# Hiving off the non-essential : analysing which public organizations outsource administrative overhead

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# HIVING OFF THE NON-ESSENTIAL:

## Analyzing Which Public Organizations Outsource Administrative Overhead


## Abstract

This study contributes to our understanding of the characteristics of public organizations that are more likely to outsource administrative overhead. Despite the ongoing crisis climate that urges public organizations to focus their resources on core tasks, little is known about the characteristics of organizations that hive off the delivery of non-essential administrative overhead processes to the private sector. This study runs a panel data Tobit model to test whether different effect sizes of structural, institutional and political characteristics are found regarding the probability of outsourcing and the degree of outsourcing of administrative overhead. We find that organizational size, formal autonomy, inertia and time matter for understanding the outsourcing of public organizations.


**Points for practitioners**

Across the globe, governments have turned to a rationalization of administrative overhead in response to austerity demands posed by the global financial crisis. The present study shows that large differences exist between organizations in terms of their propensity to turn to the private sector – one of the classic recipes for achieving reaching efficiency gains – for the delivery of administrative overhead, and helps practitioners gain insight into the determinants of administrative overhead outsourcing.


**Key words:** administrative overhead; outsourcing; public organizations

## 1 Introduction

The optimal size of government for the delivery of services has been one of the most enduring questions in public administration theory and practice. In particular, the size of expenditures on administrative overhead has been sparking academic interest for decades (Parkinson, 1957), and regained importance in more recent years (Andrews & Boyne, 2014).

Administrative overhead refers to the expenditures that organizations invest in a variety of overhead functions aimed at supporting employees in the primary process (Huijben, Geurtsen, & van Helden, 2014). Since the crisis, many governments are acting on the premise that efficiencies can be achieved in the organization of overhead in favor of frontline services (OECD, 2015). This study focuses on outsourcing as an organizational model often associated with such efficiency gains. Advocates of outsourcing have argued that public production models are inefficient and that market mechanisms should be introduced to create competition in service provision, thus stimulating cost reductions (Savas, 1987).

Despite the ongoing crisis climate which incentivizes governments to release resources away from internal administrative operations towards more essential frontline services (OECD, 2015), little is known about the characteristics of organizations that are more likely to outsource administrative overhead. From a practitioner viewpoint, knowledge about how organizations that differ in a range of organizational characteristics are dealing (differently) with pressures to reduce administrative overhead expenditures can offer vital information about how to manage government-wide overhead reductions. From an academic viewpoint, the topic bridges two literatures which have both underappreciated the issue of administrative overhead outsourcing. The literature on administrative overhead largely focused on the determinants of the size of overhead expenditures in neglect of the organization of administrative overhead, despite observations that how overhead is organized can greatly impact the overall size of expenditures allocated to overhead (Huijben et al., 2014). The generic outsourcing literature largely focused

on the motivations for, and effects of, outsourcing activities in the primary process of organizations with a prime focus on service characteristics to explain differences in outsourcing. The present study addresses the following research question: *what are the characteristics of organizations that are likely to dedicate a greater extent of their administrative overhead expenditures to outsourcing?*

In the following sections, we first present an overview of identified determinants of outsourcing in the generic outsourcing literature (section 2) from which we deduce a framework to apply to the case of administrative overhead (section 2.1). We then present our research design and discuss the Flemish government context (section 3), our findings (section 4), after we turn to a discussion and conclusion (sections 5 and 6).

## 2 Literature review on outsourcing

This study takes a two-step approach in developing a theoretical framework. First, an overview is presented of the determinants that were found to be most important to explain outsourcing of primary services in the generic outsourcing literature. Second, we theorize whether and how these determinants would impact the outsourcing of administrative overhead services.

### 2.1 Insights from the generic outsourcing literature

Outsourcing refers to an organizational form of service provision in which a public organization is responsible for providing a service, which is, however, delivered by an operator external to the public organization (Boyne, 1998). Outsourcing became increasingly popular as a tool to enhance government efficiency with the advent of New Public Management (NPM) and its gravitation towards market-oriented recipes. The generic outsourcing literature has typically dealt with two core interests concerning (a) the determinants of outsourcing (Brown & Potoski, 2003; Bel & Fageda, 2008; Hefetz & Warner, 2007) ; and (b) the effects of

outsourcing (Bel, Fageda, & Warner, 2010). The second set of studies are interested in examining why organizations should outsource and whether claimed benefits related to outsourcing actually materialized. The promises of outsourcing are related to efficiency gains and reductions in the costs of public service delivery, though empirical results are mixed (Alonso, Clifton, & Díaz-Fuentes, 2015; Bel, Fageda, & Warner, 2010).

This study adds to the first set of studies with an interest in identifying the determinants of outsourcing. Several attempts have been made to formulate a framework to categorize outsourcing determinants. Brown and Potoski (2003) differentiate between service (asset specificity, measurability), marketplace (competition), goal incongruence (combination of several variables) and institutional (professional associations, history and path dependency) dynamics. Bel and Fageda (2008) distinguish fiscal stress (revenue in- or decreases), economic efficiency (economies of scale potential), political processes (pressure groups) and ideological attitudes. Hefetz and Warner (2007) differentiate between service, marketplace, citizen (public interest), and place (metropolitan status, management) dynamics. Together, these studies examined a large variety of outsourcing determinants that are also predominant in other empirical studies ( Alonso, Andrews, & Hodgkinson, 2015; Boyne, 1998; Lamothe, Lamothe, & Feiock, 2008; Petersen, Houlberg, & Christensen, 2015).

This study applies insights from the generic outsourcing literature on the determinants of outsourcing to the study of administrative overhead outsourcing in the public sector, thus contributing to the generic outsourcing literature in several respects. First, most studies so far applied to primary process activities, often technical services such as water treatment or garbage collection (Bel & Fageda, 2008). Second, the outsourcing literature is mainly inspired by Anglo-Saxon and Spanish experiences, and the public bodies under study are almost exclusively governments at the local level (Petersen, Houlberg & Christensen, 2015). Third, most studies mentioned so far treat the outsourcing decision either as a dichotomous choice

(e.g. Brown & Potoski, 2003; Lamothe, Lamothe & Feiock, 2008), or as a fraction (e.g. Brudney et al., 2005; Petersen, Houlberg & Christensen, 2015). Our study takes an innovative approach as it sheds light on the potential difference in effect size between antecedents for the decision whether to outsource *and* the decision how much to outsource.

### 2.2 A Framework for Understanding the Outsourcing of Administrative Overhead

The dominant approach in the generic outsourcing literature is to analyze differences in the outsourcing of activities according to a variety of organizational, market, environmental and service characteristics. The present study applies an organizational focus. It views the bundle of administrative overhead as services which are outsourced differently by organizations which differ in a set of organizational characteristics.

The organizational characteristics under study can be broadly divided into structural, institutional and political characteristics that have been identified in the generic outsourcing literature. *Structural characteristics* refer to features in the structure of organizations which make outsourcing more likely from an economic viewpoint. *Institutional characteristics* refer to rules, norms and practices in the organizational environment that prescribe a certain sourcing behavior (Brown & Potoski, 2003). *Political characteristics* refer to ideological predispositions (Bel & Fageda, 2008). In the following sections, we further elaborate on the theoretical motivations for including the characteristics under study.

#### *Structural characteristics*

First, organizational size is a classic and well-studied characteristic of the make/buy-decision (Boyne, 1998). In studies of local government outsourcing, however, population size is often included as a poor proxy of market capacity and production capacity which leads to conflicting expectations (Petersen, Houlberg & Christensen, 2015). From a market perspective, a higher population size is said to be a proxy for a bigger user market with more competition,

thus favoring outsourcing. From a production perspective, a higher population size is said to be a proxy for a higher internal production capacity, favoring in-house production.

This study provides a more straightforward operationalization of production capacity by referring to the number of employees within an organization. Smaller organizations perform administrative overhead activities less frequently which has both cost and quality implications (Rho, 2013; Williamson, 1979). Performing an activity may require a substantial investment. If these activities only occur infrequently, it is more cost-effective to rely on external parties. Also, organizations learn by doing. If certain activities only occur infrequently, the potential for internal knowledge-building is limited. It may therefore be more interesting to rely on outsider expertise whose focus is more exclusively on the delivery of the activities in question. Therefore, we expect that increasing organizational size will negatively affect the fraction of outsourcing of administrative overhead (H1).

Unfortunately, a negative correlation between organizational size and overhead outsourcing does not say much about the direction of causality (Boyne, 1998;Petersen et al., 2015). It could be that bigger organizations with more employees have a higher production capacity, but also that the number of employees reduces as organizations spend more money on overhead outsourcing. Because of risks of reverse causality, we will refrain from making causal statements about the relation between organizational size and overhead outsourcing[1].

Second, we discuss the structural complexity of organizations. Hall (1982) discusses different types of structural complexity: horizontal differentiation (or: the number of production units – see also Andrews & Boyne, 2014), vertical differentiation (or: the number of hierarchical levels – see also Huijben et al., 2014), and spatial dispersion which is related to the geography

[1] To exclude the potential risk that the issue of reverse causality would bias the parameters of other independent variables, analyses were re-run without organizational size. No significant differences were observed. These analyses are available upon request from the authors.

of organizational facilities. We focus on the latter type of structural complexity, spatial dispersion, which is related to the physical geography of organizational facilities.

Spatial dispersion is expected to have the most extreme effect on the size and organization of overhead, since staff in spatially dispersed organizations are not only separated by divisions, but also geographically. The effect of structural complexity on the outsourcing of administrative overhead is ambiguous. On the one hand, one can expect *more* outsourcing in complex organizations. We know from the literature on coordination that complexity is a source of coordination problems that results in a higher need of administrative overhead staff to assist in managing the relations within dispersed organizations (Mintzberg, 1979). The transaction costs that arise from these coordination problems might create an incentive to save on these costs by outsourcing more administrative overhead. Furthermore, as an organization gets more complex, this might create opportunities for lower level units to make their own decision about outsourcing, thus increasing the overall level of outsourcing in the organization. On the other hand, one can also expect *less* outsourcing in structurally complex organizations. Scholars have argued that administrative overhead staff are useful for curbing the opportunistic of line managers by means of information gathering and standardization of internal procedures (Eisenhardt, 1989). In complex organizations, senior management might look at administrative overhead as a strategic instrument to keep lower level units in check, which they would like to organize in-house. Because of these contradicting theoretical arguments, we opt for a non-directional hypothesis and argue that structural complexity will significantly affect the fraction of outsourcing of administrative overhead (H2).

Third, we include the primary task of each organization. The nature of the primary task directly influences the number and complexity of transactions within an organization, which in turn affect the likelihood that administrative overhead will be outsourced. Service delivery organizations have been associated with more easily measurable outputs and processes and

larger operational budgets for staff and equipment (Wilson, 1989). In contrast, regulatory organizations and policy-formulating organizations provide services that are more asset-specific (often requiring expert knowledge), difficult to measure and uncertain. Because service delivery organizations are better equipped to codify their processes, and to have higher operational budgets, we expects them to be more likely to dedicate a greater extent of their administrative overhead expenditures on outsourcing compared to policy-formulating and regulatory organizations (H3).

*Institutional characteristics*

First, we expect the formal autonomy of a public organization to impact the make/buy-decision. Many governments embarked upon NPM-inspired reforms that led to the creation or transformation of autonomous public organizations (Van Thiel, 2012). Public organizations with a high formal autonomy possess higher levels of operational decision-making autonomy. They can buy, manage, and sell their own assets, act as the legally recognized employer of their employees, save money, be active in the capital market, and launch (or participate in) court cases.

NPM-advocates argued the extension of discretionary powers to be key in encouraging public organizations to modernize their management and optimize their functioning. For instance, research has demonstrated how autonomous organizations place higher value on NPM-related values compared to traditional ministries, which indicates that they operate more business-like (Van Thiel & van der Wal, 2010). Therefore, weexpect that more formal autonomy will positively affect the fraction of outsourcing of administrative overhead (H4).

Second, inertia refers to the effect of past outsourcing behavior. Public organizations are unlikely to depart from a sourcing arrangement that they know to an uncertain alternative (Lamothe, Lamothe & Feiock, 2008). The costs related to changing production modes might tempt organizations to stick to the status quo. A continuation of past outsourcing decisions is

likely since internalization would require a substantial investment. Therefore, we expect that previous levels of outsourcing will be related to the fraction of outsourcing of administrative overhead (H5).

*Political characteristics*

The ideological attitude of the sourcing entity is often included to test the expectation that advocates of right-wing ideologies prefer the market as a mechanism for allocating goods and services, whereas left-wing actors favor government intervention in the economy and society. Most studies so far focused on the sourcing of local governments, either using dummies measuring whether left-oriented parties (such as Labour) hold power (Alonso, Andrews & Hodgkinson, 2015) or whether mayors are affiliated to conservative parties (Bel & Fageda, 2008), or using proportions of right- or left-wing votes during elections (Bel & Fageda, 2007) or of socialist seats in city councils (Petersen, Houlberg & Christensen, 2015). Few, however, focus on organizations as sourcing entities and the role of the ideological attitude of managers (Brudney et al., 2005). Despite the inconsistent results found in these studies (Bel & Fageda, 2007), we expect that public organizations with a center- or right-oriented manager will outsource a higher fraction of administrative overhead compared to those with a left-oriented manager (H6 and H7).

Furthermore, a principal-agent situation presents itself, since each public organization (agent) is accountable to a Minister (political principal). The citizen candidate model predicts that the ideological attitude of the Minister will influence outsourcing behavior. Politicians are motivated to run for office by the prospect of implementing their preferred policy (Elinder & Jordahl, 2013). The ideological predispositions of the Minister might limit the sourcing options for public organizations. Therefore, we expect that public organizations that resort under a center- or right-oriented Minister will outsource a higher fraction of administrative overhead compared to those with a left-oriented Minister (H8 and H9).

## 3 Research design

*Research context*

The 55 organizations under study constitute the near full population of public organizations that belong to the Flemish central government civil service (except for the organizations of the ministry of education and five other organizations, for whom no data was available). We use the Van Thiel (2012) categorization to distinguish between three types of public organizations: 'Type 0' which are units of the regional government (also referred to as departments or ministries); 'Type 1' which are semi-autonomous organizations without legal independence but with some managerial autonomy; and 'Type 2' which are legally independent organizations based on public law. The organizations perform different tasks (see Van Thiel & Yesilkagit, 2014) related to policy formulation and advice (N = 15), regulation and redistributive tasks (N=15) and direct service delivery (N = 25).

The research context is the civil service of the Flemish government. Flanders is a region in the Federal Belgian state its own parliament, government and public sector. The Flemish civil service forms an interesting case to study the impact of organizational characteristics (structural, institutional and political) on the outsourcing of administrative overhead. First, Belgium is a dual federalist system. This means that the regional governments exercise the powers accorded to them without interference from the federal government. In this sense, the Flemish government is comparable with a full-fledged nation-state for the competences it was accorded. These competences include (but are not limited to) education, health, cultural affairs, spatial planning, housing, nature, energy, environment, labor market policies.

Second, the Flemish civil exemplifies the globally-occurring pendulum swing from a largely centralized organization of administrative overhead to a decentralization movement with the advent of NPM, to some sort of re-centralization of administrative overhead functions with reorganizations linked to a post-NPM agenda (OECD, 2015). In the Fall of 2009, the

Flemish government formulated a target to reduce the number of administrative overhead (related to the total number of staff) to 12% by 2014. This target was lowered to 10% in 2011, and further to 6% in 2015. Importantly though, all organizations were free to decide *how* they reduced their administrative overhead processes. The Flemish context, thus, makes an interesting case to analyze how different types of organizations reacted to incentives to reduce administrative overhead by turning to overhead provision by private parties, one of the typical NPM-instruments to achieve efficiencies.

Third, the Flemish case offers the opportunity to analyze the outsourcing of administrative overhead services by organizations that differ in a range of characteristics under fixed market and geographical conditions. This because the Flemish civil service is highly concentrated, with virtually all organizations located in the Brussels area (capital of Belgium). Furthermore, the senior level of public managers in Flanders is heavily politicized. The recruitment process of senior managers is strongly controlled by political parties, and many managers – an estimated 70% - has a known political affiliation (Apache, 2013). The Flemish setting, thus, offers a rare opportunity not only to examine the effect of ministerial ideology but also of managerial ideology. Although senior managers are politically appointed, the Flemish civil service does not have a spoils system in place and the advice and decisions of civil servants are expected to be guided by professional knowledge rather than by ideology

*Data sources and operationalization*

Our analyses make use of data from different sources. Data on the *independent variables* primary task, formal autonomy, organizational size, structural complexity and ministerial ideology were collected through document research (mainly websites and annual reports) . Data on managerial ideology are publicly available and were checked for their reliability by the authors. Table 1 summarizes the different independent variables that are used, their

operationalization, expected effects (EE) on outsourcing, means (M) and standard deviations (SD). The linear correlation analysis is reported in Table A1 in appendix.

[Insert Table 1 here]

Data on the *dependent variable* was provided by the Flemish Public Governance Department. Organizations were e-mailed a template with instructions on which they could indicate how many full time equivalents (FTEs) worked in different overhead processes for more than 20% of their time (see Table A2 in appendix for example of template). We acknowledge the risks related to the self-reported nature of the dependent variable. However, strategies were taken to reduce the risks. First, organizations were provided detailed instructions by the Department of Public Governance on how to classify administrative overhead. What is overhead in one organization might be part of the primary process in another. Consider the example of the IT function: small organizations might require ordinary office technology (email, document management) to support their primary processes, whereas large tax-raising organizations depend heavily on IT for the case-processing systems as part of their primary process operations. This nuance has been absent in the literature so far, in which overhead levels are mechanically deduced from organizational cost or employee figures. Second, the first data collection in 2007 was audited to ensure the validity of the data. Organizations, thus, were incentivized and educated to report accurate data.

A measure of FTEs is used, which carries the advantage that FTEs can be measured relatively unambiguously in comparison to costs (Huijben et al., 2014). Expenses that are typically expressed in monetary costs, such as outsourcing activities, material costs or facility costs, are converted to an FTE measure. Rather than creating different measures of overhead in which certain types of staff or costs are sometimes classified as overhead and sometimes

classified as primary process (Rushing, 1967; Rutherford, 2015), this study takes a less ambiguous approach. The measurement used allows each employee to be partly overhead (for instance, 0.6 FTE) and partly primary process (for instance, 0.2 FTE), an approach we found resonated well with actual organizational practices, especially in smaller organizations.

The dependent variable relates the administrative overhead expenditures that organizations invest in outsourcing to their overall level of administrative overhead. This approach is consistent with previous research that measures outsourcing by looking at the ratio of outsourcing (versus in-house) (Brudney et al., 2005; Johansson, 2008). We have data on the composition of administrative overhead for 55 departments and organizations over a period of four years (2010-2013). Table 2 provides a summary of descriptives for the dependent variable.

[Insert Table 2 here]

*Method*

Table 2 shows that the mean values for the dependent variable are low, but that the standard deviations are quite high. Also, a big gap lies between the minimum (0) and maximum (58%) level of outsourcing. The result is a skewed dependent variable that frequently takes on the value of zero (68 observations, or 29.82% of the total number of observations). OLS is generally considered inadequate to deal with these distributions (Breen, 1996). Therefore, we apply a Tobit model which accounts for the censored nature of the dependent variable, and allows for the estimation of a set of independent variables on the underlying latent uncensored variable. A test for the presence of heteroscedasticity was performed by comparing the results of a heteroskedastic Tobit with those from the Tobit presented here. No significant differences were observed. Results are available upon request.

The skewed distribution of the dependent variable further allows us to test whether we find different effect sizes of the independent variables regarding the *decision of whether to*

*outsource* (or: the effect on the probability of outsourcing) and the *decision of how much to outsource* (or: the effect on the degree of outsourcing). In line with McDonald and Moffitt (1980), we interpret the Tobit coefficients by decomposing them into two separate sets of coefficients for which marginal effects are calculated. First, we compute the size effect of each of the independents on the probability that organizations will outsource. Second, we calculate the size effect of each of the independents on the degree of outsourcing.

The data is organized as a panel data set with a total of 220 observations (4 years x 55 organizations). The panel structure of the data is exploited by running a panel data model. The Hausman test showed no significant difference in coefficients between a random effects model and a fixed effects model. A significant proportion of the independent variables are time-invariant. Therefore, we run a panel data Tobit model with random effects. In order to control for possible time effects, we include year dummies: '2011', '2012', '2013' with reference category '2010'. The test for multicollinearity showed a mean variance inflation factor (VIF) of 1.42, indicating that no collinearity exists between the different variables.

## 4 Findings

Table 3 presents the estimates of the panel data Tobit model. In the first column, the coefficients of the Tobit model are presented. In the second column, the effect sizes of the independents on the probability of outsourcing are presented. In the third column, the effect sizes of the independents on the degree of outsourcing are shown. Marginal effects are reported, as they give a clearer indication of the impact of a change in each variable.

[Insert Table 3 here]

The coefficients in column 1 indicate that the outsourcing of administrative overhead is explained by organizational size, formal autonomy, inertia, and the year dummies. In support of expectations, we find that formal autonomy and inertia are significantly and positively related

to the outsourcing of administrative overhead by public organizations. The finding that organizational size negatively affects outsourcing also corroborates our expectations. Having a manager that is affiliated to a center-oriented party matters, but the lack of a joint significance of the ideology variables (both at manager and minister level) suggest the low importance of political factors. No significant effects are found for structural complexity and task.

The marginal effects in column 2 point at the effect sizes of the independents on the probability of outsourcing. Formal autonomy has the strongest effect, suggesting that more autonomous organizations are more likely to turn to the private sector for the delivery of administrative overhead activities. The other effect sizes are smaller, though it seems that organizations were less likely to outsource over time. The marginal effects in column 3 point at the effect sizes of the independents on the degree of outsourcing. Overall, effect sizes are stronger compared to those in column 2, suggesting that the independents appear to impact the degree of outsourcing more than the probability of outsourcing. We return to these findings in the discussion section.

## 5 Discussion

Outsourcing has been advocated as an organizational model associated with more efficient and effective and less costly service delivery (Savas, 1987). This study applied an organizational focus to analyze whether public organizations that differ in a set of structural, institutional and political characteristics outsource their administrative overhead processes to different extents. In this section, we discuss our findings and relate them to previous studies that focused on the outsourcing of frontline services.

First, increasing organizational size is related to less outsourcing. Though we need to be careful with interpreting this finding in terms of causality, this tentatively supports previous research that stated the investment in an in-house administrative overhead capacity to be more

worthwhile for larger organizations given their higher frequency of operations (Rho, 2013). Second, inertia matters, which suggests that public organizations are unlikely to depart from a sourcing arrangement that they know to an uncertain, potentially more costly, alternative (Lamothe, Lamothe & Feiock, 2008).

Third, organizations with more formal autonomy are more likely to outsource, and to outsource more, compared to those with less formal autonomy. Previous studies into the 'management structure' of organizations have resulted in ambiguous findings (Brown & Potoski, 2003; Lamothe, Lamothe & Feiock, 2008). Most US-based studies use 'council-manager governments' as a proxy for the professional orientation of a government. This approach comes with some disadvantages which might explain previous inconsistent results (Lamothe, Lamothe & Feiock, 2008). We provide an alternative and find strong and positive effects of high formal autonomy on outsourcing behavior. Public organizations with a high formal autonomy have been said to operate in a more business-like fashion (Van Thiel & van der Wal, 2010). Future research could examine whether the market-oriented spirit of more autonomous organizations leads to more efficient outcomes in the area of administrative overhead. Such research would further allow to truly test the central predictions of theories, in particular in the rational choice tradition, on the efficiency-increasing effect of particular characteristics (for a broader discussion see Johansson, 2015).

Fourth, the joint significance of the year dummies show how time matters for understanding outsourcing behavior (Elinder & Jordahl, 2013). We need to be careful with the interpretation of time dummies. However, we would tentatively point at the increasing incentives for organizations to reduce their administrative overhead expenditures throughout the years under study (see section on 'research context'). Theoretical reflections on these type of incentives are ambiguous, some arguing that organizations undergoing budgetary stress are likely to outsource more (Rho, 2013), and others arguing for the opposite (Brown & Potoski,

2003). Our findings suggest that public organizations outsource less when increasingly exposed to pressures to economize on administrative overhead over time. Interview data from a related project confirm that the organizations under study were increasingly discouraged to *make* or *buy* overhead, and incentivized to *share* administrative overhead with other public entities in so-called Shared Service Centers. Future research could examine how the emergence of this new organizational form for the organization of administrative overhead affects the traditional make-or-buy decision of public organizations.

The effect of ideology is more difficult to interpret. We find a significant effects of the ideology of center-oriented managers, yet no support is found for the traditional left-versus-right divide. This nuance reflects the inconsistent results of ideology in previous research (Bel & Fageda, 2007). We see two explanations for the absence of a left-versus-right effect. First, Picazo-Tadeo and colleagues (2010) argued that most studies focus on governing parties that are situated on the center of the political spectrum which tend to converge on a lot of issues. Table 1 indeed shows that the majority of managers and Ministers in our sample belongs to a center-oriented party. Second, Petersen, Houlberg and Christensen (2015) argued that the role of ideology is contingent upon the nature of the service and resulting level of political sensitivity. Following their reasoning, the organization of administrative overhead might very well be a topic of low political contestation.

Lastly, no significant effect was found for primary task and structural complexity. Potentially, more refined measurements are needed that take into account a broader range of aspects related to task (see Van Thiel & Yesilkagit, 2014) or complexity (see Hall, 1982). Potentially, the positive effect of structural complexity on outsourcing in some organizations and negative effect in others was neutralized as contradicting theoretical expectations related to different underlying mechanisms might have been present in different organizations.

## 6 Concluding remarks

This study applied an organizational focus to analyze differences in the outsourcing of administrative overhead by organizations which differ in a set of organizational characteristics. Future research could shed light on the issues raised in the discussion, and could also address the limitations of this study.

A first limitation concerns the external validity of our findings. The Flemish civil service is comparable to nation-states for the competences it was accorded, shares a history of successive tendencies to decentralize and re-centralize the organization of administrative overhead, and – like many other governments – has been attempting to achieve efficiencies in its overhead operations in the past years (OECD, 2015). Yet the Flemish case is also rooted in a Napoleonic administrative culture. Also, the characteristics of the Flemish civil service as a small and concentrated market have prevented us to test for the effect of market and geographical factors in the present study.

Second, the present analysis analyzes administrative overhead as an aggregated measure of a number of different underlying support activities. While it is not uncommon to use aggregated measures to operationalize administrative overhead (Andrews & Boyne, 2014; Rutherford, 2015), future research could shed more light on whether service characteristics of the underlying overhead activities affect outsourcing behavior. Previous research has demonstrated that service characteristics such as measurability, specificity, certainty, imitability and strategic importance affect the likelihood that outsourcing occurs (Bel & Fageda, 2007; Brown & Potoski, 2003). The same service characteristics might be at play to differentiate sourcing behavior of different overhead activities. For instance, one could hypothesize that organizations in need of specific and strategically important overhead support of which the outputs are hard to measure (e.g. legal advice) will be less likely to engage in outsourcing.

Future research could address service characteristics as controls in their analyses of different underlying overhead activities are organized.

Third, we make a recommendation for further methodological refinement. A Tobit model, while highly equipped to deal with the censored dependent variables, does not take into account different explanations for the probability of outsource and the degree of outsourcing. Future research could build on the findings of this study, by analyzing whether different determinants explain the decision to outsource (as a dichotomous choice) and the degree of outsourcing (as a fraction). Future research could also shed light on the direction of causality between organizational size and administrative overhead outsourcing.

This study has several theoretical and practical implications. Analyzing the organizational characteristics that drive outsourcing behavior forms an important area of ongoing theoretical and empirical study that can cast light on the forces that shape decision-making in public organizations (Baekkeskov, 2011). We combined insights from, and contributed to, two distinct literatures: the generic outsourcing literature and the administrative overhead literature. The generic outsourcing literate mostly focused on the outsourcing of frontline services, inspired by Anglo-Saxon and Spanish experiences, and often relying on local government data. The administrative overhead literature mostly focused on analyzing differences in overall overhead expenditures between organizations, and neglected the study of how administrative overhead is organized differently by these organizations. This knowledge is also relevant for practitioners. Despite the ongoing crisis climate which incentivizes governments to release resources away from internal administrative operations towards frontline services, little was known about the characteristics of organizations that are more likely to outsource administrative overhead.

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# 8 Appendix

[Insert Table A1 here]

[Insert Table A2 here]