

**Ahmed Rafiuddin**

**Competitive Bidding and Outsourcing Decisions**

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Principles, Methods, Practices

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## DEDICATION

To my wife, Mrs. Shahnaz Mirza and our sons, Shadman and Farhan, and my parents,  
Taheruddin and Mrs. Sharifunnessa.

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*Rafiuddin Ahmed*  
Townsville, Australia  
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## CHAPTER 1 INTRODUCTION

### 1.1 BACKGROUND

Outsourcing has been a widely debated issue in Western countries and other parts of the world (Bisman, 1999; Canez *et al.*, 2000; Davis, 1992; Drtina, 1994; Grice, 2001; Johnstone, 1999; Kee *et al.*, 1997; Kee and Matherly, 1996; McIvor, 2000; McIvor and Humphreys, 2000; Sciulli, 1997; Widener and Selto, 1999). It has been widely used in manufacturing firms for over a century (Canez *et al.*, 2000; Gietzmann, 1996; McIvor and Humphreys, 2000; McIvor, 1997; Venkatesan, 1992; Zeller *et al.*, 1999). Outsourcing, or contracting out, has different theoretical and philosophical underpinnings from Public Choice Theory, Transaction Cost Theory, Property Rights Theory, and New Public Management theory, but it has been used to save costs or for strategic reasons (Canez *et al.*, 2000).

In the public sector, outsourcing has also been used for centuries (McIntosh *et al.*, 1997). Its wider use, however, is only two decades old and it has been growing since the early '80s in some countries such as the USA, UK, New Zealand, Sweden, Denmark, Australia, France and other less developed countries. The use of contracting in these countries is regulated by different government policy guidelines concerning contestability, pricing, and decision-making. These three aspects are debated under the rubric of public sector reform in general.

Public sector reforms in different countries have been undertaken because of concerns over the efficiency and effectiveness of government service provisions (Alam and Lawrence, 1994; Blanchard *et al.*, 1998; Domberger, 1990; Hoque and Mall, 2001; Lane, 1997; Lapsley, 1992; McCrae and Kaidonis, 1997; McGulloch and Ball, 1992; Miranda, 1994; OECD, 1997; Osborne and Gaebler, 1993; Suppanz, 1996). In the wake of these concerns, some notable actions were taken by some countries to improve the performance of the public sector (Wanna *et al.*, 1996)<sup>1</sup>. These reforms were targeted at improving the better utilisation of society's resources. The outcomes of the reforms in some of these countries were undertaken to address the administrative and financial

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<sup>1</sup> Wanna *et al.*, (1996, p. 34) in particular, cites such reforms in the US (the Gore report), Canada (the Canadian Public Service 2000 initiative), the UK (the 'next steps' or the agency model), New Zealand ('State Sector Reform Program'), the Nordic and other continental European countries (manifold reform) as part of the 'entrepreneurial' initiatives.

management crises faced by the public sector (Guthrie and Humphry, 1996). While these reforms were targeted to improve the efficiency and effectiveness of public service production, the make up of the public sector in different countries differed, and their roles in the economy also differed. So the reforms were approached in keeping with the structures of the public sectors in different countries. The Australian public sector also differs from that of other countries in its make up and in the roles played in various jurisdictions. The outsourcing approach, its costing, and the policy of decision making of local government bodies in Australia, are more exposed to the citizens than are the other tiers of the government. Other western countries also experienced similar trends in their outsourcing practices.

## 1.2 STATEMENT OF RESEARCH PROBLEM

The current research is aimed to explore outsourcing in the public sector context, and the role of cost allocation in costing and pricing of competitive internal bids in that context. Outsourcing or contracting out as an organisational practice emerged in response to calls for improved service delivery and efficient budget utilisation in the public sector organisations in Australia. In the wake of shrinking revenue bases, the public sector generally, and, in particular, Local Government in Australia, have adopted various service delivery arrangements to minimise drainage of valuable social resources and to improve the efficiency of internal production costs. Competitive tendering and contracting out or 'outsourcing', which descended mainly from the Western countries have had a big impact on service delivery arrangements on local government outsourcing practices in Australia (Paddon, 1993).

In this competitive tendering and contracting process, municipal councils were asked to scrutinise the efficiency of services that exceeded \$2 million dollars in annual budgets. In the process, the ethos of service provision changed from regulated monopoly to competition over the last one and a half decades. Rather than using the term 'outsourcing', the reforms introduced the concepts of sourcing (either from internal or external parties) from the most efficient sources. This change in service provision arrangements brought about some changes in the internal Accounting Information Systems, including management accounting systems (e.g., Walsh, 1995, p. 94). Municipal councils introduced commercial style accounting for facilitating their sourcing decisions. In this Accounting Information Systems change, overhead allocation captured significant attention. This change in

internal accounting systems has been instrumental in shaping the decisions of managers who, lacking formal training in financial management, relied on the expertise of the accountants for cost data (including allocated overheads). In the commercial accounting environment, however, overhead allocation issues are widely debated for their purposefulness in decision making, and for over a century, they were studied under the rubric of 'cost allocation' for correctly determining 'cause and effect' relationship between costs and causes of costs (Horngren, 1995, p. 282).

Cost allocation has been considered as a pervasive problem during the last century (Horngren, 1995, p. 282). It is argued that too much subjectivity in allocating cost data make them unreliable and that cost allocation should be avoided (Thomas, 1969). Even though this prescription was influential in academia, practice suggested otherwise. A large body of literature found evidence that in practice the academic prescription is completely ignored and costs are allocated to serve various organisational purposes (Atkinson, 1987; Dean *et al.*, 1991; Fregman and Liao, 1981; Horngren *et al.*, 1997; Zimmerman, 1979, 2003).

Research has focused on cost allocation in manufacturing and service sectors, and attempted to explore the reasons for cost allocation from either a technical or a behavioural point of view (Bondar and Lusk, 1977; Zimmerman, 1979). There is little research on cost allocation practices in public sector organisations (see for example, Bourn and Ezzammel, 1987; Chua, 1995; Dent, 1991). These studies are descriptive in nature and theorised on the basis of the description of the limited evidence. One of their limitations is that they have ignored the rationale of applying commercial sector principles to the public sector. Tierney (1994) argued that private sector accounting principles are clearly not applicable to the government sector because of contextual and structural differences between them. However, the Australian practice simply rejected this argument, and disregarded the propositions of Tierney in the belief that public and the private sector have structural and contextual similarities. Therefore, private sector accounting principles are equally applicable to public sector organisations (Henderson and Pierson, 2000, p. 839).

Though the earlier studies on cost allocation were undertaken in different contexts, the uses of cost allocation appeared to be similar in public or private sectors. Those studies were abridged versions of the surveys of larger sample sizes, and little has been done to ascertain the detailed processes of



the usage of cost allocation in pricing, reimbursing of funds, or motivating behaviours of managers. This study is aimed to fill the gap in the literature, and attempts to study a particular use of cost allocation in a public sector setting. An Australian public sector City Council has been chosen to study how cost allocation is used in making outsourcing decisions.

### 1.3 RATIONALE OF THE STUDY

It is argued in the literature that the private sector is more efficient and effective in utilising the resources at their disposal than the public sector, which is inefficient and expensive in providing goods and services to consumers (Osborne and Gaebler, 1993). This long-standing notion has recently been challenged by the seminal work of Osborne and Gaebler (1993). The causes and consequences of the inefficient and ineffective usage of resources are well documented by some authors, and remedial measures to overcome them have been proposed. As a result various initiatives have been taken in different countries to revamp the operational aspects of the public sector (see for example, Wanna *et al.*, 1996). It been suggested that the management style of public sector organisations should be changed simultaneously to address the performance problems of the public sector organisations. Some alternative models are suggested to reflect the private sector ethos in the public sector organisations.

Following the wave of changes through various government-led initiatives in the public sector arena, Australian public sector entities also went through similar changes. This research specifically explores the accounting change issues in one of the public sector City Councils in the Australian state of New South Wales. Before commencing this research, ten city councils were approached for access. Only two responses were received, one was visited, but the data proved insufficient for this research project. The other City Council allowed access and the collection of data from their archives, and from departmental managers, directors and other staff members. Before seriously entering into the research assignment, preliminary meetings were held with the Financial Services Manager and the Management Accountant of the organisation to explore the possibility of collecting data. The site seemed a perfect one for studying the research problem, and it was also found that they were undergoing massive reform as part of their ongoing reform of organisational structure and the Accounting Information Systems. The organisation also allowed access to study the accounting changes phenomenon involving their outsourcing practices.

#### 1.4 THE OBJECTIVES OF THE STUDY

This research has multiple objectives and it draws on issues from across sections of the research site where the outsourcing decisions were made. Instead of considering outsourcing as a single isolated phenomenon, an attempt has been made to capture the broader picture of the sourcing decisions within a holistic context. The two particular aspects of the broader research questions are explored in this research: why outsourcing is done (the policy aspect of organisational outsourcing), and how the decisions to outsource are made (the process aspect of organisational outsourcing)? In order to understand these two broader questions some specific, but related questions, are framed to enhance data collection and subsequent analysis. The first broad research question is:

1. Why is outsourcing done? This policy question essentially leads to the following specific research questions:
  - a. Why is outsourcing a preferred choice?
  - b. What are the circumstances for preferring in-house options?
  - c. What philosophical stances drive outsourcing in general and in specific circumstances?
  - d. What different contracting out practices are prevalent in a typical local government organisation in Australia?

The second broad question involves the process element of the outsourcing decisions. Evidence suggests that there is a dearth of studies in the literature on the process aspect of outsourcing; especially, the methodology of outsourcing is underdeveloped for the multi-year outsourcing of services (Miranda, 1994; Sciulli, 1996). Thus the second broader question is:

2. How are outsourcing decisions made? This process question essentially leads to the following specific questions relating to the processes of outsourcing:
  - a. How did the Council prepare the internal bid for competitive bidding?
  - b. How does the Council treat overheads (including internal transfer prices) in pricing the internal bids?
  - c. How does it prepare a competitive bid strategically to successfully compete in a contestable market?

- d. How did the Council solve the dilemma of allocating joint costs in the presence of interdependencies and jointness of services?
- e. What methodologies are available to evaluate outsourcing decisions?

These questions will be addressed in light of the research to date in manufacturing and public sector organisations. Because of the cross-disciplinary nature of the research questions, different theoretical perspectives will be used to understand and explain the research questions. The first policy question is widely researched in economics and public administration. Chapter 2 discusses these strands of research and guides the explanation and analyses of it. The second question is a subordinate one, and recent accounting based literature on the process aspect of outsourcing will guide the analysis and provide explanations for it. In understanding the second question, exhaustive reviews were considered necessary; Chapters 3 and 4 shed light on the pros and cons of common cost allocation. Chapter 2, 3 and 4 are, in fact, complementary, and are considered necessary to address the constructs explored in the specific research questions. This led to the development of a conceptual framework by integrating the theories and evidence presented in Chapters 2, 3 and 4. This conceptualisation is necessary because of the type of the research problem. There are strong arguments for analysing case study evidence using a conceptual framework when a single theory is not sufficient to explain the research phenomena under investigation (Kumar, 1996, p. 32; Marshall and Rossman, 1999; Maxwell, 1996, p. 25). Kumar (1996, p. 32) states “the conceptual framework grows out of the theoretical framework and relates to the specific research problem....”

## 1.5 THE JUSTIFICATIONS FOR SELECTING THE SITE

Sutherland Shire Council in New South Wales, Australia was selected as the representative public sector entity that had the suitable attributes identified in this study. The main reasons for choosing it were: the significance of the Council as a pioneer in public sector outsourcing practice in Australia, access to the site, and the relevance of the interdisciplinary theories (economics, public administration and management accounting and financial management) for the study of the research problem. The justifications are discussed below.

### 1.5.1 THE SIGNIFICANCE OF REFORM BASED SOURCING DECISIONS

Local governments in Australia, especially, the city councils, have significant interface with local residents. Even though they serve the entire population living within the jurisdiction, and are perceived to be important in providing all the social and communal amenities, their funding sources are too few compared to the other tiers of the Australian public sector (that is, the Federal and the State Governments). Due to the ongoing funding crises (Kodrzycki, 1998; Mouritzen, 1992), and the drying up of grants from federal and state governments, the Councils have taken initiatives to be self-dependent by introducing various measures such as user pays, raising rates when practicable, and using efficient delivery options for the services. Sutherland Shire Council followed suit and was one of the pioneers in embracing contracting out through competitive bidding, following similar practices overseas (especially in the UK and New Zealand). The contracting culture of big ticket services in the Council was the aftermath of the ongoing reform programs taken in the early nineties when Nick Grenier was serving as the Premier of New South Wales. Moreover, the Council also agreed to participate in this research because they were looking for an external evaluation of the accounting system change surrounding their cost allocation practices and sourcing decisions. Accordingly, data were collected in late 1998 from the field. Because of the extremely confidential nature of the data, the Council permitted gathering data from only two of its divisions that experienced competitive bidding and contracting out in different time periods of significance to the Council's operations. The Manager of the Financial Services reported that the subsequent contracting out would follow the same methodology but the costing system would be a fully-fledged one.

### 1.5.2 THE ACCESS ISSUE

In field study research, access is the most important factor for completing a research project. Especially, for management accounting research, a variety of internal documents need to be studied. For confidentiality reasons, an organisation may be reluctant to provide the necessary access or restrict access to selective data that may prove inadequate to complete the research.

The first access issue was the selection of a single City Council. There were a few justifications for selecting this site. First of all, it is one of the largest city councils in terms of population served and the annual dollar value of the budget. Second, the researched organisation was a pioneer in adopting

public sector reforms and introducing contracting out in Australia. Third, during the data collection phase, I was located in Sydney and able to visit the site for data collection for this research project. Lastly, my supervisor advised me to visit the site as the city Council had a very rich financial management structure that potentially included all the complex attributes of the research problem stated earlier.

In order to access the research site the Financial Services Manager in the researched organisation was approached in May 1998. A letter was sent describing the nature of the research project and data to be collected. The Finance Manager sought approval from the President of the City Council. After receipt of confirmation, a series of emails were exchanged with the manager who organised a series of interviews, provided valuable internal management reports along with other archival documents, to complete the study. Two departments with significant budgets were visited several times for in-depth study. They used contracting practices in two different periods of operational significance to the Council. The first period lasted until 1995 and was characterised by a monopoly regime, when the services were regulated and protected by *Local Government Act of 1993*. The second period was after 1995, which was a major transition point as the Council embraced competition in some of its services and divisions. These periods cover ten years of operational aspects of the Council. By the nature of the study, this will be a longitudinal one of the outsourcing and the overhead allocation phenomenon.

#### 1.6 THE SIGNIFICANCE OF LOCAL GOVERNMENTS IN THE AUSTRALIAN PUBLIC SECTOR

Depending on their location and the legislation of the states, Councils provide a range of services ranging from water supply, electricity, sewerage, and waste collection, to public health management. Though the other two tiers of governments have overseeing responsibility over the local government bodies, they don't take part in any direct service provision. As a consequence, a close relationship exists between the local city councils and the populations under their jurisdiction. In providing the services, local councils rely on funding from different sources.

In terms of sources of revenues, the local governments receive a lion's share (that is, 40-50%) of the annual budget in the form of grants and loans from the Federal and State governments. After the

introduction of public sector reforms in Australia in the late 1990s, Federal and State governments reduced the level of funding to the local government bodies and insisted they be self-sufficient in generating enough revenue to meet the expenditures. This follows similar trends overseas (Kodrzycki, 1998; Mouritzen, 1992).

## 1.7 THEORETICAL APPROPRIATENESS OF THE STUDY

An interdisciplinary perspective has been adopted to explore the research questions posed above. There are few reasons for adopting such a perspective. First of all, this study is based on the assumption that private sector accounting principles are equally applicable in public sector organisations. Second, contracting theories used in economics and public administration literature are used before actually discussing the cost aspects of accounting for contracting out. This position has been taken because of the recent emergence of accounting-based decision models in contracting out decisions. Third, the outsourcing decision making framework has been developed combining the literature on outsourcing theory and practice, and the cost allocation processes in two different strands of literature on overhead allocation. Conceptualisation of these theories was necessary because neither of the theories was deemed sufficient to evaluate the outsourcing decision process.

Kumar (1996) and Maxwell (1996) argue that examining research problems through a conceptual framework strengthens the validity of findings. Some assumptions are made to study the research problems posed in this research project. First, this study assumes that private sector accounting principles and practices are easily transferable to restore the public sector financial management problems. Others argue that private sector accounting principles are not applicable to public sector as the organisational and contextual factors differ between these sectors (Tierney, 1994). However, there is also a counter argument that the private and the public sectors have similar accounting problems that can be resolved using private sector accounting principles (Henderson and Pierson, 2000, p. 839). This latter argument has been recently adopted in the Australian financial reporting environment where the use of heritage assets has been the substance of the debate. Second, the research problem requires some discussion of contracting out from the perspectives of economists and public administrators because contracting out has been widely researched in public administration and public economics research. Before discussing the research problem, therefore, a brief discussion about various theories will be necessary. Miranda (1994, pp. 260-261) argued that

contracting out over multiple years were hardly studied. Therefore, more study should be done by the accountants to address this gap in the literature. Third, the theoretical and technical literature on cost allocation and its application in contracting out (make or buy) situations is appropriate because of the nature of the research problem. The theoretical literature on cost allocation is appropriate because of the debate surrounding cost allocation during the last century (Hornigren, 1995; Thomas, 1969). Some argue that allocation misleads decision-making (Thomas, 1969; Wells, 1978), while others argue that it is practiced because of its usefulness (Blanchard and Chow, 1983; Zimmerman, 1979). The technical literature follows the theoretical literature on cost allocation, and it deals with the process of cost allocation in different situations.

## 1.8 AN OVERVIEW OF THE MAJOR FINDINGS

The major findings of this study in two major areas, at the organisational level, and at the specific research site level, are summarised below.

Outsourcing is a complex management decision process that requires input from accountants. However, small dollar value items or non-recurring services can be outsourced without having to go through rigorous decision-making process. The role of accountants in outsourcing such services is not very vital, though an approximate costing of the services may be necessary. Outsourcing of these services is not formalised but documented at department/divisional level where managers exercise a decentralised decision making authority. However, outsourcing of large dollar budget items pulls in a significant number of issues from a cross section of the organisation studied. A decision process is involved and requires inputs from the major stakeholders. In addition to costs, qualitative factors have major ramifications on the outsourcing of the services. In the decision making process, market regime, the internal expertise, employment effect, and cost calculations, along with the overall administration and monitoring of the services, are key decision variables. It was also found that the organisation used its past experience as a guide to future outsourcing of services. The sourcing of the services in the researched organisation, as represented by two theoretical and purposive sample cases discussed below, suggests that the organisation experienced a steady growth in its intellectual bases and internal expertise to address the needs of the community. The major external catalysts, the *Local Government Act of 1993*, the National Competition Policy and the Australian Accounting Standard 27, have significantly influenced the

sourcing process. It has also been found that the researched organisation had been progressively updating its accounting information system in the wake of increased competition imposed on them. In order to better compete with the external services providers, they adopted private sector style commercial accounting practices (that is, accrual accounting system and management accounting systems).

The second major finding is that the organisation used overhead allocation after the introduction of competition. This followed legislative changes at the local government level and the adoption of the National Competition Policy at the organisational level. The overhead allocation practice followed the organisational change introduced during the early eighties to reduce costs. The organisational change was introduced to reduce the cost of running the organisation. The overhead allocation change occurred after the transformation of the organisation from a pure monopoly provider to a semi-regulated provider. In this semi-regulated structure, some of the services that met the National Competition Policy guidelines and the *Local Government Act of 1993* stipulations as competitive services were subjected to open market testing and/or benchmarking. The overall position in regard to overhead allocation was, thus, only a phenomenon after the year 1997. The overhead allocation was introduced in phases, and it was planned for a full-fledged adoption after the year 2000. It was learned later that the Council experienced delays in the implementation.

The third major finding is that the organisation used cost data from its newly developed cost management system. Most importantly, it attempted to introduce a commercial style accounting and cost management system. As part of a broader system change, the organisation introduced organisation wide overhead allocation. The overhead allocation, however, was used cautiously in that the organisation did not want to repeat past mistakes of ad-hoc allocation of overhead, and under costing bids for winning competitive tenders. In the past, this was the norm when the organisation followed the economic rationalists' view (the replication of the transaction cost ethos) in sourcing its services. After the public sector reforms, the organisation followed newly introduced practice of New Public Management doctrines that descended from Public Choice theory. In this theory, cost is not the only consideration in making decisions. Community Service Obligations are also considered as a major driving force for decisions. The role of overhead allocation was instrumental. However, other cuts in expenditures were also explored to provide services efficiently. The overheads were allocated strategically to give the internal provider a competitive edge over its



competitors. Though this stance was kept confidential, there were allegations from potential bidders about manipulation of cost data, which followed a very rigid written contract specification. In addition to strategic uses of cost allocation to reduce costs, some other inefficiencies revealed from the evidence suggest that the internal provider divisions re-engineered their work processes to achieve maximum reduction in costs.

### 1.9 LIMITATIONS OF THE STUDY

The study is limited in a few respects. First of all, this is a qualitative case study, which lacks the rigour of survey-based research. Therefore, it is a study of a 'particular' (Stake, 1995) context. Secondly, only two units of analysis were used to generalise about the research issues, from specific to general. Even though data from other parts of the organisation were collected, more data about the bids would have made the internal validity stronger. Before engaging in the research project, this issue was raised with the sponsor. The sponsor assured that the researched organisation would follow some standardised practices for its outsourcing decisions and organisation wide overhead allocation. The procedures were in fact in progress when the data collection for this research project was finished. It was also confirmed recently that the organisation standardised its outsourcing policies.

### 1.10 SUMMARY OF CHAPTERS

This section provides a summary of the research project by chapters. Earlier in this chapter, scenes have been set for the research problem and it has been indicated that the relationship between accounting and organisation will be explored. Though study of this nature has been criticised (e.g., Bourn and Ezzamel, 1987), the documentary evidence suggested that it was appropriate to use highly confidential internal management reports within that organisational context and leave the broader social context out of the picture. This was attributable to the fact that the transformation process within the Council, like other public sector organisations in Australia, was at a nascent stage. This was revealed at the time of discussing the research issue with the project sponsor, and also during the literature review stage.

The outsourcing literature is discussed in Chapter 2 as one of the theoretical pillars for the study of the research problem. In discussing the outsourcing issues, the theoretical perspective and the

practices of contracting out has been discussed. Evidence from the UK and the US local governments suggest that outsourcing was done in those countries mainly to save costs. This cost saving is a manifestation of the ethos of the Transaction Cost Economics (TCE) theory where cost alone is the dominant decision criteria. The Australian evidence was later presented and the findings conformed to international practice of using cost as the dominant rationale. The studies were completed prior to the introduction of public sector reform in Australian local governments. Though New Public Management Theory has been presented, the empirical evidence followed this doctrine in the second instance of the contracting out of the Council. Chapter 2 does not provide any guidance about the details of bid pricing used in any of the studies. Most of the studies were either single year studies or time series studies and used statistical techniques. Thus the studies had researcher bias. Data were collected from the field; the analysis was imposed on the data rather than the data imposing the analytical guidance to the researchers. Therefore, concepts and practices of costing were necessary to complete the analysis of the research problem under investigation.

Chapter 3 introduces the core concepts about common cost allocation. Common cost allocation is considered as one of the crucial steps in pricing of internal bids, especially its exclusion from internal bid price can mislead decisions in favour of existing internal providers. In discussing overhead allocation issues firstly the arguments for and arguments against overhead allocations were weighed in the light of research up to the early eighties. It was also highlighted that cost allocation was used extensively in an organisation, and it was necessary for a wide range of organisational purposes. Though limited evidence on the public sector was discussed, the discussions did not provide any theoretical reflection about the unique operational, contextual and other aspects that could have been used to guide the research problem. The literature on cost allocation practice for make-or-buy decisions is one of the uses, but it lacked guidance for multi-year decision horizons.

Chapter 4 introduces the cost allocation processes that addresses the traditional debate over no allocation. The successor of traditional costing, Activity Based Costing (ABC) has been discussed in detail. ABC considers full cost allocation using a better and more logical cause and effect relationship. It has emerged as a revolution in cost management, and has been extensively used in governments, not-for-profits, and commercial sectors. It also serves various organisational purposes,

especially it emerged as a better resource allocation and management tool. The process of ABC allocation, however, still lacks the rigor demanded of traditional cost allocation.

Chapter 5 integrates the concepts and practices introduced in Chapters 2, 3 and 4. Thus, it is the conceptualisation chapter for this research project. The purpose of Chapter 5 is to pull all the issues discussed in the previous three chapters together and focus specifically on outsourcing decisions. The outsourcing decision is seen as a holistic process of organisational sourcing initiatives where decision inputs from all areas are consolidated. Thus it demands the expertise of the staff from the production and the support departments (e.g. accountants, financial managers, Information Technology supports, human resources etc.). Therefore, Chapter 5 is a blend of the theoretical perspectives from public administration, economics, cost management and financial management. In modern day terms, this is commonly known as theoretical triangulation (Patton, 2002, p. 562). There are arguments that theory triangulation enhances the explanation building process where a single theory is either weak or deficient in explaining a phenomenon under investigation (Kumar, 1996; Marshall and Rossman, 1999; Maxwell, 1996; Patton, 2002). It improves both internal and external validity of case study findings. The conceptual framework of Chapter 5 has been used to explain the holistic decision-making in outsourcing. Emphasis has been placed on the costing aspects by also drawing on the technical literature and government white papers on costing for contracting out (see for example, Commonwealth of Australia, 1997; Department of Finance and Administration, 1998; Council on the Cost of Government, 1997; Office of the Auditor General of Western Australia, 1995). These white papers are extensively used by different Australian state and territorial governments in managing outsourcing processes.

Chapter 6 introduces the research method for this study. A case study approach has been used in this research project. There are different types of case studies, and different traditions of case studies use different strategies to gather and analyse data, and finally to make generalisations. This study uses an explanatory case study method<sup>2</sup> to gather and analyse data. In the analysis phase, the program logic model of analysis has been used to analyse and make generalisations from the case sites.

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<sup>2</sup> Ryan *et al.* (1992, p. 115) argue that explanatory case studies are used to study specific cases of observed accounting practices and to explain the observed practices using existing theory or by modifying existing theory. The main objective of this type of case study is to generate theories which provide good explanations.

Chapters 7 and 8 are the first two chapters that discuss the general aspects of the Council. In Chapter 7 the structure of the organisation, its transformations, and resources allocation systems are discussed as a pretext for introducing the resource allocation process in the pre and the post reform eras. Chapter 8 takes the issues raised in Chapter 7 further by focussing on the mechanics of resource allocation and their use for various organisational purposes. It was revealed that the budget acted as the hub for all of the activities in the Council. Budgets and their uses in controlling organisational resources are discussed before the public sector reforms. During that pre-reform era, the budgets were used as a cost control tool. After the introduction of public sector reforms in 1995 a new budget format was introduced in the Council. In this new format, the service provisions (operational aspects) were separated from policy decisions (the funding aspect). This reflects the New Public Management doctrine's effect. In Chapter 8, the scene has been set for the analysis of costing information for various organisational purposes such as sourcing decisions, benchmarking and subsidy determination. At the time of gathering data for this research project the organisation contracted out one of its major services to an internal provider. The three-year contract with this internal organisation (quasi-market) was a test case for the other major market testing activities of the organisation.

In Chapter 9 one of the historical bidding exercises was re-examined in light of the conceptual framework developed in Chapter 5 and the discussion in Chapter 2. The arguments for and against the competitive tendering exercise clearly conformed to similar trends overseas. Some of the arguments for and against were, however, unique to the organisation. Finally, the internal bid price was examined in the light of research to that date (that is, the economic rationalist approach). The conclusion reached in the chapter suggests that the organisation did not give adequate consideration to other important issues affecting the decision. The re-examination of the bid unleashed some major conceptual flaws in the cost calculation assumptions. These flaws were subsequently discovered and the decision to outsource was proved wrong. The mistake of the decision inflicted a huge penalty on the Council; the Council had to internalise the services after an agreement was reached with the contractor. This particular instance of competitive bidding was a benchmark for many city councils in Australia for a long time.

In Chapter 10 the contracting issues resurfaced in the wake of public sector reforms in local governments. In light of past experiences and lessons from past mistakes, the Council relied on its

in-house expertise to organise the entire bidding process. This particular bidding was arranged in the light of the changes in the organisational structure followed by the accounting information systems changes. The overhead allocation issue received prominence in this new bidding exercise. Though the management process of the bidding went very well, the outcome of the bid did not reflect on the efficiency of the internal provision of the services, the accuracy of cost calculation, and finally, the accuracy of the decision. The internal bid price was, thus, perceived as under costed and had 'low balling' tendency in it. The potential bidders alleged that the Councillors had favoured the in-house bid.

Chapter 11 summarises the major findings from the field and compares the findings to extant theory on outsourcing (Chapter 2), overhead allocation (Chapters 3 and 4) and finally the conceptual framework developed in Chapter 5. The final section of the chapter attempts to generalise the findings of the key research questions introduced in Chapter 1. The study concludes by proposing that a conceptual blend of theories from different disciplines may be a useful way to understand the interrelations among outsourcing, overhead allocation, the internal bid pricing in a competitive tendering and contracting exercise, and finally the outsourcing decisions in public sector organisations.