Horton, 2006). These more flexible institutions will focus on quantitative outputs, rather than inputs, and tie those outputs to individual and organizational performance measures (Hood, 1991; Lawton, 2005; Stokes and Clegg, 2002). Managers will ensure accountability to these outputs by focusing on results instead of processes, while also cutting direct costs (Hood, 1991). Performance management complements these changes by evaluating the organization's outputs and outcomes, or a mix of both (Pollitt, 1995). The focus on clear, quantitative performance measures will ensure that government employees are productive and efficient. Without such measures, bureaucrats will remain unproductive and will lack any incentive to improve productivity. The process of identifying outputs and outcomes will ensure accountability with government employees whose transparent results can be evaluated by a manager.

Indirect control is an underlying current of NPM because managers and employees should be motivated by incentives and values, vice direct control, to be productive (Kolthoff, et al, 2006). Managers will motivate public employees using incentives commonly found in for-

profit businesses, while managers will retain more flexibility to hire, fire, and provide awards than public supervisors do under current civil service rules (Denhardt and Catlaw, 2008; Hood, 1991). Extrinsic incentives, including promotions, bonuses, and time off, will motivate employees to remain productive and seek to improve their performance every year.

NPM proponents also seek to reduce the number of middle managers and eliminate bureaucratic “red tape” that prevents lower-level workers from accomplishing their jobs. NPM reformers will accomplish this goal by streamlining decision-making and reducing middle management to enhance managerial autonomy. They will also hire supervisors from outside government that possess strong managerial backgrounds (Pollitt, 1995). Unlike the public sector, managers will retain the authority to hire and terminate employees which will help foster an environment of productivity and efficiency.

Managerialism, a form of corporate management, undergirds these management changes. Managerialism views problems from an economic lens and relies on advanced technology, a productive labor force, and supervisors who are allowed to manage (Pollitt, 1995). Corporate management gauges the ratio between inputs and outputs to identify possible cost savings (Considine, 1990). This leadership approach stresses “unit cost reduction” and ignores other criteria like effectiveness and equity. Some scholars believe that such an approach is a poor fit for government agencies, which often face complex problems that require high levels of accountability (Considine, 1990).

This devolution of authority will foster the creation of a “team based” structure which will alter the power and control dynamics within the agency. Employee affiliation and mutually supportive relationships with fellow employees are replaced with self-managing teams and

horizontal control (Balfour and Grubbs, 2000). The result is that authority becomes dispersed and more “peer oriented,” so that public employees answer to both their peers and their supervisor (Balfour and Grubbs, 2000). In this construct, an employee’s chain of command is diluted in favor of horizontal authority shared throughout the organization. This devolved government structure will guard against any single office artificially enlarging its staff and budget since authority is more widely disseminated throughout the organization.

At its extreme, NPM proposes the complete transformation of a Weberian bureaucracy into a market or compete-type government, which is focused on competition and productivity and relies on monetary exchanges to conduct transactions (Cameron and Quinn, 2011). A competitive market government, unlike a government monopoly, will reduce the overabundant supply of public services (Bel and Warner, 2008). A market government is focused externally on its customers to ensure a stable and secure customer base and regular profits (Kamarck). Leaders in a market government define success based on their portion of the overall market share and the penetration of their goods and services into the market. Market leaders are usually tough and demanding and rely on extrinsic motivators to encourage productivity from their staff.

New Zealand is an example of a market government. The government outsources most of their functions to foster competition, decentralization, and enhanced customer service (Kamarck, 2002). The government is viewed as an owner and purchaser of services of goods, and they seek to outsource government duties as cheaply as possible (Norman, 2007). In New Zealand, contracting out is the primary measure used to create a market bureaucracy in New Zealand, and other countries that have adopted similar measures (Considine and Lewis, 1999). Also, in line

with NPM's view on performance, New Zealand determines the level of funding for each bureau based on the outputs produced by those offices (Norman, 2007).

This dissertation examines the extent to which outsourcing has impacted employee behavior in the U.S. federal government. The paper is focused on understanding the impact of contracting out critical duties – those that are nearly inherently governmental – on employee behavior. Past research has shown that outsourcing has a negative association with job satisfaction, but no scholar has sought to understand the potential impact of outsourcing critical government duties on a government workforce. One survey of federal managers showed that a manager's second highest concern associated with outsourcing – 48 % of the total responses – was that contractors were performing inherently governmental functions (Government Business Council, 2015). Outsourcing could also impact a government workforce in other ways. Contracting out could lead to work intensification for bureaucrats who must assume contract management duties, or for those workers who are transferred to the private sector. The result could be higher levels of occupational stress and lower levels of job satisfaction. This paper evaluates these dynamics to understand the influence of outsourcing on federal employee behavior.

CHAPTER 2

LITERATURE REVIEW AND THEORY

2.1 OUTSOURCING AS AN INSTRUMENT OF NPM

Why Outsource?

Outsourcing, or contracting out, is defined as a “temporary business relationship, based on competitive processes and designed to develop and implement a needed mission solution, fill an immediate gap in skills or other aspects of the organization, or improve performance and efficiency” (Soloway and Chvotkin, 2009). Outsourcing can occur with private sector companies, non-governmental organizations, or even with other governments. NPM advocates, however, prefer outsourcing to occur with private sector businesses, which will ensure that the cost of the product or service will be based on market supply and demand. Businesses, faced with competition in their industry, will be forced to seek efficiencies in order to generate a unit price that is lower than their competitors.

Businesses can generate lower unit prices than the government because the private sector can usually provide a good or service cheaper than the existing government price. Known as comparative efficiency, the contracted agent can produce the good or service cheaper and more efficiently than the government. For example, private prison contractors receive a set payment from the government which is calculated per inmate, per day, and the company only profits when they spend less than that amount of normal funding required to run the facility (Dolovich, 2009).

The pressure produced on businesses through competition incentivizes them to locate efficiencies and cost savings in a manner that the government, with its market monopoly, is

unlikely to consider in its operations (Ferris and Graddy, 1986). Much of the cost savings will be based on labor and raw materials, but business can also locate efficiencies in other parts of their organization. Unlike government, businesses are under pressure to produce a product or service for a price that makes them competitive in the market. If a business retains an artificially high price, they will be unable to succeed in the market and will be crowded out by more efficient companies.

Businesses can also provide a good or service for cheaper than the government due to labor cost savings. Private sector managers force their employees to work longer hours than most government employees and they demand higher levels of productivity (Vrangbaek, Petersen, and Hjelmar, 2015). They also may force lower employee salaries and will downsize when necessary (Vrangbaek, Petersen, and Hjelmar, 2015). They can threaten employees with job termination which can force the employee to adhere to challenging schedules. Government managers are unable to hold bureaucrats to the same standards due to restrictive human resource policies that undermine their ability to maximize productivity from their workforce.

Unlike the government, businesses intently monitor their labor costs as a critical expenditure. Company leaders place downward pressure on labor costs to ensure that the company is producing the good or service for the least possible cost (Ferris and Graddy, 1986; Savas, 2001). Business managers will hire the cheapest and least skilled personnel necessary to complete the task, and they may also lease employees or retain a seasonal workforce which lowers labor costs (Savas, 2001). The government lacks the ability to easily hire a seasonal workforce or to maintain a temporary workforce that can handle basic tasks.

Businesses also retain economies of scale that enable the company to produce large quantities of inputs for a lower price than the government (Ferris and Graddy, 1986). These economies of scale also enable the business to retain inventory and produce goods during times of low demand or a crisis, known as “higher capacity utilization.” This allows governments to rely on businesses during times of low demand or during an unprecedented crisis (Ferris and Graddy, 1986). Businesses also achieve cost savings by outsourcing some functions themselves, which further enables them to reduce costs (Savas, 2001). Similar to a government’s reasoning to outsource certain goods or services, some businesses can purchase specialized materials or services cheaper from another company than they can produce it internally within their organization. NPM advocates argue that governments should have the same opportunity to outsource certain goods or services in cases where a business can produce them more efficiently. Private sector outsourcing can benefit both the company and the government that has hired the business. As noted by Savas (2001), privatization of government services enables the government to reduce labor costs and flatten hierarchies.

There are also other reasons besides cost savings that the government pursues outsourcing. Many government agencies lack personnel with the specialized skills required to execute its mission, especially in the professional and technical fields. The private sector has made large investments in emerging technologies, but the government, hamstrung by bureaucracy and excessive regulation, has not made similar investments (Soloway and Chvotkin, 2009). The U.S. government is also forced to hire skilled personnel from the private sector because many public servants have retired from government to pursue higher salaries in the private sector. This displacement of knowledge to the private sector has forced the government

to rely on businesses to compensate for this “brain drain” (Freeman and Minow, 2009; Kettl, 2016). The U.S. government, for example, relies on contractors to execute many of the national security aspects of its cyber operations (Mahoney, 2021) and the government also relies on contractors to fill specialized positions within the intelligence community (Krishnan, 2011).

Outsourcing has also grown over the years because using the private sector to execute government functions is politically acceptable to the legislature and its constituents. The public and the legislature refuse to support a large government, based on the number of government personnel. Outsourcing allows the government to continue to perform its duties, while maintaining the same number of bureaucrats, which enables politicians to conceal the true growth of government (Freeman and Minow, 2009; Dilulio, 2016; Kettl, 2016; Light, 2004). These critics argue that politicians continue to support their own legislative programs, while refusing to fund a federal workforce to execute expansive federal programs (Kettl, 2016; Dilulio, 2014; Light, 2004). In this manner, liberals and conservatives alike can conceal the “true” size of government with contractors (Light, 2004). As Kettl (2016) summarizes, “So, for better or worse, the size of the federal government...is mostly stuck. [But] It is possible to reduce federal employment by contracting out more programs and shifting other programs into quasi-public organizations.”

Without outsourcing, the number of government personnel would need to be increased exponentially to perform the growing number of duties and obligations that the government has assumed responsibility for (Freeman and Minow, 2009; Dilulio, 2016; Kettl, 2016). Dilulio (2014) highlights that between 1960 and 1975, the government’s annual spending increased 200 percent, but the number of the government’s full-time employees increased by only 20 percent.

He also notes that in 2005 the number of government workers was roughly the same as in 1960, and yet federal spending was four times greater than in 1960. Figure 2.1 shows the changes in discretionary funding and executive level personnel from FY2010-FY2018.

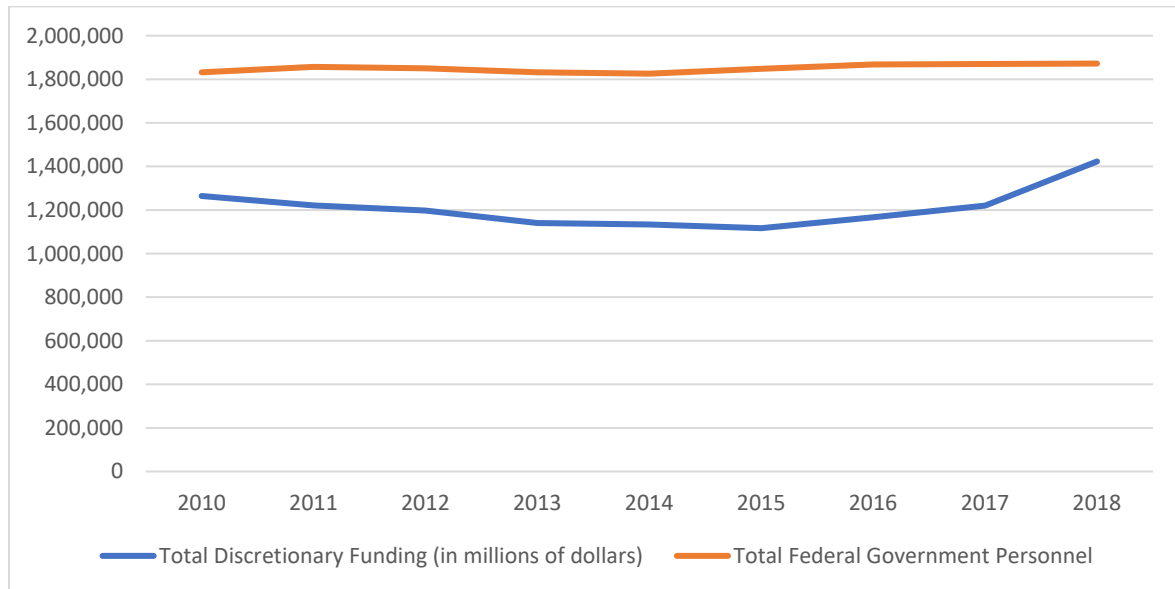


Figure 2.1: Total Discretionary Funding in Millions of Dollars, Compared to Total Number of Federal Executive Employees, 2010 through 2018. Author compiled data from Office of Personnel and Management and Office of Management and Budget.

Outsourcing Trends

The resulting interest in outsourcing and support for NPM's philosophy has led to an unprecedented growth in outsourcing in the U.S. federal government. In fiscal year 2015, federal agencies obligated over \$430 billion in contracts, which accounted for almost 40 percent of the government's total discretionary spending for that year (GAO, 2017). In fiscal year 2020, the

total amount of contract obligations rose to roughly 70 percent of the total amount of funding designated for discretionary funding that year.²

This section of the dissertation examined trends for the Department of Defense (DOD) as well as other selected agencies and departments. DOD accounts for such a high percentage of overall government outsourcing that it is important to examine DOD as a separate agency, as well as evaluate trends among non-DOD agencies. The non-DOD agencies referenced are only those that were used in this section's analysis (See the methodology section for more details).

Figure 2.2 shows increases in discretionary funding and contract obligations between FY2010 – FY2019 for the non-DOD agencies selected for analysis in this paper. The average amount of contract obligations, as a percentage of average discretionary funding for the non-DOD agencies examined in this paper, increased over the time period. Between FY2010-2019, outsourcing accounted for, on average, 28% of total discretionary funding for the agencies included in this analysis.

² Author analysis from usaspending.gov for “contractual services and supplies.”

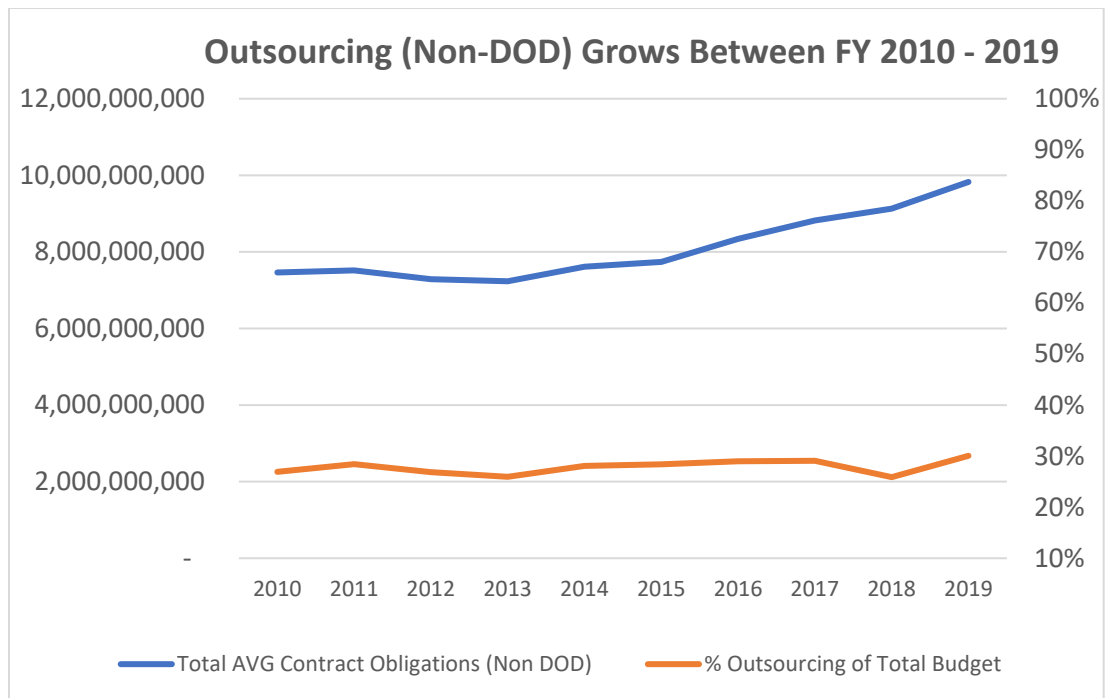


Figure 2.2: Percentage of Average Contract Obligations of Average Discretionary Funding (per year, of agencies examined) Compared to AVG Discretionary Funding; Non-DOD; 2010 through 2019. Author created graph with contract data extracted from the Federal Procurement Data System – Next Generation (FPDS-NG) and budget information from the Office of Management and Budget. In real dollars.

Figure 2.3 shows the top non-DOD agencies for outsourcing in FY2010 and FY2010.

The agencies who contracted the most during 2010 and 2019 included the Department of Energy, the Department of Health and Human Services, and the Department of Veterans Affairs. Their level of outsourcing, in addition to other agencies, has increased substantially between 2010 and 2019.

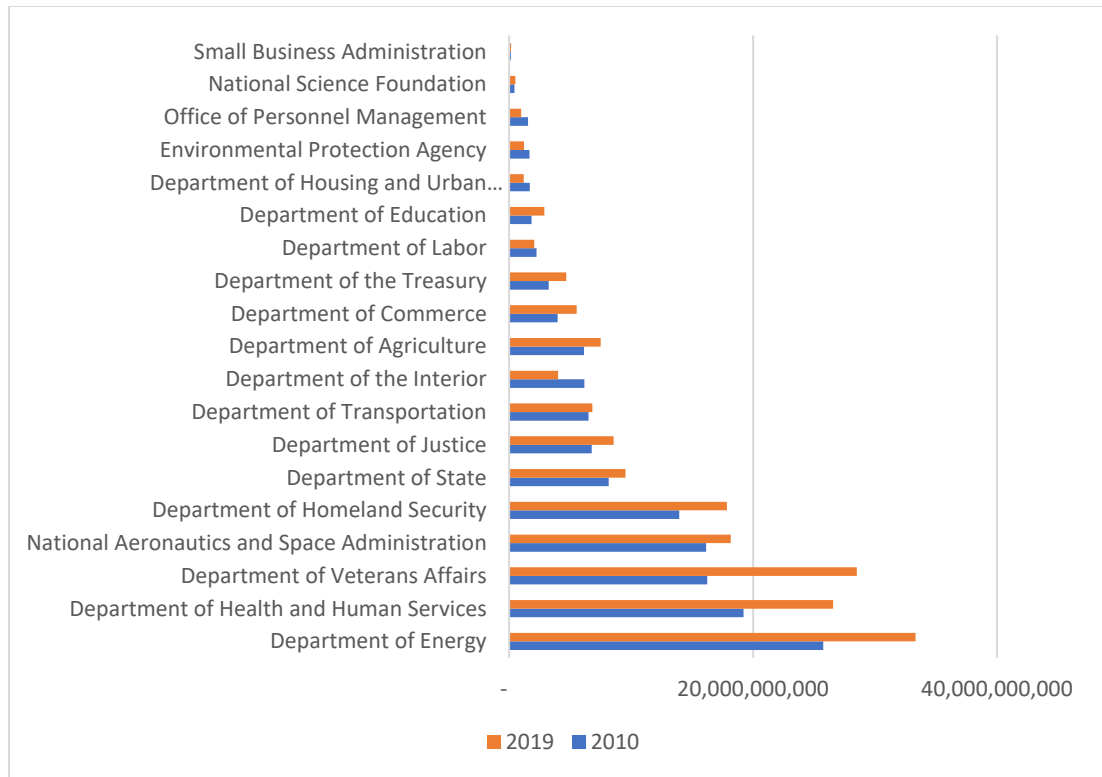


Figure 2.3: Total Non-DOD Contract Obligations Compared by Agency, 2010 and 2019. Author created graph with contract data extracted by agency from the Federal Procurement Data System – Next Generation (FPDS-NG).

Figure 2.4 shows that outsourcing in the Department of Defense remained relatively steady over the time period examined, starting at \$368,439,490,799 in fiscal year 2010 and rising to \$384,117,808,384 in 2019. The amount of outsourcing compared to DOD’s total budget also remained steady from 53% in FY2010 to 56% in FY2019.

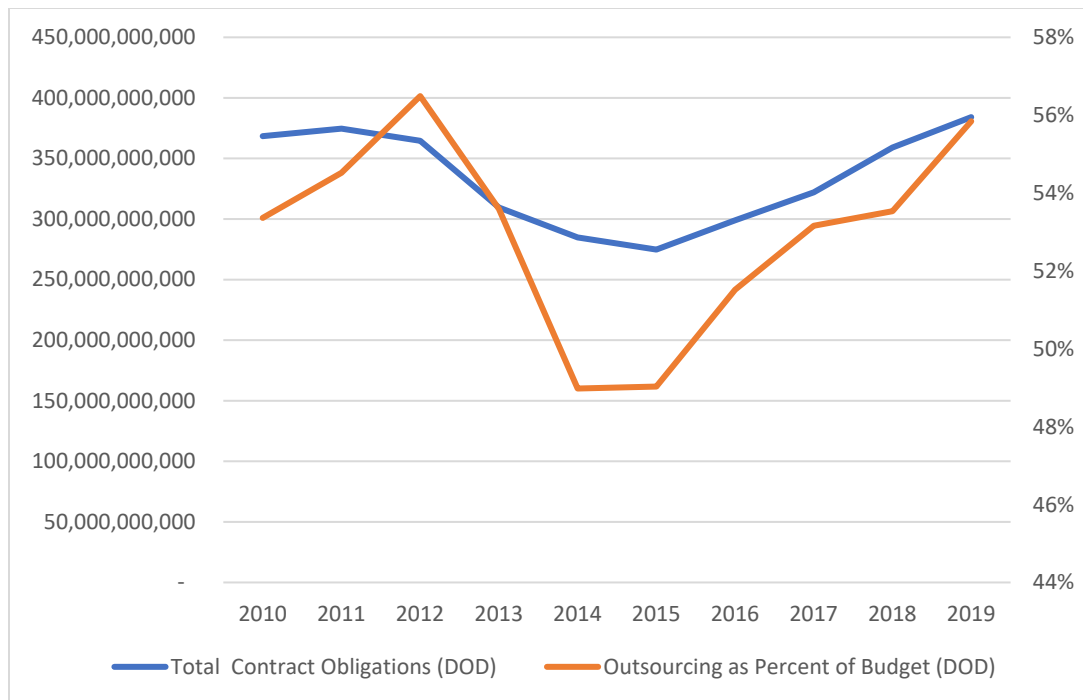


Figure 2.4: DOD Total Average Contract Obligations and Outsourcing as a Percentage of DOD's Budget, 2010 through 2019. Author created graph with contract data extracted by agency from the Federal Procurement Data System – Next Generation (FPDS-NG) and the Office of Management and Budget.

Outsourcing Concerns

This explosive growth in outsourcing has raised concerns among some observers.

Scholars believe that the government is outsourcing its functions and duties to such an extent that the private sector is unduly influencing government behavior. Government, with its foundations in constitutional and administrative law, is now dependent and influenced by private sector leaders. Critics note that the government is “hollowed out” or is now a “government by proxy” since its duties are executed primarily by contractors (Dilulio, 2016; Kettl, 1998). In such an environment, governing is referred to as “governance” and includes processes that do not rely exclusively on the authority or approval of the state (Milward and Provan, 2000). Other experts believe that America is “outsourcing its sovereignty,” or that outsourcing forms a fourth branch

of government (Verkuil, 2007; Kettl, 1998). As noted by Verkuil (2007), “outsourcing sovereignty occurs when the idea of privatization is carried too far. In an era of national and global privatization, the temptations are great to expand it to include governmental functions inherent in sovereignty.” In other words, Verkuil is concerned that privatization and outsourcing includes critical government duties that should not be delegated to the private sector. Some duties should remain “in house” within government, grounded in the legal and moral foundations of the constitution, to ensure the equitable distribution of resources to its stakeholders.

To critics of NPM, the growth of outsourcing into non-traditional areas including the “soft sectors” of education, law, and social services, is especially concerning. The U.S. government now outsources in areas like program management, procurement evaluation, and other critical administrative services (Fredrickson and Fredrickson, 2007). Many states and cities are also outsourcing in these areas including support for income security, social services, health care, and transportation. (Brudney and Fernandez, 2005). Many of these “soft sector” duties are ones that are approaching inherently governmental functions, include legal, administrative, budget, and management functions. The NG duties are the types of contract obligations examined in this paper and the ones that could have the greatest impact on employee job satisfaction.

GAO’s analysis of contract trends conducted revealed that outsourcing for services accounted for 60 percent of total contract obligations (GAO, 2011). GAO also found that services contract obligations for civilian agencies accounted for 80 percent of their total obligations, compared to defense obligations where services accounted for 50 percent of that department’s obligations. Civilian agencies used only 20% of their obligations on products,

while the Department of Defense spent 40% of its obligations on products, including major weapons systems. Many of the expenditures for services fall into the category of “nearly inherently governmental” (NG) and they represent a growth rate that is twice the amount of all other contracted categories (GAO, 2011, 2017). These areas include budget and program management support, acquisition support, and financial and information audits, among other areas (GAO, 2011). Various laws and rules, including the A-76 directive, protect inherently governmental duties (NG) from being outsourced to the private sector, but observers note that little oversight exists over the outsourcing process and some critical duties have been contracted out to for-profit companies (Verkuil, 2009; Guttman, 2003; Freeman and Minow, 2009). Private sector influence on these duties could undermine the fundamental values of government including fairness and equity in favor of commercialism and profit. A GAO (2011) report noted that some agencies rely too much on professional and management support service contracts, and the report called for increased attention on these types of contracts since many of them are performing nearly inherently governmental duties.

Figure 2.5 shows that between FY2010 and FY2019 the average total amount of contract obligations for FY2010 for NG related duties in non-DOD agencies was \$1,313,083,272 and that amount rose to \$1,773,924,537 in FY2019 for the agencies studied for this paper. The average percentage of NG related funding of the total average non-DOD contract obligations rose from 27% to 31 % between FY2010 and FY2019. The average percentage of NG funding of total contract obligations for non-DOD agencies, during the time period studied, was 27 percent.

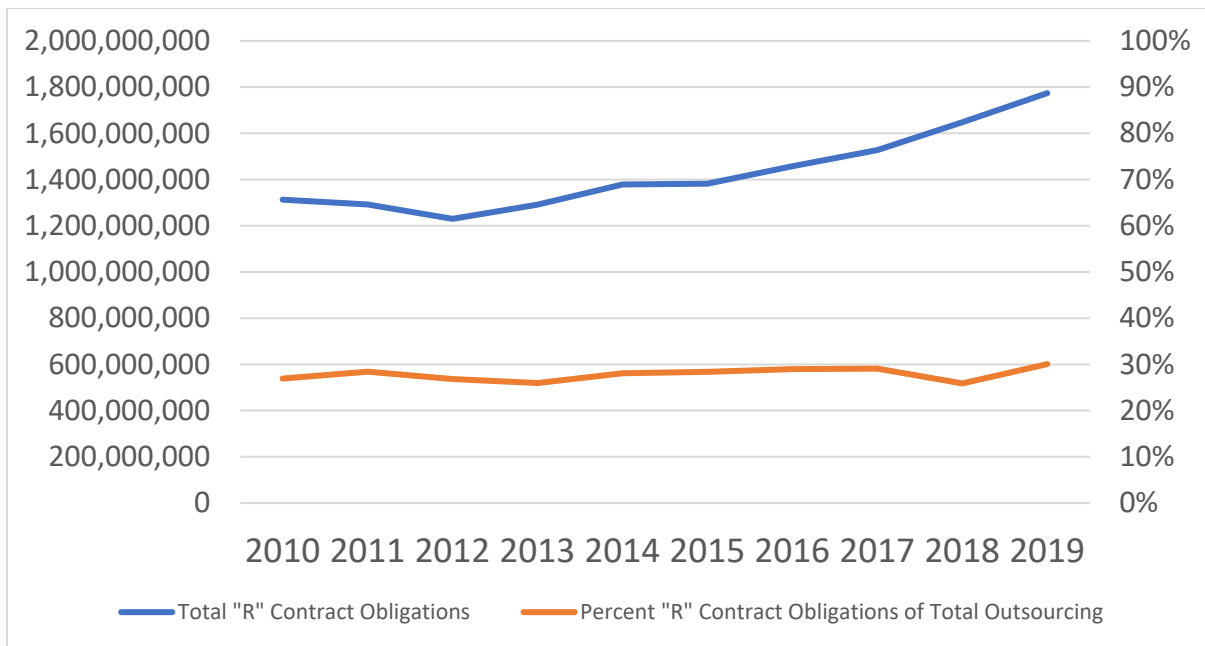


Figure 2.5: Total Average “R” Contract Obligations Compared to Average Percent of “R” Contract Obligations of Total Outsourcing, 2010 through 2019; Non-DOD. Author created graph with “R” contract data extracted from the Federal Procurement Data System – Next Generation (FPDS-NG) and www.sam.gov.

Figure 2.6 highlights that DOD, on average, outsources a smaller percentage of its contract obligations to NG duties, but the total amounts are almost 40 times the average amount of non-DOD NG outsourcing, due to the size of DOD’s contracts.

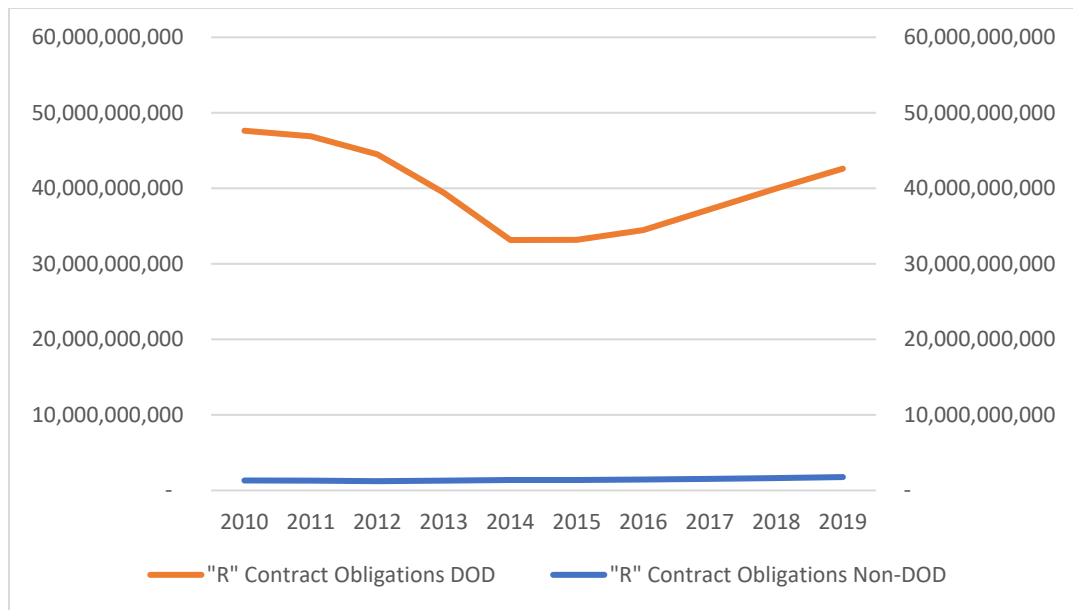


Figure 2.6: Comparison of “R” Contract Obligations, DOD vs. Non-DOD, 2010 through 2019. Author created graph with “R” contract data extracted from the Federal Procurement Data System – Next Generation (FPDS-NG) and www.sam.gov.

Critics of these concepts highlight that outsourcing does not necessarily lead to greater efficiencies and accountability. Without a sizeable federal bureaucracy to oversee contracts and perform government functions, the government serves as a “leviathan by proxy” or as a “government by remote control.” Dilulio (2016), who coined “leviathan by proxy,” explains that each political party blames bureaucrats for most government problems. He argues that such criticisms are unfair and that most government problems can be traced to the deficit and the high levels of outsourcing that occur throughout government.

Critics also contend that managing contracts can exacerbate the potential for waste and inefficiency since a bureaucrat’s program is obscured through multiple levels of contractors, sub-contractors, and state and local governments, to name a few. This distant managerial relationship inhibits close supervision of contractors and heightens the chance for waste and fraud (Milward

and Provan, 2000; Peters, 1994). Government bureaucrats are forced to manage complex networks, rather than hierarchies, which undercuts the principal-agent relationship and potentially reduces accountability and efficiency (Milward and Provan, 2000). Federal bureaucrats face the same challenges when managing programs that allocate funding to subnational governments, since they retain little oversight over the operations of the dispensing agency (Fredrickson and Frederickson, 2007). Finally, some critics argue that efficiency and customer service should not be the government's primary goals; instead, bureaucrats should consider the public's interest and associated values (Peters, 1994).

Literature Focus on Outsourcing

Much of the literature on outsourcing examines the origins and processes of outsourcing including contract design, implementation, and determinants (Jiang and Qureshi, 2006; Bueger and Harris; Girth and Lopez). Other studies examine the impact of outsourcing on government spending and the sought-after efficiencies gained from relying on the private sector for government functions (Bueger and Harris, 2021; Levin and Tadelis, 2010). These research studies are usually focused on the local level (Park, 2004; Dunning, 2018; Zuberi, 2013; Geys and Sorenson, 2016; Buerger and Harris, 2021; Levin and Tadelis, 2010), rather than outsourcing at the state or federal level. Much of the early research on outsourcing relied on anecdotes and case studies for analysis, which resulted in a gap in outsourcing literature that uses objective and quantifiable metrics (Jiang and Qureshi, 2006).

More recently, scholars have begun to examine the impact of outsourcing on government workers, though most of this analysis focuses on government employees whose positions were

transferred to the private sector through a contract. Vrangbaek, Petersen, and Hjelmar (2015) reviewed 26 empirical studies to identify trends in workplace conditions after government jobs had been shifted to the private sector through outsourcing. Employees transferred to the private sector often face lower real wages, worse conditions, work intensification, and lower health care coverage (Jensen and Stonecash, 2005; Park, 2004; Zuberi, 2013; Dube and Kaplan, 2010; Cunningham and James, 2009).

Some scholars have begun to examine the impact of NPM measures on government behavior. Yang and Kassekert showed the enacting NPM measures in the federal government - including outsourcing - can have a negative impact on job satisfaction. Lee and Lee (2020) also found that outsourcing has a negative impact of job satisfaction, and they recommended that managers spread new knowledge and ideas to potentially mitigate the negative impact. In order to understand their findings, and the impact of outsourcing on employee behavior, it is important to understand public service values and the public sector's unique organizational culture.

2.2 PUBLIC SERVICE VALUES AND BUREAUCRACY

Many job seekers join the government to help serve their community. They embrace the concept of public values which are characterized by “classic values” such as self-sacrifice, integrity, and honesty (Andersen, et al, 2013; Rainey and Bozeman, 2014). This ethos helps generate pride for bureaucrats in their effort to serve the public interest with honesty and integrity, while its tenets provide direction for bureaucratic behavior (Horton, 2006; Andersen, et al, 2013). Public values are ideals relied on when serving the community and help guide a bureaucrat's behavior

(Andersen, et al, 2013). Bureaucrats place the highest emphasis of any group on being honest, respectful, responsible, helpful and capable (Rainey and Bozeman, 2000).

In this regard, public service motivation (PSM) highlights the individual motivations that draw people to the public sector, and it forms the ethical and political framework under which bureaucrats operate. Perry and Wise (1990) define PSM as “an individual’s predisposition to respond to motives grounded primarily or uniquely in public institutions and organizations (Perry and Wise, 1990, 368). PSM attracts people to government who wish to serve the public interest, and these job seekers often retain high levels of nationalism and loyalty to their country (Perry and Wise, 1990; Rainey 1982, 2014; Houston, 2000). PSM is linked to self-sacrifice and altruism, and though it isn’t found only in the public sector, PSM is more common in government than in other sectors (Perry and Wise, 2010; Houston, 2000). PSM is derived from three foundations: rational, affective, and normative. Normative and affective influences appear to be the most directly associated with PSM. A normative foundation for PSM results in a desire to serve the community and ensure social equity, while an affective individual retains a commitment to specific programs and retains a “patriotism of benevolence” (Perry and Wise, 1990; Crewson, 1995). PSM can help influence organizational characteristics including productivity, accountability, and trust in government (Battaglio and Edward, 2016). PSM is also an indicator of the existence of a public service ethos within a bureaucracy, while self-sacrifice retains a positive association with intended organizational outcomes (Battaglio and Edward, 2016).

Public employees join the government because they are motivated to provide services to a community, whereas for-profit employees are usually driven by economic and financial

incentives (Crewson, 1997, Houston, 2000; Wittmer, 1991). Intrinsic rewards motivate bureaucrats more so than private sector employees, while for-profit employees appreciate extrinsic rewards more so than bureaucrats (Crewson, 1995, 1997; Houston, 2000; Wittmer, 1991).

Managers and organizations should therefore nurture PSM as a motivator to attain employee and organizational goals (Christensen, Paarlberg, and Perry, 2017). Civil servants can operate as efficiently as a for-profit business when PSM is the baseline motivation for an employee (Rainey and Bozeman, 2000). Bureaucrats also face different challenges and hurdles than those who work in the private sector. Complex processes and “red tape” frustrate government workers, but PSM helps them overcome these frustrations to produce at a level consistent with private sector employees (Rainey and Bozeman, 2000). Also, despite the poor reputation of government workers, bureaucrats still maintain relatively high levels of job satisfaction, due in part to their unique motivators (Rainey and Bozeman, 2000).

Some scholars have further dissected the motives of public employees and argue that they exhibit both rational and normative motives in the workplace. A rational public employee seeks to participate in the policy process to support to certain programs, while a normative public employee desires to serve the public interest and pursue concepts such as social equity (Perry and Wise, 1990; Wittmer, 1991). In this regard, observers highlight four types of people who are likely to join the public service - samaritans, communitarians, patriots, and humanitarians (Perry and Wise, 1990; Wittmer, 1991). All of these groups of people believe that serving the community should be an important component of employment. As a result, PSM is often

positively associated with an individual's organizational commitment, so those who identify with the organization are likely to remain motivated to perform (Perry and Wise, 2010).

The strongest association between public values and PSM is through a bureaucrat's commitment to the public interest (Andersen, et al, 2013). The values associated with a commitment to the public interest include rule abidance, public at large, professionalism, and balancing interests (Andersen, et al, 2013). In this light, bureaucratic behavior is undergirded by a "theta type" value system, which stresses fairness, honesty, and trust (Hood, 1991). Most theta-type values are consistent with public service principles that prevent the exploitation of government decision-making by specific groups (Hood, 1991). This altruistic belief system prompts many people to join the civil service.

These values and motivators are often different than those exhibited by private sector employees (Rainey and Bozeman, 2000). For-profit employees are motivated by "sigma-type" values which represent efficiency, purpose, and outputs (Hood, 1991). Sigma-type values stress the frugal use of resources to achieve goals with an emphasis on avoiding waste and inefficiency (Hood, 1991). As noted by Hood (1991), "success or failure to realize sigma-type values is measured in time and money." Sigma values emphasize the need to match resources to goals, so capturing and measuring outputs is critical to the sigma type. A technology driven architecture is necessary to capture these outputs and measure them against the resources used in the creation of the outputs (Hood, 1991). Public employees value self-sacrifice and community service. Senior government managers, in particular, are less reliant on money and income as a work motivator (Rainey and Bozeman, 2000).

Even non-profit managers, who seemingly would be more aligned with government values, possess significant ethical differences from federal employees. Some non-profit managers will prioritize their efforts to support their clients, whereas bureaucrats are driven primarily by a desire to support the public interest (Rasmussen, et al, 2003). Bureaucrats also view rules as a positive measure to achieve transparency and accountability, whereas non-profit managers believe they are hurdles to overcome in their effort to serve the client (Rasmussen, et al, 2003).

According to one study, two-thirds of a bureaucrat's job satisfaction can be explained by factors other than monetary rewards such as routineness, job goal specificity, and human resource investment (Wright and Davis, 2003). Most federal employees, for example, are motivated by the importance of their own work and that of their organizations (Rainey and Bozeman, 2000). They want to understand how their work contributes to the agency's broader goals, and they want to feel like they are contributing toward that end. These unique motivators enable government employees to cope with recurring challenges and obstacles to their work satisfaction, like "red tape" and goal ambiguity (Rainey and Bozeman, 2000; Engstrom and Axelsson, 2010).

Herzberg's two-factor theory expands on these concepts. Herzberg distinguishes between hygiene factors and motivators. Hygiene factors are those typically associated with extrinsic rewards, while motivators include intrinsic rewards like achievement, recognition, and responsibility (Rainey, 2014). Herzberg argues that hygiene factors can prevent dissatisfaction, but that motivators are essential to improving productivity and morale. In this regard, Herzberg believes that managers should avoid negative or controlling management techniques and instead

foster an environment designed for growth, achievement, and recognition (Rainey, 2014). A public sector manager should rely on delivering motivators or intrinsic rewards to their employees which can include achievement recognition, regular engagement, and positive reinforcement, among other measures (Christensen, Paarlberg, and Perry, 2017). Some evidence also shows that lower-level government employees prefer material and security rewards, while more senior employees stress the importance of challenges and goal accomplishment (Rainey, 2014; Crewson, 1995). Most government new hires into government will enter the workforce with an entry-level salary, so they are reasonably focused on income as a priority (Crewson, 1995). Also, new hires will lack the level of responsibility and authority which can enhance the importance of intrinsic incentives (Crewson, 1995).

Values also drive an employee's commitment to an organization. PSM is positively associated with high organizational commitment and increased levels of job satisfaction, job performance, and organizational effectiveness (Perry and Wise, 2010). Government employees are usually motivated by *affective* commitment to their organization because they retain an emotional attachment to their agency through shared values and beliefs (Sung and Rainey, 2007; Allen and Meyer, 1997). Some bureaucrats are motivated by *normative* commitment, which is defined as an "obligation-based commitment" where an employee believes they have a duty work for the agency and a responsibility to the organization (Meyer and Allen, 1997). Affective and normative commitment are more closely associated with intrinsic motivators including meaningfulness of work and task significance, among other measures (Sung and Rainey, 2007). A civil servant's intrinsic motivation, rather than his or her salary, results in increased job satisfaction and efficiency (Jensen and Stonecash, 2005). For-profit employees, in contrast, are

motivated by a *calculative* commitment to their agency, where the employee weighs the costs and benefits of staying with the organization (Sung and Rainey, 2007). Calculative commitment is often associated with extrinsic motivations including salary and bonuses, among other motivators (Sung and Rainey, 2007).

Commitment to an organization can be a strong indicator of human behavior in a workplace (Austen and Zacny, 2015). Organizational commitment is positively associated with organizational effectiveness, job performance, and work motivation (Kim and Han, 2017; Meyer Allen, 1997). Organizational commitment is measured through an employee's organizational citizenship behavior (OCB). High OCB, which often exists in public agencies, is a force multiplier for an organization's productivity and can provide an agency with a competitive advantage in the marketplace. High OCB can spur employees to increase their productivity to support their colleagues, team members, and the organization (Austen and Zacny, 2015). Positive OCB is also associated with increased levels of job satisfaction, while negative OCB can lead to high turnover and absenteeism (Bilney and Pillay, 2015; Austen and Zacny, 2015). Employees assist each other by sharing best practices or new knowledge that helps them interpret or overcome problems. Many employees begin their careers with high levels of OCB, but as they spend more time in their profession, they become increasingly disenfranchised with the organization (Bilney and Pillay, 2015).

2.3 PUBLIC SECTOR ORGANIZATIONAL CULTURE

Organization culture is founded on the cultural theory of society. Early anthropological researchers developed the concept of “grid / group” analysis which compares cultures and social organization types within groups (Altman and Baruch). The “group” refers to the amount of time that individuals spend interacting with their counterparts, while the “grid” refers to constraints placed on social interaction including gender, race, role in society, or the position retained by the person within the hierarchy (Altman and Baruch, 1998). “Grid/group” analysis is reflected in four quadrants that highlight the range of social interaction and help define culture within a society.

According to scholars Parker and Bradley, organizational culture consists of assumptions, values, and artefacts (Parker and Bradley, 2000). Assumptions are deeply held beliefs on human nature and relationships, while artefacts are the solid or physical representations of culture through symbols, rituals, or traditions (Parker and Bradley, 2000). Values represent an individual’s preferences for alternative outcomes and his or her methods for achieving those outcomes (Parker and Bradley, 2000). In this regard, organizational culture is a series of shared assumptions, values and beliefs which serve as a guide for how people act, feel, and behave (Goodman, et al, 2001; Kim and Han, 2017). Values are the most relevant of the three components of organizational culture when examining the public sector. Values provide meaning to public service and help form a civil servant’s perception of reality (Andersen, et al, 2013).

Within any organization, a positive culture has attributes that can help the group succeed. Culture can influence the organization’s performance and effectiveness, while helping employees develop a sense of group identity (Austen and Zacny, 2015). Goodman et al (2001)

found that group cultural values are positively related to organizational commitment, job involvement, empowerment, and job satisfaction. Culture helps integrate and coordinate activities and roles within the organization, including the establishment of acceptable behaviors and norms for new members. Organizational culture sets expectations for new employees who desire to be accepted into the organization and they often willingly conform to the informal set of rules and behaviors (O'Reilly, 2008). This informal social control system is often more effective than established formal processes that aim to guide employee behavior.

Norms have two important variants: the degree of approval or disapproval for those who accept or reject the norms, and the level of consensus regarding the known norms within the organization (O'Reilly, 2008). An organization develops a strong culture once employees accept a commonly understood description of the organization's norms. These values are often enshrined in an organization through its mission and vision statements (Andersen, et al, 2013). Value congruence is also an important factor in developing a strong culture. An employee's desired values and the company's actual values should be similar to satisfy employees. A strong "value fit" between an employee and the company can lead to higher job satisfaction and a greater level of cohesion within the company (Boxx, et al, 1991). A common value system can also improve organizational commitment to the organization (Boxx, et al, 1991).

In a study of 99 health care facilities in the United States, Gregory, et al (2009) discovered that organizations which value teamwork, cohesion, and employee involvement will outperform organizations that ignore these values. They also found that organizations which show their appreciation to their employees can provide better services than organizations that

underappreciate their employees. They also concluded that organizational culture influences employee attitudes, which in turn can impact organizational outcomes (Gregory, et al, 2009).

One common challenge in persuading employees to accept norms is that upper management may promote certain values from the “top, down,” but middle and lower-level employees will not attach strong approval or disapproval to these beliefs and behaviors (O’Reilly, 2008). Another challenge is that different groups may identify with different values which hurts consensus building. Some scholars believe that the best solution for managers is to promote a few core values and seek widespread acceptance throughout the organization (O’Reilly, 2008). Other scholars disagree and argue that a more balanced set of values can provide different values for different situations. They argue that most modern organizations are complex and dynamic, so a homogenous culture cannot provide the myriad values required for a transformative organization to be successful (Gregory, et al, 2009).

Within public organizations, values assume an even greater role than in most other types of organizations. Public values are often equated with “classic values” such as public interest, political loyalty, integrity and honesty, among other traits (Andersen, et al, 2013). These principals and behaviors form the basis of the public service ethos embraced by many civil servants (Andersen, et al, 2013). This ethos helps generate pride for bureaucrats in their effort to serve the public interest with honesty and integrity, while its tenets provide direction to bureaucratic behavior (Horton. 2006; Andersen, et al, 2013). In this regard, role identity is prominent among civil servants who view their roles as a manager, bureaucrat, professional, leader, and policy advisor (Bourgault, et al, 2013).

Organizational culture helps integrate and coordinate activities and roles within the organization by establishing acceptable behaviors and norms for new members. New employees who desire to be accepted into the organization will willingly conform to the agency's informal set of rules and behaviors (O'Reilly, 2008). This informal social control system is often more effective than established formal processes that guide employee behavior. Members who are part of a group with similar values also retain pride in the organization and the dynamic also boosts their self-esteem. Known as social identity theory, an individual's self-concept is partially derived from their perceived membership of a social group or organization (Horton, 2006). Once members derive satisfaction from being a part of the organization, they begin to think more collectively than individually.

The degree of an employee's organizational commitment is largely based on the durability of the psychological links between an employee and their organization. The psychological contract is an employee's belief that the organization they joined will retain the type of organizational culture that was initially attractive to the new employee. A strong psychological contract exists when an employee has accepted the organization's value and goals and is focused on maintaining organizational membership through his or her actions (Mowday, 1982).

A durable psychological contract is a key facet of a positive organizational culture, which represents a series of shared assumptions, values, and beliefs which serve as a guide for peoples' actions, feelings, and behaviors (Goodman, et al, 2001; Kim and Han, 2017; Meglino, Ravlin, and Adkins, 1996). Common values drive internal integration because individuals who hold similar values share certain aspects of cognitive processing. These similarities provide a shared

foundation for communicating and interpreting events and lead to higher job satisfaction and organizational commitment (Meglino, Ravlin, and Adkins, 1996). Value congruence also influences organizational culture when an employee's desired values and the company's actual values are similar.

A strong "value fit" between an employee and the organization can lead to higher job satisfaction, a greater level of cohesion within the company, and improved organizational commitment (Boxx, et al, 1991). In this regard, organizational culture is positively associated with organizational commitment because shared values make employees more engaged in organizational goals (Austen and Zacny, 2015). Group cultural values are positively related to organizational commitment, job involvement, empowerment, and job satisfaction (Goodman, 2001). Organizational culture also influences an organization's performance and effectiveness, through its influence on employee attitudes which in turn influences positive organizational outcomes (Austen and Zacny, 2015; Gregory, et al, 2009).

Bureaucratic job satisfaction is also linked to stability in the workplace. A traditional hierarchical manager ensures stability and certainty with their employees and directs predictable duties and responsibilities (Cameron and Quinn, 2011). Traditional managerial practices – ones that enforce order, rules, and regulations - help promote organizational commitment, and are an integral part of OCB in the public service (Kim and Han, 2017). Government managers, therefore, should promote and cherish public administration virtues like continuity, stability, objectivity, political neutrality, and legal security.

CHAPTER 3

CONTRACTING OUT NEARLY INHERENTLY GOVERNMENTAL DUTIES

3.1 BACKGROUND

The introduction of NPM initiatives into government can undercut the unique values, beliefs, and motivators that public employees possess in the workplace. The incorporation of business values can erode a bureaucrat's "public ethic" in favor of "results oriented ethics," where civil servants act in self-interested and opportunistic ways (Caron and Giaque, 2006; Balfour and Grubbs, 2000). NPM individualizes public administration with its focus on self-interest and efficiency, which conflicts with the altruistic beliefs that prompted individuals to seek government employment (Perry and Wise, 1990; Parker and Bradley, 2000). NPM also seeks to replace an employee's public service ethic with a more nimble and innovative public management logic, but such a change is accompanied by a new and sometimes unwelcome ethical framework (Horton, 2006).

Market-driven values can compete with or overshadow the dominant theta value philosophy that exists in government. Government employees value stability and integration over competitiveness and change (Kim and Han, 2017), and the introduction of competition and results-orientation into government can have an adverse impact on an employee's commitment to a government agency (Kim and Han, 2017). These measures shift the fundamental incentive structure within an organization from a low to a high-powered incentive structure (Jensen and Stonecash, 2005). This new dynamic will be unfamiliar to civil servants who rely on intrinsic motivators and a public service ethos to guide their daily activities. In this regard, NPM forces

officials to rely on extrinsic, rather than intrinsic motivators, to generate work productivity (van Bockel et al, 2006). Bonuses, promotions, time off, and leave are the primary extrinsic tools that NPM-managers use to motivate employees (Crewson, 1997).

Market-oriented initiatives can also undercut organizational commitment. Government bureaucrats, unlike many of their private sector counterparts, appreciate being part of a public organization where they can contribute to a greater public service and rely on a theta type value system that emphasizes employee welfare, fairness, and justice (Zuberi, 2013; Sung and Rainey, 2007). NPM measures could break this “value fit” by upending the existing culture within government agencies which results in the emergence of incongruent value systems within a public organization. NPM’s new values and belief systems, with a focus on competition and results, can also derail a public employee’s commitment to their organization because the reforms undercut the employee’s affective commitment to the organization (Kim and Han, 2017; Sung and Rainey, 2007; Bilney and Pillay, 2015; Austen and Zacny, 2015).

NPM’s focus on efficiency, accountability, and autonomy, can confuse a civil servant’s identity by modifying the bureaucrat’s original public service bargain (Bourgault et al, 2013). NPM measures cascade a set of values through government that violates the psychological contract that the employee undertook at the beginning of public service. A bureaucrat’s duties may change under NPM as well, which violates their original expectations when they joined the government. An employee may view this change as a violation of his or her psychological contract (Bilney and Pillay, 2015).

NPM initiatives can place new pressures on staff to produce efficiently and cost-effectively, and this pressure can violate the original bargain that employees undertook when

they joined public service. This gap between the original bargain and the new pressure-filled environment can reduce an employee's job satisfaction (Bilney and Pillay, 2015).

An example of a broadly implemented corporate measure that impacts government employees is organizational change. NPM often seeks to replace a government hierarchy with a "team based" structure which alters the power and control dynamics within the agency. Employee affiliation and mutually supportive relationships with colleagues are replaced with self-managing teams and horizontal control (Balfour and Grubbs, 2000). The result is that authority becomes more "peer oriented" and public employees answer to both their peers and their supervisor (Balfour and Grubbs, 2000).

Most bureaucrats, however, favor a hierarchy which provides order, certainty, and stability. (Kim and Han, 2017; Parker and Bradley). Managers also value rules and procedures that can serve as control mechanisms (Parker and Bradley, 2000). A hierarchical structure is positively associated with organizational commitment, so traditional managerial practices that enforce order, rules, and regulations are still an integral part of OCB in the public service (Kim and Han, 2017). Balfour and Grubbs (2000) note that: "The recent move to reengineer public bureaucracies into flexible, streamlined organizations has effectively cast employees adrift, leaving them searching for organizational identities." NPM's focus on flexibility can also lead to confusion over employee roles and responsibilities as bureaucrats attempt to determine their place in the organization (Balfour and Grubbs, 2000). The resulting dynamics can lead to lower job satisfaction and higher employee turnover and absenteeism rates (Balfour and Grubbs, 2000). Further, the change toward a corporate culture erodes the trust that is created in a traditional bureaucracy (Grey and Garsten, 2001). Trust is developed through a set of organization specific

norms, values and rules, and a movement toward corporate culturism erodes this basis of bureaucratic trust (Grey and Garsten, 2001).

NPM also promotes the adoption of managerialism in government, which is a form of corporate management that views problems from an economic lens. Under managerialism, business leaders are hired into government to bring a corporate minded skillset to the bureaucracy. These managers are trained to act with a high degree of autonomy, and they demand accountability for results. They also gauge the ratio between inputs and outputs and focuses on technical and cost saving efficiencies (Considine, 1990). This leadership approach stresses “unit cost reduction” and ignores other criteria like effectiveness and equity. Some scholars believe that such an approach is a poor fit for government agencies, which often face complex problems and deal with high levels of accountability (Considine, 1990).

Managerial practices that stress competition and efficiency likely conflict with cultural values that emphasize accountability and formal procedures (Kim and Han, 2017). Public service managerialism could generate a new public service bargain that is a hybrid of an employee’s traditional public service ethos with managerialism (Bourgault et al, 2013). The result is that employees may become more disengaged from their work, which would undermine a bureaucrat’s motivation and productivity (Balfour and Grubbs, 2000). Similar to managerialism, NPM’s increasing use of temporary workers, temporary or shifting groups, and short-term assignments, undermines the ability to build a trustworthy culture in a “post bureaucratic agency” (Grey and Garsten, 2001).

Corporate managers will also broaden and diversify the workload of their employees. Civil servants must then find new ways to achieve their NPM-related goals, rather than focus on performing their old goals more efficiently (Considine, 1990). In this environment bureaucrats may feel confused and underprepared to undertake their new duties, which could lead to high levels of turnover (Balfour and Grubbs, 2000). NPM's focus on flexibility can also lead to confusion over employee roles and responsibilities as bureaucrats attempt to determine their place in the organization (Balfour and Grubbs, 2000). A focus on outputs can also have unintended consequences, where employees will "game" the performance system, focus on certain high visibility outputs at the expense of others, which can result in shifting goals (Christensen, et al, 2006). One study showed that managers responsible for implementing NPM type measures found the messaging "confused, ambiguous, and political" and that the managers believed that the reform was unachievable (Stokes and Clegg, 2002). They viewed the new goal of finding efficiencies as irrelevant and completely political (Stokes and Clegg, 2002). Stokes and Clegg (2002) found that "instead of an organizational displacement of the old public ethos with a new business ethic we find ethical erosion at the apex and practical confusion at the base."

Unsurprisingly public managers have been slow to accept NPM's culture. Indeed, employment in the public sector is a predictor of opposition to privatization and contracting out (Fernandez and Smith, 2006), and bureaucrats are usually hesitant to adopt NPM measures (Bourgault et al, 2013). Government managers may view some NPM initiatives as useful, especially measures that focus on results and outcomes, but they do not associate their core values with markets and competition (Meyer and Hammerschmid, 2006). According to two scholars who have researched the issue: "If NPM is mainly an 'identity project', so far it has not

been successful in superseding the 'old' administrative orientation" (Meyer and Hammerschmid, 2006). As a result, many public managers retain some of the trappings of their traditional bureaucratic culture, and in turn, some of their original psychological contract with the organization (Bilney and Pillay, 2015; Parker and Bradley, 2000).

In a study of three countries, Bourgault et al (2013) discovered that managerialism took deep root within some bureaucracies, while in others, institutional resistance led to a hybrid identity between managerialism and public service. They did not find any country where there was a complete change to a managerialist identity; however, they did find that in addition to the role of policy advisor – a traditional public service role – that the role as manager emerged as a new addition to the public service bargain (Bourgault et al, 2013). These two dominant civil servant roles reflect the hybrid nature of the current public service bargain that includes the old bargain, but also adds new elements including performance appraisals, rewards, and accountability (Bourgault et al, 2013).

A study of the privatization of the postal service in some European Union countries is illustrative of some of the challenges of implementing a corporate culture. The employees retained a public service ethos which motivated them to perform their duties. This ethos manifested itself through the belief that all citizens should receive the mail, regardless of the location of their residence (Flecker, 2016). Under the new outsourcing regime, bureaucrats witnessed "citizens" becoming customers and they remarked that privatization obviated the "common good" that was part of their organizational identity (Flecker, 2016). Under a privatized model, the newly transitioned workers complained that they lacked enough time to talk to elderly citizens, which helped enrich their job experience. They also witnessed poor deliveries occurring

since the company measures performance through the number of deliveries, even if the package is left at a location where it will not likely be picked up (Flecker, 2016).

NPM initiatives that give greater authority and flexibility to managers can result in lower job satisfaction when accompanied by the removal of civil service protections. Yang and Kassekert (2009) examined the impact of Title 5 exemptions on civil servants. Title 5 exemptions withdraw most civil service protections and give managers more authority to hire and fire employees. Yang and Kassekert discovered a negative correlation between the withdrawal of Title 5 protections and employee job satisfaction (Yang and Kassekert, 2009). The authors hypothesized that employees responded negatively to the exemptions because they viewed these changes as threats to their job security and political neutrality, rather than measures intended to improve employee empowerment and performance improvement (Yang and Kassekert, 2009). Job insecurity can lead to higher occupational stress and a diminishment of a person's well-being (Sverke et al, 2002).

A similar study showed that removing bureaucratic protections and increasing job uncertainty at the state level can have similar effects. The study examined the impact of Florida's "Service First" initiative converted the state's employees from civil service to working in an "at will" environment, where employees could be terminated more easily. The Florida governor also included more extrinsic incentives including fully paid health insurance and additional leave to compensate for the move. The state's employees believed that the political leadership used the reform to decrease the size of the state's government and as a result, their jobs were in danger due to downsizing (Bowman, et al, 2003). The consequence was lower employee morale and higher absenteeism (Bowman, et al, 2003), which are signs of reduced job satisfaction. Some of

the respondents remarked that they could serve the public interest better with job security when they are protected from political measures like downsizing (Bowman, et al, 2003). Another study showed that bureaucrats with less protections retained a more positive view of recent civil service reform measures; however, the authors believe that the employees were likely concerned about retaliation and were more fearful than others to express their concern with “at will” employment (Kellough and Nigro, 2002).

Similarly, pay for performance (PFP) has been a headliner measure for NPM advocates that often leads to reduced job satisfaction. The reliance on individual based performance evaluations can lead to toxic competition between employees to achieve a good performance rating, and it also can alienate a workforce (Kellough and Nigro, 2002) whose value system is based on serving the greater good and working in a community setting. Government employees are often skeptical about the implementation of PFP (Heneman and Young, 1991), and some studies show that their skepticism is justified.

Some scholars believe that pay for performance has not improved job satisfaction or performance in the public sector (Kellough and Lu, 1993). In fact, workplace engagement and job enrichment have been shown to be more valuable than pay (Lovrich, 1987). In a study conducted in Washington state, Lovrich (1987) notes that “workplace participation and job enrichment are more salient determinants of motivation than are compensation considerations.” Another study evaluated the impact of pay for performance in Georgia five years after the implementation of the measure, which also included a new performance evaluation system in Georgia known as GeorgiaGain. Respondents noted that the modernization effort was the government’s attempt to achieve more productivity without increasing pay or benefits, and to

control the state's salary costs (Kellough and Nigro, 2002; Sanders, 2004). Employees reported a high level of cynicism with the effort, though associations with job satisfaction were relatively weak (Kellough and Nigro, 2002). They also complained that the new management system did not embrace other sources of motivation besides pay (Sanders, 2004).

As noted by Sanders (2004):

“While the program may be popular in the Capitol, the halls of most state bureaucratic buildings are not the place to find supporters. The workers do not like the program, and the Merit System's own surveys bear this out. Goal number one of reform was to improve the workforce, yet an overwhelming majority of employees see no improvement in bureaucratic production” (Sanders, 2004, 159).

Impact of Outsourcing on Employee Behavior

Similar to other NPM measures, outsourcing can produce negative effects on employee job behavior. Outsourcing in the U.S. federal government, for example, has been shown to have a negative impact on employee job satisfaction (Yang and Kassekert, 2009; Lee and Lee, 2021). Yang and Kassekert (2009) reasoned that government workers in agencies with high levels of outsourcing may believe that public values are being eroded during the process. They may begin to question the agency's purpose as a corporate value system begins undertaking government duties (Yang and Kassekert, 2009).

A contract, driven by cost savings and efficiencies, could deemphasize obligations to public values like justice, fairness, and equality. A business's cost benefit approach could maximize efficiencies while violating collective moral obligations. Values are also difficult to quantify and measure in a contract. Contracts usually contain quantifiable metrics which can reshape and compromise values in unintended ways (Dolovich, 2009).

Public sector employees may also be concerned that the private sector company will be incapable of successfully operating the outsourced service. Bureaucrats may not trust the company to fulfill its commitment to the outsourced service, and they may also be concerned that the company's management lacks the interest and competence to ensure the success of the service (Engstrom and Axelsson, 2010).

Contracting out can also heighten concern among employees that they are dispensable and may be fired and promote job insecurity (Flecker, et al, 2016). Even though few workers in the U.S. government lose their jobs to outsourcing, they still may feel that the process diminishes the role that they play within the organization. The outsourcing process could also create uncertainty and confusion for the employee if their role and duties change after the contract is implemented.

Outsourcing of Nearly Inherently Governmental Duties

Since the impact of outsourcing has been shown to have a negative impact on employee job satisfaction, the outsourcing of duties that are nearly inherently governmental (NG) could have an even greater impact on job satisfaction. NG duties are the critical functions of a government agency, which in some cases should not be outsourced to the private sector, but instead remain within the agency. Government values should guide and shape these roles and functions, and these values could be eclipsed by profit and commercialism if executed by a private sector agency.

In 1966 a budget circular known as "A-76" charged federal agencies with identifying duties that were "inherently governmental" and directed that only duties *outside* of this category

could be competed against the private sector. The Office of Management and Budget (OMB) revised the A-76 circular in 1999. The circular defines inherently governmental functions as those:

“...which is so intimately related to the public interest as to mandate performance by Government employees...these functions include those activities which require either the exercise of discretion in applying Government authority or the use of value judgment in making decisions for the Government.”

The Federal Acquisition Regulation (FAR) further defines “inherently governmental” as actions those that:

- (i) Bind the United States to take or not to take some action by contract, policy, regulation, authorization, order, or otherwise;
- (ii) Determine, protect, and advance United States economic, political, territorial, property, or other interests by military or diplomatic action, civil or criminal judicial proceedings, contract management, or otherwise;
- (iii) Significantly affect the life, liberty, or property of private persons;
- (iv) Commission, appoint, direct, or control officers or employees of the United States; or
- (v) Exert ultimate control over the acquisition, use, or disposition of the property, real or personal, tangible or intangible, of the United States, including the collection, control, or disbursement of Federal funds. (FAR 201.103-6)

If the government contracts out duties in these categories, the government could be violating the Presidential SubDelegation Act of 1950 which requires core functions to be executed by the government (Verkuil, 2009). Additionally, a longer-term concern is if the government outsources too much expertise in core functional areas, the public sector may no longer be able to undertake those duties. Instead, the government will be dependent on the private sector to execute critical government functions because the public sector has lost the necessary expertise to undertake the function (Cooper, 2003).

In addition to this category of federal duties and responsibilities, there are additional functions that can be contracted out that as considered “approaching” or “nearly” inherently governmental.

As stated by Federal Acquisition Regulations (2019):

“Certain services and actions that are not considered to be inherently governmental functions *may approach being in that category* [italics added] because of the nature of the function, the manner in which the contractor performs the contract, or the manner in which the Government administers contractor performance.”

In 2010, the Office of Federal Procurement Policy (OFPP) within OMB further highlighted the dangers in contracting out duties in these areas:

“These functions have been identified by OMB for heightened management consideration, based on concerns of *increased risk of losing control of mission and operations* [italics added] as identified through a review of reports issued in recent years” (Office of Management and Budget, 2010).

The letter highlighted OMB’s concern with “code R” categories of contracts, as defined in the products and service codes manual, as potentially being inherently governmental activities.

The 2005 FAR lists 19 duties that are *nearly* inherently governmental which include legal services (R418); policy review, evaluation, development and management (R406/ R408); and acquisition support. These services are at the highest risk of improperly influencing or undermine government authority and require additional federal contract management and oversight

While these duties can be contracted out, federal agencies that use contract funds to perform NG duties must closely manage and monitor those contracts. OMB directed agencies that contract out these types of responsibilities to maintain strict accountability and oversight

over those contractual functions because they could undermine or influence the direction or authority of government.

Despite this directive, the government is concerned about core government functions being outsourced to the private sector since many agencies continue to award contracts in these service areas without the necessary oversight. In 2010, OMB issued guidance which highlighted their concern that agencies were outsourcing inherently governmental activities and that they were relying too much on private sector contractors to execute critical government responsibilities (OMB, 2010).

A year later in December 2011 a report by the Government Accountability Office (GAO) found that civilian contract obligations continue to outsource nearly inherently governmental duties without the appropriate management and oversight. A contract service category known as “professional and management services” increased by 44 percent from 2005 – 2010, which was a rate of increase double that of other contract services. The GAO review discovered that more than 50 percent of the statements of work for professional and management services provided funds for functions that “closely support” inherently governmental functions (GAO, 2011). These functions required additional management and oversight since, as the report stated, “using these services can inappropriately influence government decision making if proper oversight is not provided” (GAO, 2011).

They reviewed statements of work from five departments, including the Department of Homeland Security, and identified that the contract service code that begins with “R” were the highest risk. GAO and OMB believe that contract codes with high risk in the service category

“R” include Professional / Administrative / Management support. GAO (2011) is especially concerned about the statement of work that the agency has reviewed for service codes:

- R4 – Support – Professional
- R6 – Support – Administrative
- R7 – Support – Management
- “Other Professional Services” (R499, R699, R799)

The five agencies examined by GAO retained high levels of obligations in the R category. GAO also noted that few of the agencies implemented the necessary supervision to ensure that these contractual obligations did not unduly influence government performance or behavior (GAO, 2011). The report’s analysis further indicated that much of the increase in this contract category could be attributed to the sub-category of “other professional services” (GAO, 2011). Statements of work in this category include activities such as assistance to foreign governments, risk management, budget support, and workforce analysis, among other areas.

Figure 3.1 shows a FY2019 snapshot of the “R” category, categorized by product or service code, shows that R425 and R499 account for the greatest amount of contract obligations within the R category followed by R408 and R706.

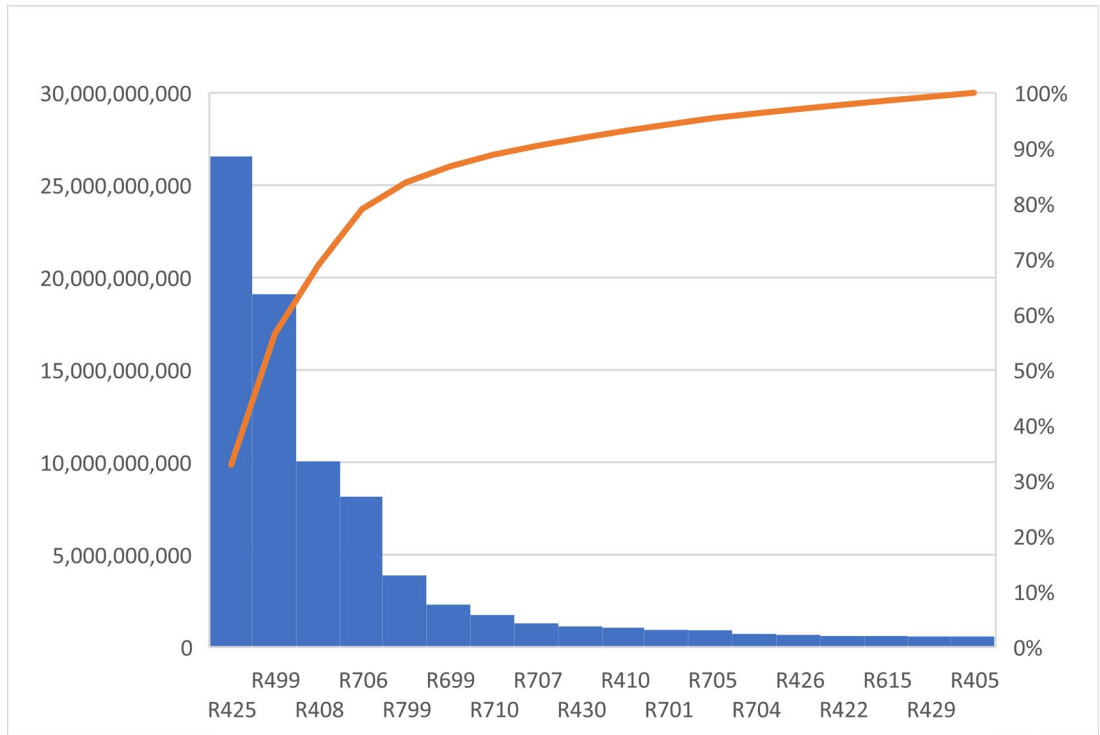


Figure 3.1: Comparison of "R" Contract Categories (FY19) by Amount of Dollars Obligated (> \$500 Million). Author created graph with "R" contract data types extracted from the Federal Procurement Data System – Next Generation (FPDS-NG) and www.sam.gov.

Figure 3.2 highlights that R425 accounted for the largest proportion of the "R" categories in 2010, and remained in that position in 2019. R499 also grew from 2010 – 2019, while R706 decreased slightly. Figure 3.3 compares R425 with R499 over time.

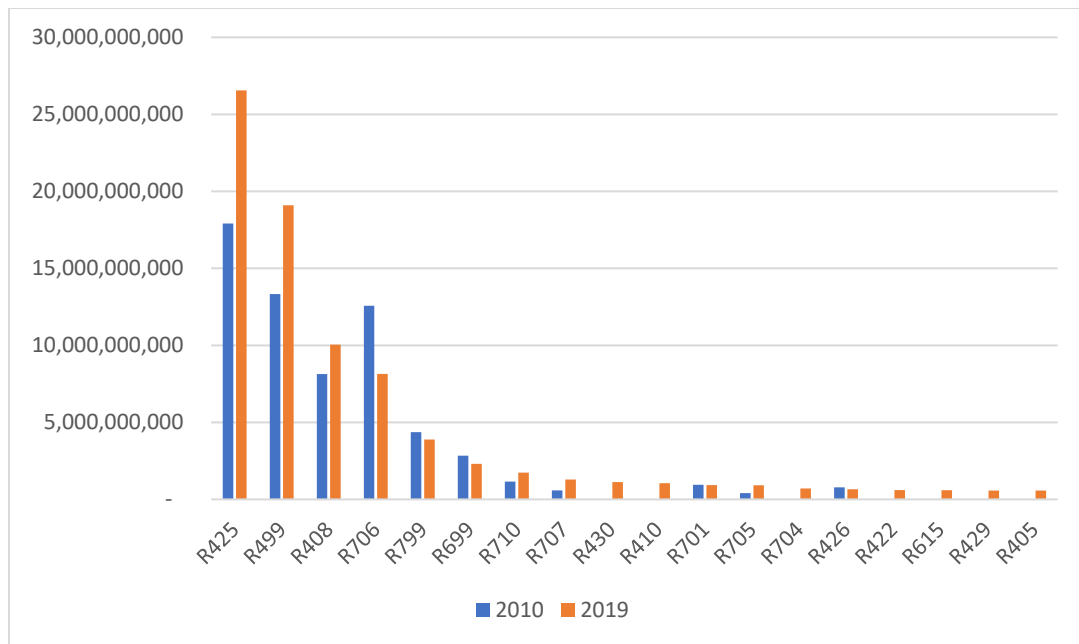


Figure 3.2: Top "R" Contract Categories FY2010 vs. FY2019 (>\$500 Million). Author created graph with "R" contract data types extracted from the Federal Procurement Data System – Next Generation (FPDS-NG) and www.sam.gov.

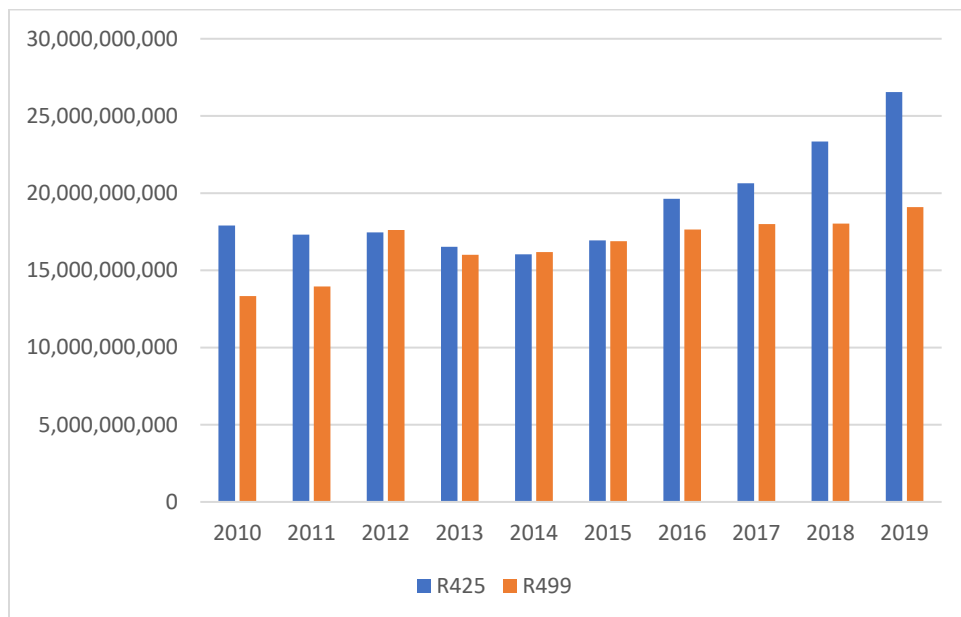


Figure 3.3: Comparing R425 and R499 Over Time (FY2010-FY2019). Author created graph with "R" contract data extracted from the Federal Procurement Data System – Next Generation (FPDS-NG) and www.sam.gov.

R425 is defined by the Government Acquisition Service as “Support- Professional: Engineering/Technical Includes: Systems Engineering, Technical Assistance, and Other Services Used to Support The Program Office During The Acquisition Cycle.” R499 is defined simply as “Support- Professional: Other.” R499 is concerning because agencies can place potential NG services or products into this broad, “catch-all” category. In FY2019, some of these services included important government activities related to management, investigations, and international affairs, among other areas.

Figure 3.4 shows the top agencies that outsourced R499 in FY2019. The Department of Defense, likely due to its large outsourcing budget, is the top agency that outsourced R499 in FY2019, followed by the Department of Health and Human Services, the General Services Administration, and the Department of Justice. Table 3.1 provides examples of the types of R499 products and services by their contract description code.

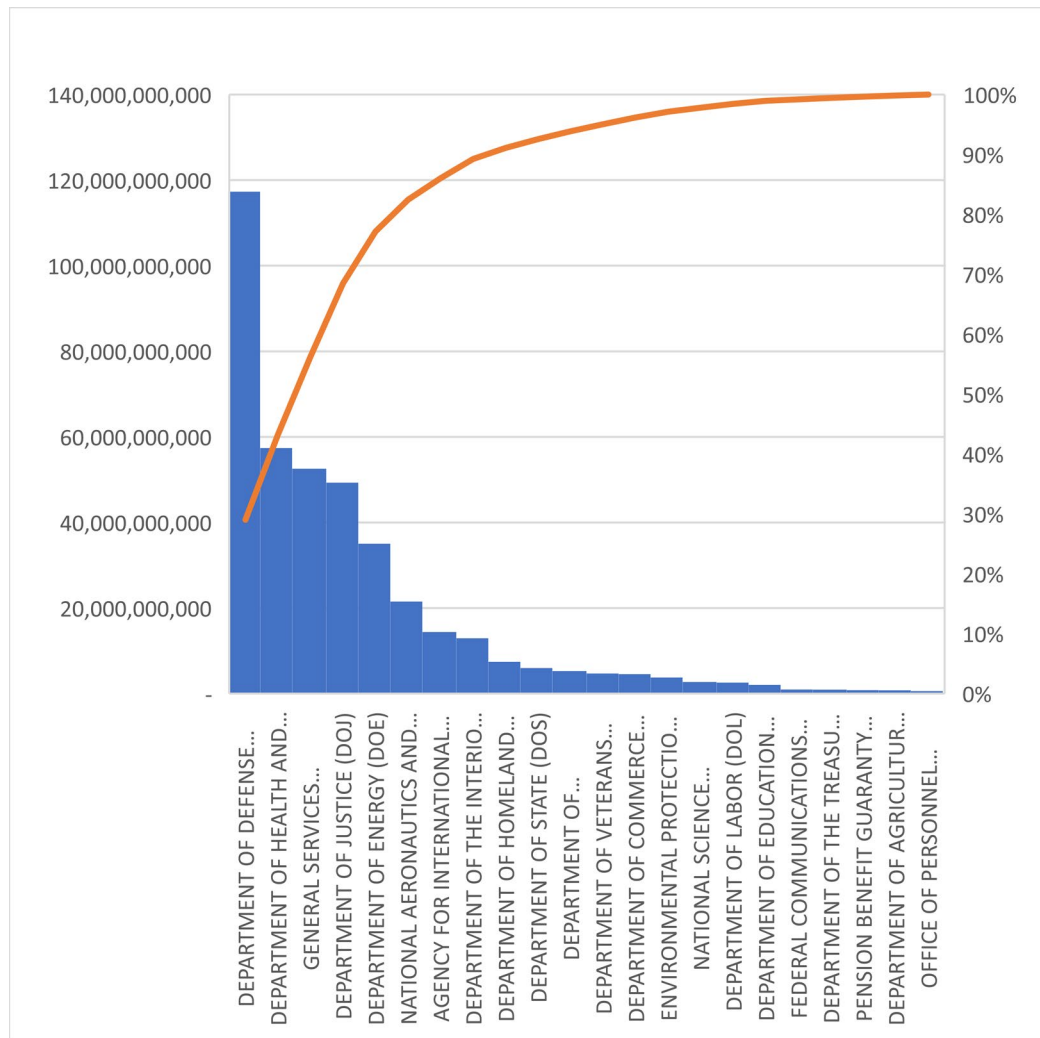


Figure 3.4: Top Agencies Outsourcing R499 FY19 (>\$500 million). Author created graph with “R” contract data extracted from the Federal Procurement Data System – Next Generation (FPDS-NG) and www.sam.gov.

Table 3.1: Highest R499 Contract Areas, FY2019. Author created table with “R” contract data and service description extracted from the Federal Procurement Data System – Next Generation (FPDS-NG) and www.sam.gov.

Contract Description	R 499 Contract Amount
ENGINEERING SERVICES	77,441,760,414
COMPUTER SYSTEMS DESIGN SERVICES	64,090,705,008
OTHER JUSTICE, PUBLIC ORDER, AND SAFETY ACTIVITIES	39,081,595,229
ADMINISTRATIVE MANAGEMENT AND GENERAL MANAGEMENT CONSULTING SERVICES	35,823,809,928
TELEMARKETING BUREAUS AND OTHER CONTACT CENTERS	27,475,854,253
ALL OTHER PROFESSIONAL, SCIENTIFIC, AND TECHNICAL SERVICES	27,014,032,930
AIRCRAFT MANUFACTURING	25,184,061,747
OTHER COMPUTER RELATED SERVICES	10,176,219,244
FACILITIES SUPPORT SERVICES	9,583,881,928
RESEARCH AND DEVELOPMENT IN THE PHYSICAL, ENGINEERING, AND LIFE SCIENCES (EXCEPT BIOTECHNOLOGY)	9,020,952,046
OTHER SCIENTIFIC AND TECHNICAL CONSULTING SERVICES	8,305,666,135
CUSTOM COMPUTER PROGRAMMING SERVICES	6,472,311,722
ALL OTHER SUPPORT SERVICES	5,493,630,199
COMPUTER FACILITIES MANAGEMENT SERVICES	5,293,210,050
ENVIRONMENTAL CONSULTING SERVICES	4,855,426,072
TRANSLATION AND INTERPRETATION SERVICES	4,202,287,441
HUMAN RESOURCES CONSULTING SERVICES (2007), HUMAN RESOURCES AND EXECUTIVE SEARCH CONSULTING SERVICES	3,474,482,149
OTHER INDIVIDUAL AND FAMILY SERVICES	3,283,839,069
RESEARCH AND DEVELOPMENT IN THE SOCIAL SCIENCES AND HUMANITIES	3,070,295,540
MILITARY ARMORED VEHICLE, TANK, AND TANK COMPONENT MANUFACTURING	2,672,207,910
PROCESS, PHYSICAL DISTRIBUTION, AND LOGISTICS CONSULTING SERVICES	2,618,938,414
CHILD AND YOUTH SERVICES	2,556,368,275
ALL OTHER INFORMATION SERVICES	2,020,115,634
OFFICES OF CERTIFIED PUBLIC ACCOUNTANTS	1,979,924,934
SECURITY GUARDS AND PATROL SERVICES	1,823,657,936
OFFICE ADMINISTRATIVE SERVICES	1,508,475,246
OTHER SUPPORT ACTIVITIES FOR AIR TRANSPORTATION	1,340,932,480
REMEDIATION SERVICES	1,291,251,012
DATA PROCESSING, HOSTING, AND RELATED SERVICES	1,253,200,428
PROFESSIONAL AND MANAGEMENT DEVELOPMENT TRAINING	1,249,047,457
TESTING LABORATORIES	1,101,585,879
SECURITY SYSTEMS SERVICES (EXCEPT LOCKSMITHS)	1,072,570,938
INVESTIGATION SERVICES	1,069,127,803
THIRD PARTY ADMINISTRATION OF INSURANCE AND PENSION FUNDS	928,364,400
OTHER MANAGEMENT CONSULTING SERVICES	926,020,228
COMPUTER AND SOFTWARE STORES	881,994,659
ALL OTHER TELECOMMUNICATIONS	816,071,426
OTHER ACCOUNTING SERVICES	663,571,845
EDUCATIONAL SUPPORT SERVICES	612,372,185
INTERNATIONAL AFFAIRS	510,663,366

These outsourced R duties could undermine the government’s ability to perform critical functions in the future. Over time the private sector will increasingly retain the expertise and personnel to perform NG duties for the government. Over time the government will lose the necessary skills and personnel to perform the duties. The government’s dependance on the private sector to perform critical duties would enable business to influence government decision-making in a way that benefits the corporation.

The outsourcing of human resources is illustrative of some of the challenges that can arise when contracting out critical duties. Many states have begun outsourcing human resource operations, and some federal agencies have indicated that they plan to also outsource the function (Coggburn, 2007; Battaglio and Ledvinka, 2009). State governments outsource human resource operations to reduce spending and in some cases, they contract out portions of the function to allow the remaining personnel to focus on core missions (Battaglio and Ledvinka, 2009).

However, some critics are concerned that human resources contain specialized characteristics and activities that are unique to the organization and cannot be replicated by a vendor (Coggburn, 2007). Some of these tasks can only be executed by people who have experience performing those activities with the agency. The function also contains public values including fairness and objectivity that would be difficult to carry over into the contract (Coggburn, 2007). Outsourcing human resource operations could lead to the long-term loss in the public sector of the unique skills and expertise required for these functions (Battaglio and Ledvinka, 2009).

Bureaucrats may also be concerned that public values will be lost during the outsourcing process. When a private sector company overtakes a government duty, the public values that once accompanied that duty could be eroded or eliminated in favor of market-oriented interests. The contracted company will focus on high visibility outputs to prove the efficiency and cost savings of the outsourced duty, which will likely overshadow public values like fairness and equity (Dolovich, 2009). The company could also engage in “quality shading” by only focusing

on those outputs that are most easily obtained by the company to prove the success of the contract.

In 2008 roughly 75 percent of the budget for the U.S. intelligence community, for example, was allocated to contracts and contractors, which has, in the view of some critics, led to the “privatization of intelligence” (Krishnan, 2011). Career government intelligence officers may be dismayed to observe much of the critical work of the agency being conducted by contractors since they joined the agency to serve the public interest, rather than to profit from the job. A contractor, who is driven by profit over mission, may cause concern to career employees, especially in critical duty areas. The privatization of military services is another example where public values, including the rules for military engagement, are often lost in the contract. Private military contractors can avoid laws and values like human rights, public participation in decision making, and transparency in their activities (Dickinson, 2011).

The privatization of prisons illustrates another example of the conflict between comparative efficiency and values. According to Dolovich (2009), prisons should retain values such as “legitimacy, humanity, dignity, respect, and justice,” among others, but these values are “subordinated” in the contract to the priority of performing the service cheaply. Dolovich argues that moral obligations and democratic values, rather than efficiency, should guide the privatization process for prisons. Prisons should foster a culture where the staff does not humiliate or brutalize the prisoners and enable them to exist in a respectful environment (Dolovich, 2009). Contract managers will find it difficult, however, to quantify the steps required in a contract to ensure that such a culture exists (Dolovich, 2009).

Bureaucrats who witness such values eroding, especially in critical duty sectors, could face value contradictions that undermine their public service motivation. Thus, outsourcing critical duties could lead to a lack of organizational-individual value fit which can reduce job satisfaction (Yang and Kassekert, 2009).

3.2 CHALLENGES OF OUTSOURCING CRITICAL GOVERNMENT TASKS: THE PRIVATIZATION OF PRISONS

Background

The privatization of prisons in the United States offers insights into the challenges of outsourcing critical government duties. Incarceration is an integral component of the American criminal justice system, and yet businesses are increasingly operating adult confinement prisons for profit. The private sector's involvement in operating prisons sheds light on the hurdles faced by government agencies that require contractors to adhere to constitutional values. Prison corporations must ensure that certain constitutional and moral values are upheld in their facilities, even in an environment where inmates are stripped of most of their civil liberties. Businesses that operate prisons, however, are driven by profit, not values. CEOs of prison corporations will implement measures to make their operations more efficient and cost effective, even if such actions disregard applicable values.

The privatization of prisons in the United States is a lucrative and growing industry. In 2020, according to the Bureau of Justice Statistics, privately run prisons held 8.2 percent of the total U.S. prison population, with Florida, Arizona, and Texas housing the most inmates in private prisons (Carson, 2021). Many county and state governments outsource certain prison services like sanitation, and they also contract out the operations of minimum-security facilities.

The major economic shift in the last few decades, however, has been local, state, and the federal government outsourcing of adult confinement facilities. The profit margins for adult confinement facilities are much higher than those associated with minimum security operations or providing prison services. In the federal government, the Bureau of Prisons and the Department of Homeland Security outsource some of their prison and detention operations to the private sector.

When a government entity decides to outsource their prison responsibilities, the contracted business will usually build a new facility or overhaul an existing building. After the new facility is ready, the inmates will be transferred to the building. A business can build a new facility quicker and cheaper than a government agency, and this condensed timeframe provides space quickly for inmates in overcrowding situations (Field, 1987). The speed at which the building is constructed can also help a government agency meet court mandated deadlines related to overcrowding.

In this regard, governments outsource prison operations to reduce expenditures and avoid overcrowding. A growing prison population has resulted overcrowding in some facilities (Chang and Thompkins, 2002). Overcrowding can lead to riots, inmate abuse against other inmates, and inmate abuse of staff, among other consequences. In some cases, court rulings mandate that the county or state address overcrowding issues by a certain deadline. The government must then identify a quick solution to the problem, or they will be forced to discharge prisoners before their release date (Field, 1987). Governments also outsource prison operations to reduce expenditures. Incarceration is a significant expense for a county or state government, and through the savings associated with outsourcing, those governments can invest into other programs. One county in

Florida saved \$700,000 a year by outsourcing incarceration to a private sector business (Joel, 1988).

Most governments that privatize prison operations do so through contracting. The fees of most prison contracts are based on a per prisoner, per day basis, and the government agency must retain a certain level of occupancy in the facility, usually around 90 percent. If the government fails to reach this level of occupancy, the government must still pay the difference for the “ghost inmates” (Selma and Leighton, 2010). In addition, if the government agency exceeds the promised occupancy rate, even by one inmate, there can be a significant upcharge. In Bay County Florida, the amount jumps from \$53.50 to \$74.97 per day for a single inmate over the occupancy rate (Selma and Leighton, 2010).

Ideological and political motivations can also drive government leaders to privatize their prisons. Republicans generally favor privatization, and overcrowding can provide a credible political justification to generate support for outsourcing the activity (Kim and Price, 2014). Constituents also show disinterest in prison-related issues, as evidenced by the strong relationship that exists between taxpayers willing to transfer prison costs to the private sector, and those who are unwilling to fund prisons (Lukemeyer and McCorkle, 2006). Government leaders can use the savings generated by prison privatization to fund more politically attractive programs (Kim and Price, 2014).

The financial burden of prison operations also disproportionately impacts the budgets of low revenue governments. These governments who are the least able to fund prisons also retain high numbers of inmates due to the poor socio-economic conditions. In such cases, some low

revenue governments have decided to privatize prisons to reduce expenditures and help promote economic development (Kim and Price, 2014). A new prison complex can create new jobs for the community through the positions associated with adult confinement.

Historically, governments profited from the free labor force resident in their prisons. They would lease convicts to private companies to raise funds for prison operations. This practice resulted in some states giving convicts longer sentences, which were not equal to the crime committed. They wanted to retain a deep labor pool for leasing convicts, but eventually the practice was outlawed. Though states no longer lease convicts, most private and government prisons continue to use inmates to operate their institutions because it helps lower their labor costs. Prison contractors pay their inmates wages that are lower than a public prison pays their inmates for similar work. These wages are also lower than a contracted vendor pays their employees to undertake services like landscaping (Chang and Thompkins, 2002). Some prison operators also allow inmates to manufacture products, though they must be sold by a government agency.

Criticisms of Private Prisons

Many observers are concerned that the privatization of prisons can lead to human rights violations because constitutional values will be ignored by the company. Prison inmates are stripped of most of their liberties when entering prison, and they retain few legal rights while incarcerated (Gonzalez, 2018). Due to the limited rights available to inmates, it becomes more important that governments safeguard basic rights (Dolovich, 2009).

To compound the problem, prison staff retain an unusual amount of authority which can lead to abuses against inmates. Prison security guards, for example, serve in a minor judicial role. After a prison incident, the guards decide if an infraction has occurred, identify the guilty party, and determine the punishment for the offenders. They also provide recommendations to parole boards, which impacts the amount of time that prisoner serves in jail (Field, 1987).

The potential for prison corporations to ignore human rights' values concerns some observers. A company's fiduciary duty is to its shareholders, while a government is beholden to the constitution. The result is the development of a value gap between the government and its contractor when outsourcing prison duties (Gonzales, 2018).

A profit seeking corporation will reduce expenditures by lowering its labor costs to increase profits (Gonzales, 2018; Field, 1987; Kim and Price, 2014). They pay less than a public prison for their staff which attracts lower quality applicants. Labor costs account for the highest expenditure for most prison companies, so reducing employee wages is the first step toward increasing profits. (Field, 1987; Chang and Thompkins, 2002). A labor force that is paid less, receives less training, and retains a high turnover rate can lead to inmate abuse, corruption, and other serious issues (Kim and Price, 2014). Most private prisons also hire inmates to help operate the prisons, and they pay a smaller wage to those workers than public prisons pay inmates for similar work (Chang and Thompkins, 2002). Some corporations may also not hire the number of staff required to operate the prison, unless the staff to inmate ratio is specified in the contract. A low ratio of staff to prisoners can lead to an increase in abuse among inmates and inmates against staff, among other problems.

A 2016 Inspector General report reviewed private prison operations that were contracted by the Bureau of Prisons (USDOJ Inspector General Report, 2016). The Bureau of Prisons (BOP) began outsourcing prison operations to businesses to reduce overcrowding and respond to Congressional mandates. The report examined 14 contract prisons and 14 BOP operated prisons and compared the differences among key categories which included: (1) contraband, (2) reports of incidents, (3) lockdowns, (4) inmate discipline, (5) telephone monitoring, (6) selected grievances, (7) urinalysis drug testing, and (8) sexual misconduct. The report found that the private prisons were more likely to have safety and security incidents, per capita, compared to the publicly operated prisons. In fact, the private prisons examined in the report retained more incidents per capita in every category except positive drug tests and sexual misconduct. The private prisons also contained more assaults per capita than public prisons. The report found that three of the prisons had not disciplined their staff for violating its policies and procedures.

These incidents likely reflect a prison corporation's hiring practices, as well as their disinterest in enforcing rules if it impacts their profits. The examined prisons paid lower wages to their staff than the public prisons, and they probably also retained poor ratios of staff to inmates. As a result, the staff could not adequately monitor the inmates, who exploited the situation by committing acts like smuggling contraband. The lower quality staff was also more likely to be corrupted, which can result in underreporting of incidents as described in the report. The staff's lack of training can also potentially lead to staff abuse of inmates and sexual misconduct.

Unsurprisingly, the most significant conclusion reached by the report was that BOP should increasingly monitor its prisons that were operated by the private sector. Prison operations demand high accountability, monitoring, and oversight, and prison corporations are

unlikely to invest in these kinds of activities (Gonzales, 2018; Field, 1987). Close monitoring of private prisons could help decrease the information asymmetry that existed between BOP and its hired prison corporations. Principle-agent theory underscores this dilemma. The principal in this scenario (the government) lacks the information required to ensure that the agent (the prison corporation) is adhering to certain laws and policies. Prison corporations will exploit this information asymmetry for financial gain (Gonzales, 2018; Field, 1987). BOP, as noted in the inspector general report, was unaware of the infractions committed at their contracted facilities until they visited them. BOP should have also demanded regular reports to ensure that its policies and laws were being followed.

One of the challenges associated with monitoring a prison contract is the difficulty of incorporating values into a contract instrument. Contracts usually incorporate quantitative metrics to measure success because numbers provide an easy and visible way to ensure that the agent is meeting its milestones. Values, however, are difficult to quantify, and contract designers are challenged to transform public law into a quantitative format for a contract document (Dolovich, 2009).

Some observers believe that contract managers could take steps to help ensure that values are integrated into a document. Prison contracts could contain behavior and outcome-oriented performance metrics (Gonzales, 2018). Outcome-oriented performance metrics produce incentives or disincentives to generate or avoid a certain outcome, while behavior-oriented metrics incentivize the agent to develop behaviors that lead to those outcomes (Gonzales, 2018). The combination of these two approaches should ensure that contractors adhere to applicable public rules and policies.

Other observers question the legality of outsourcing prison activities (Field, 1987). They argue that federal prison operations should remain within the federal government. They believe that outsourcing incarceration is a violation of the non-delegation doctrine, which restricts certain activities from being executed by the private sector. These activities are ones that demand political accountability from politicians and the legislature. In the view of some, the government's outsourcing of prison operations divorces itself from its constitutional responsibility to provide for the "general welfare of the United States" since prisons are a critical component of the criminal justice system (Field, 1987).

3.3 VALUE INCONGRUENCE BETWEEN THE PUBLIC AND PRIVATE SECTOR UNDERLINES CONCERNS OVER OUTSOURCING CRITICAL FUNCTIONS

The outsourcing of prison operations illustrates the challenges associated with contracting out a critical government responsibility to the private sector. When a prison remains under government control, its leadership can ensure that constitutional values are considered in the prison's operations; if the prison deviates from those values, the legislature's constituents can call for prison reform. The private sector, however, does not answer to the same constituency. They report to a board of directors who are primarily interested in maximizing profits from the contract. The corporation's leadership is also interested in influencing politicians to acquire new contracts or enlarge existing ones (Field, 1987).

Prison corporations, like other private sector contractors, exploit the information asymmetry between the government and the business to increase their profits. The government,

largely unaware of the prison's operations, will be unable to address any decisions or activities that undermine the intent of the contract. The principal-agent relationship will also enable the prison corporation to draft a contract that maximizes their profits. The government, due to its ignorance of certain issues, will agree to the contract that enables the prison corporation to circumvent or ignore certain policies or rules for their financial gain. For example, since prison revenues are relatively stable, executives will seek to reduce expenditures to increase profits by paying lower wages for prison staff to reduce labor costs. The depressed wages will attract lower quality personnel to their workforce. These personnel, combined with lax prison policies, could lead to an atmosphere where human rights violations occur. Staff are unlikely to be disciplined in such environment for not performing their duties, and they may also be corrupt and actively encourage some criminal activity. They also serve in minor judicial roles by punishing offenders and influencing the release date of an inmate. Without the proper training, lower quality staff may abuse their positions of authority.

Federal employees who observe these changes may express concern that this critical government function was outsourced to the private sector. A federal employee who works in the Department of Justice, for example, may be concerned at the number of violations that occurred in private prisons compared to federal prisons. Those violations are indicative of the private corporation placing profits above values as the driving force behind their operations. The value incongruence between the public and private sector, which is exacerbated by the principal-agent relationship, can lead to a failed outsourcing effort. The public sector, in an effort to reduce expenditures, sacrifices constitutional values when outsourcing some critical government duties like prison operations.

Contracts that outsource nearly inherently governmental duties are more likely to contain value-laden services that embody the beliefs of government personnel. NG contracts contain complex and important functions like law enforcement, budget, administration, and policy, among others. These functions, more so than traditional duties, are often guided by public values like justice and equity. A belief in these values motivated many public servants to join government, so they are likely to be more concerned with the outsourcing of nearly inherently government functions compared to outsourcing in other areas. The outsourcing of NG duties, therefore, is likely to have a disproportionately negative impact on job satisfaction than other types of contract obligations.

Hypothesis: Outsourcing “nearly inherently governmental” duties could negatively impact a civil servant’s job satisfaction, more so than outsourcing non-critical duties.

3.4 METHODOLOGY

To examine this hypothesis, this paper uses data from the Office of Personnel Management (personnel levels, FEVS results, etc.) and the Federal Procurement Data System-Next Gen. The data was examined using a time panel analysis with OLS regression from FY2010-FY2019. FY2009 was excluded because there were no FEVS results that year, and FY2020 was also excluded because FEVS changed the format of the survey and eliminated some questions that this paper used in its analysis.

Independent Variables

The independent variables for this paper include:

- Total amount of contract obligations
- Type of service provided (product / service code)

The outsourcing data was extracted from two sources, www.sam.gov and www.usaspending.gov. Both websites rely on the Federal Procurement Data System – Next Gen (FPDS) as the architecture that houses the contract data. The data was pulled as contract obligations, including Indefinite Delivery Vehicles (IDVs)³, for each fiscal year for the agencies examined in this paper. The contract obligations for each year were added together to provide a total amount per agency. That amount was then divided by the agency’s total discretionary budget to find the percentage of outsourcing for a given agency in a certain fiscal year. This paper compared total contract obligations with an agency’s discretionary budget because it helps account for the relative size of the agency. If outsourcing was examined as the total amount of contract obligations without regard for the agency’s budget, this approach would not accurately reflect its potential impact on the workforce. Some agencies retain very significant contract obligations, but because of the size of their budget, outsourcing has a relatively small impact on agency operations. Similarly, the number of contract obligations does not help illustrate the impact of outsourcing on an agency because the average amount per obligation could vary widely.

This paper compared contract obligations to the agency’s discretionary budget, rather than include mandatory funding, because discretionary funding provides a better barometer to understand an agency’s operations on a year-to-year basis. Most contract obligations originate

³ An IDV is a vehicle that has been awarded to one or more vendors to facilitate the delivery of supply and service orders.

from discretionary funding, and the amounts often reflect changes in an agency's budget. For example, when an agency's discretionary budget increases, the total amount of contract obligations often increases as well. Or vice versa, if the discretionary budget declines, the amount of contract obligations for that year will likely decline as well.

This methodology results in a percentage of outsourcing per agency, per year. This calculation is:

$$\% \text{ Outsourcing for an Agency} = \frac{\text{Agency FY Total Contract Obligations}}{\text{Agency FY Total Discretionary Funding}}$$

In order to determine how much of an agency's budget is spent on nearly inherently governmental duties, this paper analyzes contract obligations by their product or service code. Most of the services that GAO has identified as nearly inherently governmental are captured in the FPDS as an "R" category service. This includes most of the professional, management, programmatic, financial, and other critical services. Specifically, GAO identified the following "R" categories as the most concerning: R699, R499, R707, R410, R422. This paper determines the percentage of "R" services of the total amount of contract obligations for a given year and for a given agency. The calculation is as follows:

$$\% \text{ Outsourcing NG Duties for an Agency} = \frac{\text{Agency FY Total R Code Contract Obligations}}{\text{Agency FY Total Contract Obligations}}$$

Dependent Variables

The dependent variables include results from the FEVS survey for job satisfaction.

This paper uses data from the Federal Employment Viewpoint Survey (FEVS), which is a questionnaire that the Office of Personnel Management administers annually to federal employees. The survey attempts to gauge employee views on topics that reflect the conditions of a successful organization (OPM, FEVS Technical Report, 2019). Employees share their perceptions of their supervisors, work conditions, and their agency, among other topics. OPM first administered the survey in 2002 on a bi-annual basis until 2010, when OPM began to administer the survey on an annual basis. The survey, prior to 2020, consisted of 98 questions that covered eight topic areas (OPM, FEVS Technical Report, 2019). In FY2020, OPM eliminated many of these questions in an effort to streamline the survey instrument, and OPM also added some COVID-19 related questions. Due to this change, this paper relies on FEVS data from FY2010 to FY2019.

For the survey, employees respond to specific questions using a Likert scale, with the two endpoints being “strongly disagree” and “strongly agree.” In 2019, the sample size for FEVS was 1,543,992, but after cleaning the data, OPM analyzed 1,443,152 valid employee responses (OPM, FEVS Technical Report, 2019). For this paper, responses to specific questions were analyzed by year and agency. This paper averaged the Likert responses, by year and agency, for the questions relevant to this study. Specific questions were selected for the analysis of this hypothesis which include dependent and control variables.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Sample Size (Cleaned Responses Used)	549,124	560,084	1,622,375	831,811	872,495	903,060	941,425	1,139,882	1,473,870	1,443,152
Number of Agencies (Departments and Large Agencies)	N/A	30	30	31	31	37	37	37	37	37

FEVS Sample Size and Number of Agencies, FY2010-FY2019.

OPM creates indices from the responses which help them gauge employee perceptions of important employee viewpoints. In 2019, these indices consisted of Employee Engagement Index, Global Satisfaction Index, and the New Inclusion Quotient (New IQ) Index. These indices are created using the responses from various questions or in some cases, various sub-indices. For example, the employee engagement index consists of 15 responses to questions that are grouped into three different sub-indices which help create the overall index.

For this paper, an OPM index was used to evaluate employee satisfaction with their job (OPM, FEVS Technical Report, 2019). This index includes responses from four questions:

Job Satisfaction (4 items)⁴ $\alpha = .860$

- Q40. I recommend my organization as a good place to work.
- Q69. Considering everything, how satisfied are you with your job?
- Q70. Considering everything, how satisfied are you with your pay?
- Q71. Considering everything, how satisfied are you with your organization?

Variable	Obs	Mean	Std. Dev.	Min	Max
job satisfaction index	193	3.64	0.18	2.86	4.14

Agencies Examined

In 2019, OPM administrated the survey to 37 departments and large agencies (OPM, FEVS Technical Report, 2019). This paper examined responses from 19 departments and large agencies. The analysis conducted in this paper required the following data to be available between FY2010 and FY2019:

- Discretionary budget by FY
- Personnel levels by FY

⁴ OPM named the index the “Global Satisfaction Index.”

- FEVS annual survey results
- Contract obligation totals and product service codes

Agencies were selected for analysis if reliable discretionary budget data was available for the fiscal years examined in this paper. Without reliable data regarding their funding, this paper cannot assess the relative level of outsourcing per agency. Most of the agencies examined in this paper fall into one of the two categories below,

- “Very large agencies” - > 75,000 employees⁵
- “Large Agencies” – 10,000 – 74,999 employees

Four medium size agencies (1,000 – 9,999 employees) were included in this paper because budget data was available: Department of Education, Small Business Administration, Office of Personnel and Management, and the National Science Foundation.

Discretionary budget data was not available for some medium, small, and very small agencies, agencies, so they were also excluded from this analysis. Each of these agencies retain a total number of employees between 100 – 9,999.⁶

The following agencies were included in this analysis:

- Department of Agriculture
- Department of Commerce
- Department of Defense--Military Programs
- Department of Education
- Department of Energy
- Department of Health and Human Services
- Department of Homeland Security
- Department of Housing and Urban Development

⁵ As defined by OPM.

⁶ As defined by OPM.

- Department of the Interior
- Department of Justice
- Department of Labor
- Department of State
- Department of Transportation
- Department of the Treasury
- Department of Veterans Affairs
- Environmental Protection Agency
- National Aeronautics and Space Administration
- National Science Foundation
- Office of Personnel Management
- Small Business Administration

Control Variables

This paper's control variables help mediate for other factors that could influence the dependent variables. Job satisfaction, in particular, could be influenced by variables other than outsourcing, so this paper captures those possible influences in its analysis. Some of these control variables are responses from the FEVS survey, including the condition of the workplace, workplace culture, and organizational resources (Lee and Lee, 2020; Fernandez and Moldogaziev, 2006).

Control Variables include:

- Number of personnel in the agency

This variable includes the total number of full-time employees in the departments examined in this analysis. Annual agency personnel data was derived from OPM's FedScope.

Variable	Obs	Mean	Std. Dev.	Min	Max
number of agency personnel	200	98296	170569.2	1425	774244

- Co-Worker Cooperation

Co-worker cooperation is derived from an author created index that examines responses from questions 20 and 26 in the FEVS survey.

Q20. The people I work with cooperate to get the job done

Q26. Employees in my work unit share job knowledge with each other

$\alpha=0.748$

Research highlights that this variable can also influence overall job satisfaction (Lee and Lee, 2020; Fernandez and Moldogaziev, 2006) so it is included as a control variable. Additionally, this paper highlights the importance of organizational culture in job satisfaction and the role that the psychological contract and public service bargain play in an employee's success in a federal agency. Learning from other co-workers is a significant factor that can contribute to an employee's productivity and satisfaction working in the public sector.

Variable	Obs	Mean	Std. Dev.	Min	Max
coworker cooperation	194	3.89	0.12	3.66	4.3

- Presidential political party

This variable was included as a binary variable that represented either the Republican or Democratic party. The number "1" being used for the democratic party, and "0" for the republican party.

Variable	Obs	Mean	Std. Dev.	Min	Max
presidential political party (dem)	200	0.7	0.45	0	1

- Resource sufficiency

Resource sufficiency is derived from Question 9 in the FEVS survey:

Q9: I have sufficient resources (for example, people, materials, budget) to get my job done.

This question helps understand employee perceptions of the support they require to succeed at their job. A lack of sufficient resources could impact overall job satisfaction so it is included as a control variable in this analysis.

Variable	Obs	Mean	Std. Dev.	Min	Max
resource sufficiency	194	3.08	0.18	2.68	3.52

- Workplace conditions

Workplace conditions are derived from question 14 in the FEVS survey:

Q14. Physical conditions (for example, noise level, temperature, lighting, cleanliness in the workplace) allow employees to perform their jobs well.

Other research has highlighted that responses to this question can influence overall job satisfaction, so it is included as a control variable in this analysis (Lee and Lee, 2020; Fernandez and Moldogaziev, 2006).

Variable	Obs	Mean	Std. Dev.	Min	Max
workplace physical condition	194	3.72	0.13	3.32	4.05

This paper used OLS regression analysis, with time panel data, to find associations between outsourcing and employee behavior.

3.5 DATA

Table 3.2: Descriptive Statistics – Outsourcing / Job Satisfaction Hypothesis.

Variable	Obs	Mean	Std. Dev.	Min	Max
year	200	2014	2.87	2010	2019
job satisfaction index	193	3.64	0.18	2.86	4.14
percent of agency outsourcing	189	0.31	0.23	0.01	0.97
percent of "R" outsourcing	200	0.27	0.18	0.03	0.77
number of agency personnel	200	98295.9	170569.2	1425	774244
coworker cooperation	194	3.89	0.12	3.66	4.3
presidential political party (dem)	200	0.7	0.45	0	1
resource sufficiency	194	3.08	0.18	2.68	3.52
workplace physical condition	194	3.72	0.13	3.32	4.05

Table 3.3: Correlational Statistics – Outsourcing/ Job Satisfaction Hypothesis. *p<.05

	job satisfaction index	percent of agency outsourcing	percent of "R" outsourcing	number of agency personnel	coworker cooperation	presidential political party	resource sufficiency	workplace physical condition
job satisfaction index	1							
percent of agency outsourcing	.30*	1						
percent of "R" outsourcing	-.14*	-.59*	1					
number of agency personnel	-.13*	.20*	-.37*	1				
coworker cooperation	.66*	.32*	.06	-.27*	1			
presidential political party (dem)	-.17*	.005	-.03	-.007	-.49*	1		
resource sufficiency	.73*	.39*	-.04	-.03	.57*	-0.1	1	
workplace physical condition	.69*	.24*	-0.11	-.27*	.54*	-0.06	0.64	1

Table 3.4: Regression Analysis - Outsourcing / Job Satisfaction Hypothesis.

VARIABLES	-1 Job Satisfaction Index
percent of "R" outsourcing	-0.16** (0.08)
percent of agency outsourcing	-0.08* (0.05)
number of agency personnel	1.92E-09 (0.00)
coworker cooperation	0.56*** (0.14)
resource sufficiency	0.42*** (0.06)
workplace physical condition	0.31*** (0.10)
president democrat	0.022 (0.02)
Constant	-0.92*** (0.34)
Observations	182
R-squared	0.693

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 3.5: Fixed Effects Model. Outsourcing / Job Satisfaction Hypothesis.

VARIABLES	-1 Job Satisfaction Index
percent "r" outsourcing	-0.53*** (0.17)
percent agency outsourcing	-0.14 (0.18)
number of agency personnel	-1.70E-08 (0.00)
coworker cooperation	0.5*** (0.18)
president democrat	0.13*** (0.04)
resource sufficiency	0.33*** (0.10)
workplace physical condition	0.43*** (0.16)
Year Fixed Effect	Yes
Agency Fixed Effect	Yes
Constant	-0.738 -0.65
Observations	182
Number of agency_num	19
R-squared	0.622
Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1	

3.6 RESULTS

Table 3.2 shows the descriptive statistics from the analysis. The table shows that OPM's job satisfaction index for the agencies analyzed ranged between 2.86 and 4.14, and that the percentage of outsourcing in each of the analyzed agencies ranged from 1 - 97 percent, and the percentage of "R" outsourcing of the total outsourcing totals, per agency, ranged from 3 – 77 percent. Any data points that showed over 100 percent outsourcing, or those that showed negative outsourcing in an agency, were omitted from this analysis. Table 3.3 shows the correlational relationships between variables, including statistically significant correlations where $p < .05$. Most significantly, this chart shows a statistically significant negative correlation between job satisfaction and "R" outsourcing. Interestingly, the chart also shows a statistically significant positive correlation for general outsourcing ($\beta = .30$). This correlation changes once we perform regression analysis, including regression analysis with fixed effects. Table 3.3 also shows, as expected, a statistically significant positive correlation between many of the control variables and job satisfaction, including resource sufficiency, coworker cooperation, and workplace physical condition.

Table 3.4 shows the results of the OLS regression conducted for this paper. The table shows a marginally significant negative relationship between job satisfaction and general agency outsourcing at the $p < .1$ level, which inverses the results from Table 3.3, which showed a positive correlation. The negative association between job satisfaction and outsourcing is consistent with prior publications (Lee and Lee, 2020; Yang and Kassekert, 2009). Table 3.4 also shows a significant negative association between "R" outsourcing and job satisfaction at the $p < .05$ level

($\beta = -.16$). The negative association with “R” outsourcing in Table 3.4 is twice as strong as the relationship with general agency outsourcing, which supports this paper’s hypothesis. Also, three of the five control variables (coworker cooperation, resource sufficiency, and workplace conditions) continue to show significant positive relationships with job satisfaction, which was expected due to the influence of these variables on job satisfaction noted in a prior study (Fernandez and Moldogaziev, 2006).

Table 3.5 controls for fixed effects for the year and by agency. The results show an even larger negative relationship between “R” outsourcing and job satisfaction than Table 3.4. The negative impact on job satisfaction rose ($\beta = -.16$ to $\beta = -.53$), and the p value grew from $p < .05$ to $p < .01$. The negative relationship between general outsourcing and job satisfaction also grew, though the association lost statistical significance. The three control variables noted earlier continue to show statistically significant associations ($p < .01$ level), with job satisfaction, and an additional control variable, presidential party, gained statistical significance in the fixed effects model. The results from Table 3.5 provide the data used for this paper.

3.7 DISCUSSION

The results show a statistically significant negative association between contracting out NG duties and job satisfaction. This suggests that when the relative percentage of “R” contracts increase for a given agency, the job satisfaction of that agency’s employees decline. In other words, agencies that heavily outsource NG duties are likely to witness a decline in job satisfaction within their agency. The results also show that the outsourcing of “R” contracts has a larger negative impact on employee job satisfaction than the overall level of outsourcing that

occurs within a given agency⁷. This finding is consistent with the hypothesis that outsourcing NG duties could have a larger negative influence on an employee's job satisfaction than outsourcing non-critical government duties. The results highlight that federal employees, guided by public service values, likely have concerns over critical government duties being executed by the private sector. These concerns could stem from the private sector's focus on profit and efficiency, rather than on preserving and embracing democratic and constitutional values (Cordella and Willcocks, 2010; White and Collyer, 1998; Young, 2008). Government objectives originate from political concerns like equality, whereas the private sector behaves individually and opportunistically (White and Collyer, 1998).

An NG contract may not contain language that ensures that the contractor will consider government values in the execution of the outsourced service. Values are also difficult to codify in a contract, since they often represent ideals that are difficult to quantify as an output or outcome (Dolovich, 2009). Due to these factors, contractors will deprioritize safeguarding values to focus on profits and efficiencies. Private sector businesses that operate without political regulation, like some hospitals and public utility companies, could potentially exploit customers and undermine the public interest (White and Collyer, 1998). The prioritization of profits during the management of some privatized hospitals, for example, can erode the hospital's core public health values (White and Collyer, 1998; Young, 2008; Engstrom and Axelsson, 2010). Military contractors, similarly, are not guided by public values via their contract, and they are often able to avoid accountability to national and international law (Dickinson, 2011).

⁷ The relationship between general outsourcing and job satisfaction is not statistically significant in the fixed effects model, but it remains a negative association.

Bureaucrats could also be concerned that the private sector could unduly influence government decision-making in areas like budget, human resources, and policymaking, since some “R” contracts include these types of services. A contractor may use their influence to advance their company’s financial goals or policy or political views, rather than support the broader goals of the government agency (Kelleher and Yackee, 2008). In fact, business leaders in the last two decades have retained unprecedented access to public sector managers; relationships which they likely exploit for their own purposes (Guttman, 2003). One study that examined contracting in 50 states found that interaction between organized interests and public managers between 1998 and 2004 increased as states contracted out, and that private sector influence on agency decision-making rose from between 5–17 percentage points (Kelleher and Yackee, 2008). Also, contracts are often awarded to former government employees, which could influence government managers when making their decision (Dickinson, 2011).

These concerns should prompt federal managers to reconsider outsourcing NG duties to the private sector. Managers should scrutinize any duties that fall under the “R” category and determine if those responsibilities could be assigned to government workers. GAO should also conduct yearly audits to identify those agencies that outsource NG duties, while the Office of Management and Budget (OMB) should enforce existing laws from the FAR and the A-76 circular to ensure that inherently governmental duties remain within the government. Through these measures, agencies should be able to mitigate some of the negative effects of outsourcing critical government functions.

CHAPTER 4

PRIVATIZATION, WORK INTENSIFICATION, AND OUTSOURCING

4.1 BACKGROUND

One of the most extreme market-oriented reforms undertaken by some governments is the privatization of government functions. Privatization occurs when there is a complete or partial change in organizational leadership from the public to private sector. In other words, governments rely on the private sector to satisfy their community's needs (Savas, 2001). The private sector invests its resources into a government responsibility and then they retain ownership of that duty or responsibility (Soloway and Chvotkin, 2009). The private sector assumes the financial risk for the government function in order to retain an enduring corporate relationship with the government (Soloway and Chvotkin, 2009). Privatization can occur in many ways including outsourcing, vouchering, selling, or leasing government owned assets to the private sector, and deregulation (Savas, 2001). The purpose of privatization is to increase the government's productivity by incorporating market competition which forces public employees to compete against the private sector (Savas, 2000). According to Savas (2000): "Privatization can be defined broadly as relying more on the private institutions of society and less on government to satisfy people's needs. It is the act of reducing the role of government or increasing the role of the other institutions of society in producing goods and services and in owning property."

Outsourcing is one of the most common methods to privatize a government service or product. During both outsourcing and privatization, the contractor exerts significant influence

over the outsourced duty, and many of the dynamics between the government and the private sector are the same (Soloway and Chvotkin, 2009). In this light, this paper discusses the impact of privatization on employee behavior because those dynamics can be illustrative of the more extreme consequences that public workers may face when outsourcing occurs in their agency. In some countries, this process leads to the bureaucrat being fired or transferred to the private sector, and the reactions of those employees can provide insights into employee responses to outsourcing in the United States. Even in the United States, where most employees retain their jobs when outsourcing occurs, some of the emotional trauma associated with privatization could still be relevant to U.S. federal employees who witness outsourcing in their own agencies. The study of privatization can also help illustrate the possible increase of occupational stress in workers whose duties are transitioned to the private sector, or to those who remain within government service.

Background

Public-private partnerships (PPP), like outsourcing, have grown among local, state, and federal governments, and could have many of the same consequences on employee behavior. PPPs are arrangements between the government and the private sector, often to undertake large-scale infrastructure projects. Through PPP, the private sector becomes involved in operating government facilities or services (Hodge, 2004). Some believe that PPP uses different terminology to describe the outsourcing and privatization of government duties (Hodge and Greve, 2007). PPP can be designed to obfuscate the privatization of a government service because privatization and outsourcing often spark negative reactions (Hodge and Greve, 2007).

Privatization often leads to increasing employee uncertainty, which can result in higher levels of occupational stress (Cunha and Cooper, 2002; Young, 2008; Engstrom and Axelsson, 2010). An employee's occupational stress is often the highest just before privatization occurs since employees are concerned that their position may be eliminated during the transition; however, employees are also concerned that their positions will be eliminated at later date (Engstrom and Axelsson, 2010; Young, 2008). This often occurs when duties or responsibilities of an agency are outsourced piecemeal over time, which causes employees to question if their role will be outsourced in the future (Young, 2008).

U.S. federal employee could have similar feelings if outsourcing occurs in their agency. The A-76 circular enables the private sector to compete for a government service if a business or non-governmental organization can provide the service at a cheaper rate. The result of this process could prompt bureaucrats to worry that their job is expendable if they lose the A-76 circular competition. The National Security Agency, for example, outsourced its network and technology functions, and transitioned employees performing those duties to the winning bidder (Soloway and Chvtokin, 2009). In addition, the remaining federal employees may feel that management does not value their service if they decide to outsource some of their duties. These dynamics can exacerbate an employee's uncertainty regarding their job duties and future with an agency.

Employee uncertainty regarding privatization can originate from other concerns besides job insecurity. Employees could be worried that the new owners lack the competence or interest to operate the new service (Engstrom and Axelsson, 2010). In one case, this was evident to employees due to the management's laissez-faire style which did not produce clear goals or the

assignment of duties or responsibilities (Engstrom and Axelsson, 2010; Young, 2008). Some staff reported to a contract manager as well as to a day-to-day supervisor, which created uncertainty in their chain of command (Young, 2008). Employees also show concern that the new owners are disinterested in providing a social good or contributing to the public's welfare, and that the new owners are only concerned about profits and market success (Engstrom and Axelsson, 2010).

Private sector leaders will often increase an employee's workload by mandating longer shifts in order to generate higher profits (Engstrom and Axelsson, 2010). This increasing workload can lead to emotional and physical exhaustion, while can result in negative mental and physical ailments from the impacted employees (Cunha and Cooper, 2002; Balfour and Grubbs, 2000; Considine, 1990). The uncertainty caused by privatization can prompt some employees to leave the industry, while other may increasingly submit for sick leave. The staffing shortage will lead to additional duties for the remaining employees, and in one example, those employees perceived that management appeared disinterested in the negative dynamic (Engstrom and Axelsson, 2010).

Job insecurity is perhaps the most serious behavioral consequence of privatization. The uncertainty created through the process can lead to occupational stress, role ambiguity, role overload, among other symptoms (Vrangbaek, Petersen, and Hjelmar, 2015; Cunningham and James, 2009; Engstrom and Axelsson, 2010). Privatization can also result in work intensification, lower wages, and reduced benefits and leave, which in turn leads to worker burnout, more absences, and poorer worker health (Vrangbaek, Petersen, and Hjelmar, 2015; Jensen and Stonecash, 2005; Park, 2004; Zuberi, 2013; Dube and Kaplan, 2010).

Unlike many countries, outsourcing in the United States has generally not resulted in employees being terminated or transferred to the private sector. Only a small portion of the work performed by civil servants has been converted to private sector jobs – and those positions have been converted through attrition. From 1986 to 2001, the federal workforce declined by 27 percent, primarily in the Department of Defense (DOD) and due to reasons unrelated to outsourcing (Soloway and Chvotkin, 2009). Between 1992 and 2001, contract obligations increased more in civilian agencies, which did not suffer DOD-type cutbacks. After 9/11, the public workforce grew slightly as DOD and the Department of Homeland Security added civil servants for public safety and homeland security (Soloway and Chvotkin, 2009). This flatlining of the federal service has occurred during a time when the government’s duties and responsibilities have exploded (Dilulio, 2016).

In this understaffed environment, outsourcing and privatization can lead to work intensification for the government employees that remain in the agency (Balfour and Grubbs, 2000; Considine, 1990). New responsibilities and duties could be added to the remaining government employees which could result in work intensification (Balfour and Grubbs, 2000).

Balfour and Grubbs (2000) describe an example of such a change within a human resource office:

“We experienced this trend recently in our consulting effort with a human resource office of a large public-sector agency. The management of the office had implemented a variety of reform strategies in an attempt to optimize the performance of a limited number of individuals. Unfortunately, much of the actual work fell upon the clerical staff. One clerical worker indicated that in addition to doing the entire payroll for the organization, as well as several tasks relating to retirement benefits, she was the only person who knew how to print out address labels. As a result, requests would constantly come in from around the agency—by phone, memo and e-mail—and for diverse events ranging from parties to fundraising campaigns. As she concluded, ‘I work for everybody’ (Balfour and Grubbs, 2000, 578-579).

Work intensification could also occur because government agencies that outsource will need to increase their contract management capacity in order to successfully manage their contracts (Brown and Potoski, 2003). Contract management will likely be added to other existing duties and the role will entail additional training and oversight (Verkuil, 2009). Outsourcing could increase the bureaucrat's demand for new contractual expertise and knowledge (Ernita and Thomas, 2021).⁸ This new responsibility will be especially challenging for U.S. government employees when considering that the overall number of bureaucrats are declining, while the number of contract obligations rise each year (Ernita and Thomas, 2021). Additionally, employees in important policy positions could lose some of their support staff who are now required to perform contract oversight (Verkuil, 2009).

A public manager's experience working in a "natural monopoly" does not equip him or her to successfully manage a contract (Savas, 2000). Public contract managers must be trained to understand negotiation, interaction, regulation, and open markets. The duties can be categorized into three phases. First, bureaucrats will need to conduct a feasibility assessment to determine if the service should be contracted out. Second, the government must select, negotiate, and monitor the contract. And third, the government must evaluate the contractor's performance (Brown and Potoski, 2003).

A contract manager must retain the skills to manage and operate within his/her own organization, as well as possess the knowledge and skills to ensure the execution of responsibilities outside of government (Cohen and Eimicke, 2008). The skills required include

⁸ Some observers question if outsourcing is even beneficial to an organization when weighed against the level of effort required in overseeing a contract (Brown and Brudney, 1998).

both fundamental tools, like human resource management, as well as innovation skill like quality management (Cohen and Eimicke, 2008).

The result of outsourcing in the U.S. federal government, therefore, could lead to work intensification for employees remaining in the organization.

Hypothesis: High levels of outsourcing could lead to work intensification for that agency's employees.

4.2 METHODOLOGY

Independent Variables

The independent variables for this paper include:

- Total amount of contract obligations
- Type of service provided (product / service code)

The outsourcing data was extracted from two sources, www.sam.gov and www.usaspending.gov. Both websites rely on the Federal Procurement Data System – Next Gen (FPDS) as the architecture that houses the contract data. The data was pulled as contract obligations, including Indefinite Delivery Vehicles (IDVs), for each fiscal year for the agencies examined in this paper. The contract obligations for each year were added together to provide a total amount per agency. That amount was then divided by the agency's total discretionary budget to find the percentage of outsourcing for a given agency in a certain fiscal year. This paper compared total contract obligations with an agency's discretionary budget because it helps account for the relative size of the agency. If outsourcing was examined as the total amount of

contract obligations without regard for the agency's budget, this approach would not accurately reflect its potential impact on the workforce. Some agencies retain very significant contract obligations, but because of the size of their budget, outsourcing has a relatively small impact on agency operations. Similarly, the number of contract obligations does not help illustrate the impact of outsourcing on an agency because the average amount per obligation could vary widely.

This paper compared contract obligations to the agency's discretionary budget, rather than include mandatory funding, because discretionary funding provides a better barometer to understand an agency's operations on a year-to-year basis. Most contract obligations originate from discretionary funding, and the amounts often reflect changes in an agency's budget. For example, when an agency's discretionary budget increases, the total amount of contract obligations often increases as well. Or vice versa, if the discretionary budget declines, the amount of contract obligations for that year will likely decline as well.

This methodology results in a percentage of outsourcing per agency, per year. This calculation is:

$$\% \text{ Outsourcing for an Agency} = \frac{\text{Agency FY Total Contract Obligations}}{\text{Agency FY Total Discretionary Funding}}$$

In order to determine how much of an agency's budget is spent on nearly inherently governmental duties, this paper analyzes contract obligations by their product or service code.

Most of the services that GAO has identified as nearly inherently governmental are captured in the FPDS as an “R” category service. This includes most of the professional, management, programmatic, financial, and other critical services. Specifically, GAO identified the following “R” categories as the most concerning: R699, R499, R707, R410, R422. This paper determines the percentage of “R” services of the total amount of contract obligations for a given year and for a given agency. The calculation is as follows:

$$\% \text{ Outsourcing NG Duties for an Agency} = \frac{\text{Agency FY Total R Code Contract Obligations}}{\text{Agency FY Total Contract Obligations}}$$

Dependent Variables

This paper uses data from the Federal Employment Viewpoint Survey (FEVS), which is a questionnaire that the Office of Personnel Management administers annually to federal employees. The survey attempts to gauge employee views on topics that reflect the conditions of a successful organization (OPM, FEVS Technical Report, 2019). Employees share their perceptions of their supervisors, work conditions, and their agency, among other topics. OPM first administered the survey in 2002 on a bi-annual basis until 2010, when OPM began to administer the survey on an annual basis. The survey, prior to 2020, consisted of 98 questions that covered eight topic areas (OPM, FEVS Technical Report, 2019). In FY2020, OPM eliminated many of these questions in an effort to streamline the survey instrument, and OPM also added some COVID-19 related questions. Due to this change, this paper relies on FEVS data from FY2010 to FY2019.

For the survey, employees respond to specific questions using a Likert scale, with the two endpoints being “strongly disagree” and “strongly agree.” In 2019, the sample size for FEVS was 1,543,992, but after cleaning the data, OPM analyzed 1,443,152 valid employee responses (OPM, FEVS Technical Report, 2019). For this paper, responses to specific questions were analyzed by year and agency. This paper averaged the Likert responses, by year and agency, for the questions relevant to this study. Specific questions were selected for the analysis of this hypothesis which include dependent and control variables.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Sample Size (Cleaned Responses Used)	549,124	560,084	1,622,375	831,811	872,495	903,060	941,425	1,139,882	1,473,870	1,443,152
Number of Agencies (Departments and Large Agencies)	N/A	30	30	31	31	37	37	37	37	37

FEVS Sample Size and Number of Agencies, FY2010-FY2019.

OPM creates indices from the responses which help them gauge employee perceptions of important employee viewpoints. In 2019, these indices consisted of Employee Engagement Index, Global Satisfaction Index, and the New Inclusion Quotient (New IQ) Index. These indices are created using the responses from various questions or in some cases, various sub-indices. For example, the employee engagement index consists of 15 responses to questions that are grouped into three different sub-indices which help create the overall index.

For this paper, an index was created from two FEVS questions to gauge an employee’s perception of work intensification.

Q9: I have sufficient resources (for example, people, materials, budget) to get my job done.
Q10: My workload is reasonable.

$\alpha = 0.94$

Variable	Obs	Mean	Std. Dev.	Min	Max
work intensification index	194	3.18	0.187	1.59	3.61

Agencies Examined

In 2019, OPM administrated the survey to 37 departments and large agencies (OPM, FEVS Technical Report, 2019). This paper examined responses from 20 departments and large agencies. The analysis conducted in this paper required the following data to be available between FY2010 and FY2019:

- Discretionary budget by FY
- Personnel levels by FY
- FEVS annual survey results
- Contract obligation totals and product service codes

Agencies were selected for analysis if reliable discretionary budget data was available for the fiscal years examined in this paper. Without reliable data regarding their funding, this paper cannot assess the relative level of outsourcing per agency. Most of the agencies examined in this paper fall into one of the two categories below,

- “Very large agencies” - > 75,000 employee⁹
- “Large Agencies” – 10,000 – 74,999 employees

Four medium size agencies (1,000 – 9,999 employees) were included in this paper because budget data was available: Department of Education, Small Business Administration, Office of Personnel and Management, and the National Science Foundation.

⁹ As defined by OPM.

Discretionary budget data was not available for some medium, small, and very small agencies, agencies, so they were also excluded from this analysis. Each of these agencies retain a total number of employees between 100 – 9,999.¹⁰

The following agencies were included in this analysis:

- Department of Agriculture
- Department of Commerce
- Department of Defense--Military Programs
- Department of Education
- Department of Energy
- Department of Health and Human Services
- Department of Homeland Security
- Department of Housing and Urban Development
- Department of the Interior
- Department of Justice
- Department of Labor
- Department of State
- Department of Transportation
- Department of the Treasury
- Department of Veterans Affairs
- Environmental Protection Agency
- National Aeronautics and Space Administration
- National Science Foundation
- Office of Personnel Management
- Small Business Administration

The analysis was conducted including and excluding the Department of Defense. It was important to exclude the department since it could be an outlier in this analysis based on the unique mission of DOD, the size of the agency's budget, and its high levels of outsourcing,

¹⁰ As defined by OPM.

Control Variables

This paper's control variables help mediate for other factors that could influence the dependent variables. Work intensification, in particular, could be influenced by variables other than outsourcing, so this paper captures those possible influences in its analysis. Some of these control variables are responses from the FEVS survey, including workplace conditions and co-worker cooperation. Another important control variable for this analysis is the number of personnel in each agency which is derived from OPM's FedScope. Also, responses to each of the questions used in the work intensification index were excluded as control variables due to collinearity concerns. The presidential party was also excluded as a control variable for this hypothesis since the party is primarily relevant to job satisfaction and not work intensification.

Control Variables include:

- Number of personnel in the agency

This variable includes the total number of full-time employees in the departments examined in this analysis. A short-staffed agency could lead to work intensification due to the lack of manpower to handle the agency's responsibilities. Conversely, a well-staffed agency could lower work intensification because the number of personnel can address any new or additional responsibilities.

Variable	Obs	Mean	Std. Dev.	Min	Max
number of agency personnel	200	98296	170569.2	1425	774244

- Workplace conditions

Workplace conditions are derived from question 14 in the FEVS survey:

Q14. Physical conditions (for example, noise level, temperature, lighting, cleanliness in the workplace) allow employees to perform their jobs well.

Poor workplace conditions could potentially impact work intensification. If employees do not work in a comfortable environment, they may lag behind others in their workload and perceive higher levels of work intensification.

Variable	Obs	Mean	Std. Dev.	Min	Max
workplace physical condition	194	3.72	0.13	3.32	4.05

- Co-Worker Cooperation

Co-worker cooperation is derived from an author created index that examines responses from questions 20 and 26 in the FEVS survey.

Q20. The people I work with cooperate to get the job done

Q26. Employees in my work unit share job knowledge with each other

This paper highlights the importance of organizational culture in job satisfaction and the role that the psychological contract and public service bargain play in an employee's success in a federal agency. Learning from other co-workers is a significant factor that can contribute to an employee's productivity and satisfaction working in the public sector. Lower levels of co-worker cooperation may lead to work intensification because newer employees are not as productive and will have more difficulty performing their jobs.

Variable	Obs	Mean	Std. Dev.	Min	Max
coworker cooperation	194	3.89	0.12	3.66	4.3

4.3 DATA

Table 4.1. Descriptive Statistics – Work Intensification Hypothesis.

Variable	Obs	Mean	Std. Dev.	Min	Max
year	200	2014	2.87	2010	2019
work intensification index	194	3.18	0.187	1.59	3.61
percent agency outsourcing	189	0.31	0.23	0.01	0.97
percent "R" outsourcing	200	0.27	0.18	0.03	0.77
number of agency personnel	200	98295	170569	1425	774244
coworker cooperation	194	3.89	0.12	3.66	4.3
workplace physical condition	194	3.72	0.13	3.32	4.05

Table 4.2: Correlational Table – Work Intensification Hypothesis. *p<.05

	work intensification index	percent of agency outsourcing	percent of "R" outsourcing	number of agency personnel	coworker cooperation	workplace physical condition
work intensification index	1					
percent of agency outsourcing	.36*	1				
percent of "R" outsourcing	-.08*	-.59*	1			
number of agency personnel	.02	.20*	-.37*	1		
coworker cooperation	.48*	.32*	.06	-.27*	1	
workplace physical condition	.47*	.24*	-0.11	-.27*	.54*	1

Table 4.3: Regression Analysis – Work Intensification Hypothesis.

VARIABLES	-1 Work Intensification Index
percent "r" outsourcing	0.039 (0.05)
percent agency outsourcing	0.13*** (0.04)
workplace conditions	0.522*** (0.07)
number of agency personnel	2.30e-07*** (0.00)
coworker cooperation	0.37*** (0.10)
Constant	-0.32 (0.27)
Observations	183
R-squared	0.378
Standard errors in parentheses	
*** p<0.01, ** p<0.05, * p<0.1	

Table 4.4: Fixed Effect Model – Work Intensification Hypothesis.

VARIABLES	-1 Work Intensification Index
percent "r" outsourcing	-0.38 (0.25)
percent agency outsourcing	-0.48* (0.28)
number of agency personnel	1.82E-06 (0.00)
workplace physical conditions	0.89*** (0.21)
coworker cooperation	0.18 (0.27)
Year Fixed Effects	Yes
Agency Fixed Effects	Yes
Constant	-0.73 (0.96)
Observations	183
Number of agency_num	19
R-squared	0.273

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

4.4 RESULTS

Table 4.1 shows that the mean for the author-created work intensification index is 3.18 out of 5, of the agencies examined in this paper. The index ranged from 1.59 to 3.61. Table 4.2 shows a statistically significant positive correlation at the $p < .05$ level for the percentage of general outsourcing and work intensification. The table also shows a negative correlation between “R” outsourcing and work intensification, though the correlation is not statistically significant. The table also highlights a statistically significant positive correlation between three of the control variables (number of personnel, coworker cooperation, workplace physical condition) and work intensification. This relationship is unexpected because one would think that these variables would help reduce worker intensification, rather than elevate it. For example, as coworkers cooperate together, the level of work intensification should lower as the employees learn new methods to complete their tasks.

Table 4.3 shows the results for OLS regression. The relationship between outsourcing and work intensification remains positive and statistically significant at the $p < .01$ level ($\beta = .13$). The relationship between “R” outsourcing and work intensification is also positive, but the association is not significant. The three control variables show significant positive associations at the $p < .01$ level, which is consistent with Table 4.2.

Table 4.4 controls for fixed effects and the results change significantly from Table 4.3. The relationship between outsourcing and work intensification changes to a negative relationship ($\beta = -.48$) and the p level drops to $< .1$. In Table 4.4, “R” outsourcing also changes to a negative relationship with work intensification, though the association is not statistically significant. The table suggests that the influence of “R” contracts does not retain a disproportionate impact on

work intensification, compared to general outsourcing. The three control variables continue a positive association with work intensification, though only one, workplace physical conditions, is statistically significant. The data from this table are used in the analysis for this paper.

4.5 DISCUSSION

The results of the fixed effects model contrast with this paper's hypothesis. The findings highlight that outsourcing is negatively associated with work intensification. In other words, a bureaucrat's workload, or the perception of their workload, decreases as the agency increasingly outsources its duties and responsibilities. This paper proposed that work intensification would occur due to the additional responsibilities added to the remaining employees, including contract management and other duties. The results suggest that government employees, in a heavily outsourced work environment, face a smaller workload than those in agencies with limited outsourcing.

A few reasons might explain this dynamic. It might be possible, for example, that outsourcing lowers work intensification because contracting out relieves overwhelmed bureaucrats from some existing duties. Outsourcing shifts responsibility for some duties to the private sector which could decrease the workload for that agency's employees. This transition of duties could compensate any additional responsibilities associated with contract management. The outsourced activity might also span numerous employees, thus relieving many people of the activity, while only one person gains the additional responsibility of managing the contract. If this is the case, outsourcing could reduce employee symptoms associated with work

intensification including occupational stress, mental and physical health issues, absenteeism, and employee turnover.

The only control variable with statistical significance for work intensification is workplace physical conditions. The positive relationship is difficult to explain. An employee's work intensification rises as they are increasingly satisfied with their workplace's conditions. One would suspect that poor workplace conditions would inhibit productivity and lead to the perception of a higher workload. The results may suggest that employees who work in pleasant conditions are more likely to be tasked with greater responsibilities and duties, which could lead to a higher levels of work intensification.

More research is needed on work intensification to understand the causes of elevated workloads and its impact of employee behavior. Agency specific analysis of outsourcing could also reveal which types of contract obligations have the greatest impact on work intensification. Certain types of outsourced products or services may relieve workloads more than others, and agencies could focus on these categories of outsourcing to help improve employee job satisfaction and productivity.

CHAPTER 5

DISCUSSION

This paper's analysis highlights that outsourcing NG duties can cause a decline in job satisfaction. The research builds on studies that show that high levels of outsourcing can lower job satisfaction by examining the outsourcing of NG services. The findings show that the outsourcing of NG functions has a greater impact on employee job satisfaction than the overall level of outsourcing within an agency. The negative association between NG outsourcing and job satisfaction is roughly twice as strong as the overall level of an agency's outsourcing with job satisfaction. This finding suggests that federal employees have concerns with NG functions being executed by the private sector.

Value incongruence between the public and private sector likely explains this dynamic. The contractor, focused on profits and efficiency, ignores public values to focus on outputs and outcomes. Even non-governmental organizations, whose outlook would be seemingly consistent with the public sector, will focus on their clients' needs at the expense of values. Bureaucrats recognize this dilemma. Driven by public service motivation and theta values, federal employees are likely concerned that the client will ignore or overlook the incorporation of public values into the outsourced activity.

The principal-agent relationship between government and the business also makes it more difficult for the government to monitor and be aware of the company's activities. Companies can exploit this knowledge gap to maximize profits at the expense of public values. The contract instrument, for example, may lack specific language that encourages a company to

safeguard public values. This issue is magnified during the contracting process because values are also difficult to codify in a contract, which is often based on quantitative outputs and outcomes. Business can also exploit the principal-agent relationship during the period of the contract by implementing measures that increase their profits at the expense of the government's interests.

As the prison privatization example showed, transferring critical government duties to the private sector can result in the erosion of values for the outsourced service. Prison corporations, focused on profits, overlooked or understaffed other elements of their operations to maximize profitability. These corporations received a steady revenue stream based on a per inmate daily rate, so they searched for areas to reduce expenditures to maximize their profits. This review resulted in lowering labor costs which is the most significant expenditure in a prison operation. Private prisons, more so than public facilities, paid lower wages to both employees and inmates, and the result was that their facilities are staffed with lower quality personnel, who often overlook or even participated in activities that jeopardized the safety of the inmates.

Based on the results of this study, it is possible that Bureau of Prisons employees, who embrace public values, may have been disappointed at their operations being outsourced to the private sector. An area for future research could examine Bureau of Prisons employee attitudes before and after the privatization of some federal prisons to determine if there is an association between job satisfaction and outsourcing that critical government activity. For more practical purposes, the Inspector General report highlighted the importance of regular monitoring to ensure that private prison corporations ensure a safe, secure, and fair environment in their prisons. The report also highlighted the need to include other aspects of prison operations in the

contract and to include incentives and disincentives for certain types of behavior that occurs among their staff in their prisons.

There are also other reasons that bureaucrats could be dissatisfied with outsourcing. Federal employees who witness the growing influence of corporations in their agencies could be concerned about the dialogue between corporations and government leaders. Contractors who undertake NG duties will undertake substantive conversations with government leaders about the execution of key government functions. These conversations would revolve around the type of services executed during a NG contract, which can include functions related to intelligence, justice, administration, policy, and budgets, among other areas. These discussions could provide business leaders with special access and undue influence in important aspects of government decision-making. The government will also be increasingly dependent on the contractor to perform these specialized NG functions. A business could use this leverage to maintain and acquire future contracts and to influence government policy.

Agencies can undertake some measures to help mitigate the potential decline in job satisfaction due to outsourcing NG duties. First, agencies, like those listed in Figure 3.4 should review their “R” category contracts to determine if some of those duties could be undertaken by government employees. As the prison privatization example showed, agency leaders should also regularly monitor NG contracts to ensure that the private sector is adhering to public values in its execution of the outsourced duty. They should visit contract sites and interview employees to determine if the company is ignoring or understaffing areas that involve public values. Agency leaders should plan to invest resources into these monitoring efforts and build out a monitoring plan before the contract begins. In some cases, agency leaders may consider returning some of

the duties back to the agency. If monitoring reveals that a particular NG duty is regularly leading to negative results, it is possible that the particular duty should not be outsourced to the private sector.

External auditing agencies, like OMB and GAO, should also review contracts for agencies that heavily outsource NG duties. The reviews should determine if any of the contracts are inherently governmental, which is a violation of federal law. The external agencies should also regularly report to Congress which agencies outsource NG duties so Congress can provide the proper oversight of those contracts. Congress could require OMB to produce an annual report detailing NG contract obligations in the executive branch, and they could also evaluate any NG contracts that are close to being inherently governmental.

Contract managers can also ensure that relevant public values are captured in the contract instrument. Though it can be difficult to codify values in a contract, regular dialogue between the contract manager and the contractor should help ensure that the contractor will consider public values during the execution of the outsourced service. These normative principals should be identified early in the process, or the contractor will likely select the easiest ideals to quantify during the outsourcing process (Dolovich, 2009). These values could be included as legal frameworks that holds the contractor accountability to public law (Dickinson, 2011). The incorporated laws and values should also cascade down to any sub-contractors that are involved in the outsourcing process (Dickinson, 2011). These contracts should be monitored regularly and contain milestones that relate to values as well as outputs. The contracts can also contain incentives or punitive measures that encourage certain types of behavior in the private sector company during its execution of the outsourced service.

The findings are specific to the United States based on the country's unique acquisition regulations and related laws and policies. However, other countries that outsource critical government functions may witness declines in job satisfaction if their employees embrace similar public values and they also work in a comparable organizational culture. In this regard, this study's results should be applicable to most city and state governments in the United States. The finding's internal validity could be impacted by maturation. Civil service employees, who remained in the government during the duration of the study, could have changing views on job satisfaction as they progress through civil service that are unrelated to outsourcing. In addition, there could be an excluded variable bias where a key control variable was omitted that would have influenced job satisfaction in the absence of the outsourcing trends.

The study's findings could also be impacted by mortality, as civil servants retire and drop out of the experiment. Between 2010 – 2018, the length of service for a civil servant declined from 14.4 years to 13.4 years, with an average separation percentage of 6.2 percent of the workforce during the same time period (Federal Executive Branch Characteristics, 2019). New hires help compensate for the difference in staffing which allows the government to remain at steady levels of personnel. The infusion of a younger workforce however, changes the composition of the personnel who responded to the FEVS survey for this time panel analysis. Civil servants who are managers and executives, for example, place a higher priority on intrinsic motivators than lower-level employees, and de-emphasize the importance of money and promotions (Rainey and Bozeman, 2000; Crewson, 1995). In this regard, the time panel analysis used in this study omitted retired senior level employees who left government during the years

studied. These employees may be more influenced by NG outsourcing than younger employees who recently started with the agency.

Future research in this field could focus on the qualitative reasons that job satisfaction declined in agencies that outsource NG duties. The results of qualitative research would help identify the specific explanations for an employee's decline in job satisfaction, which would provide insights that managers could use to address job satisfaction. The responses to a qualitative survey could also illuminate if a certain type of "R" contract has a greater influence on job satisfaction than another. The responses should also help highlight the reasons an employee objects to a particular responsibility being outsourced. The results of such research should enable federal managers to institute policies that help address any negative effects from outsourcing critical government duties.

The second part of this dissertation examined the relationship between outsourcing and work intensification. The data highlight that outsourcing has a negative association with work intensification, which contrasts with this paper's hypothesis. The results suggest that increased outsourcing can reduce work intensification in some agencies.

A possible explanation is that an already-overworked bureaucracy experiences some relief from its duties when outsourcing occurs. U.S. federal government staffing levels have remained roughly the same in the last 20 years, while the government's duties and responsibilities have increased markedly. The exponential growth of new policies, rules, and laws, combined with new missions like homeland security, likely tax most government

employees who struggle to balance multiple priorities. In this regard, outsourcing some duties may lessen the work load for these employees, which should result in lower occupational stress.

The findings also suggest that the burdens of contract management do not add significantly to an agency's workload. Outsourcing may be such a source of relief to an agency that incurring contract management duties does not lead to work intensification. Another possible explanation is that only a handful of individuals assume the burden of contract management, whereas the majority of agency personnel benefit from the outsourcing effort.

Another important finding is that workplace physical conditions maintain a significant positive relationship with workplace intensification. This finding was surprising because one would think that poor workplace conditions would act as an impediment to an employee's productivity since they are not working in comfortable conditions. The findings, however, suggest that employees who work in comfortable conditions are more likely to experience work intensification. This dynamic could be explained by the assignment of responsibilities within an agency. More senior level employees, who retain good workplace conditions, could be more likely to be assigned overwhelming duties and responsibilities, due to their seniority in the agency. Some of these duties could be comprehensive taskings that can only be handled by a senior level government official, of which there are only a handful in the agency.

Further research in this area should examine trends in work intensification in the U.S. federal workforce and seek to identify other factors that contribute to levels of work intensification. The research could also seek to understand the types of outsourcing that have the greatest negative effects on work intensification. Managers could outsource certain categories of

products or services that help relieve employee workloads. These products and services, however, should not be “R” category products or services, and managers should monitor employee job satisfaction during the outsourcing process, as the first paper highlights the potential negative impact on employee job satisfaction.

This dissertation sought to expand on the existing literature regarding outsourcing and employee behavior. U.S. outsourcing levels rise each year in many U.S. federal agencies and this trend is likely to continue in the future. Many of these contract obligations fall into NG contract categories, so this paper sought to understand the implications of this type of outsourcing on employee behavior. More research is needed, however, to pinpoint the reasons for the decline in job satisfaction related to outsourcing NG duties.

This paper also sought to understand the impact of outsourcing on work intensification in the U.S. federal government. Sparse research has been conducted on work intensification, so this paper sought to understand the relationship between employee workloads and outsourcing in the public sector. The findings conflicted with this paper’s hypothesis, but they still provide some insights into outsourcing, including that it may help lessen the workload of some employees. More research is needed to understand work intensification, and the relationship between outsourcing and workloads. Qualitative research should be able to provide some further insights into this relationship.

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BIOGRAPHICAL SKETCH

Chris Dishman has served in the United States government for 24 years. Mr. Dishman currently serves as the South Central Regional Director for the Department of Homeland Security's Field Operations Division. Prior to joining the Field Operations Division, Mr. Dishman served as the chief of the Border Security Branch in the Department of Homeland Security (DHS) and prior to that position, he was a supply side counterdrug policy analyst at the Office of National Drug Control Policy (ONDCP). Mr. Dishman has also served as a counterdrug analyst at the Defense of Defense and as a homeland security analyst at the U.S. Commission on National Security (AKA The Hart-Rudman Commission).

Mr. Dishman has written extensively about the relationship between terrorism and organized crime and other terrorist-related issues. He has lectured on the topics to the National Defense University and the National War College, among other venues. Mr. Dishman also pursues an interest in military history and wrote his first book *A Perfect Gibraltar, the Battle for Monterrey, Mexico* which was published by the University of Oklahoma in 2010 and is part of the University of Oklahoma's award-winning "Campaigns & Commanders" military series. Mr. Dishman's second book was published by the University of Kansas in the Fall of 2021 and is titled *Warfare and Logistics Along the Northern Frontier During the War of 1812*. Dishman holds a BA from the University of San Diego, an MA from the University of Pittsburgh, and is a graduate of the Naval Postgraduate School's Executive Leadership Program.

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Articles

- Solicited: Chapter 7 “Terrorism and Crime: Looking Beyond the Horizon” in *Beyond Convergence: World Without Order* October 2016.
- "Street Fight in Monterrey," Military Heritage Magazine, August 2009.
- Contributed seven sections to the *Encyclopedia of the Mexican American War*, Published by ABC-CLIO/greenwood/Praeger publishing, Edited by Spencer Tucker, Publication Fall 2012.
- “The Leaderless Nexus: Where Crime and Terror Converge,” June 2005, *Studies in Conflict and Terrorism*.
 - article was selected for re-publication in *Terrorism and Counterterrorism: Understanding the New Security Environment*, Published October 2005.
- “Terrorism, Crime and Transformation,” January 2001, *Studies in Conflict and Terrorism*.
 - article was reprinted in the terrorism reader: *Terrorism in Perspective* by Sue Mahan and Pamala L. Griset (Published Sep 10, 2007)

Review Essays

- “Fighting For God: What Motivates Jihadists,” Spring Issue, *Terrorism and Political Violence*.
- “Attacking Terrorist Financing,” May/June 2004, *Bulletin of Atomic Scientists* (Solicited).
- “Understanding Perspectives on WMD and Why They’re Important,” July 2001, *Studies in Conflict and Terrorism*.
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Op-Eds and Miscellaneous

- “Looking to Future, CIA Should Focus on Human Intelligence,” *Christian Science Monitor*, OP-ED.
- “Looking for Intelligent Life,” *Washington Times*, OP-ED.
- “FARC’s Role in Drug Trafficking,” 500 word Letter to the Editor, *Washington Times*.
- Drafted sections of Hart-Rudman Commission’s report “New World Coming: American Security in the 21st Century,” September 1999.