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The Paradox of Outsourcing: The Case of the University of Dar es Salaam

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Abstract

In the 1990s, Tanzania, like many other countries in the Sub-Sahara region, embarked on a number of reforms to improve public service delivery. Among others, the reform proponents championed outsourcing by the public institutions as an approach that facilitates cost cutting and yet improves service delivery. The public institutions adopted this new approach for the same rationale. Currently, almost all the public institutions in Tanzania, even the most sensitive ones, have to some degree done outsourcing. What remains to be empirically seen, is the degree, to which the main objective of outsourcing has been achieved. This article addresses the question. It adopts a comparative approach by analyzing two categories of services outsourced by the University of Dar es Salaam. The services under comparison are cleaning and health. Specifically, the aim is to establish whether the University following the outsourcing measures attains the objective of cost cutting.

Introduction

Outsourcing is an approach to public service delivery where the public institution retains significant control and oversight over the end product or service (Walsh, 1995; Pollitt and Bouckaert, 2000; Kaul, 1996). In outsourcing, the public institution determines a detailed set of performance standards and provides funds but enlists a private/public entity to perform the service or provide the goods. Outsourcing differs from privatization in that arrangements for the provision of outsourced goods and services are not permanent. The outsourcing contract specifies the date on which the arrangement ceases. Simply put, outsourcing approach allows the public institution(s) to focus on core functions, and outsource non-core/peripheral functions to the third party (ies).

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Privatization, on the other hand, is generally a once-and-for-all sale of a state-owned asset (Jensen and Stonecash, 2004). The government retains no governance control and no operating risk, although it usually retains regulatory control. Privatized assets can be resold to the government, but this is usually caused by financial problems rather than by contractual obligation(s). Also, outsourcing does not involve the transfer of any physical assets, whereas privatization does. Outsourcing may simply involve the procurement of a specific service, such as cleaning, that involves physical assets.

One common feature of both outsourcing and privatization is that their rationale hinges on differences in incentives between the public and private sector. The objective of a private firm is to maximize profits, which are easier to measure than those of public organizations that have a highly complex set of objectives that involve the maximization of social welfare. Such objectives are hard to measure, thereby weakening the power of incentives in the public sector (Laffont and Tirole, 1991; Tirole, 1994).

In most cases, government agencies have chosen to use outsourcing for a variety of reasons. One of them is that competition between private entities encourages the cost-effective operation of outsourced services and motivates remaining government agencies to improve their own operations so as to avoid having them moved to the private sector (Embleton and Wright, 1998). Private organizations are more likely to use sophisticated technology and often have specialized personnel to perform complex tasks (Doherty and Horne, 2002), which is expected to bring more efficiency to service delivery. However, that is not to say that there is agreement about whether outsourcing is uniformly beneficial or what the magnitude of reductions in the government expenditure might be, as Pollitt and Bouckaert (2000) argue.

Proponents of outsourcing offer strong arguments in favour of it. Aside from the ideological preference for a small government, they contend that it should result in a more efficient allocation of resources, thereby reducing fiscal pressure on the government (Jensen and Stonecash, 2004). Regarding economic efficiency of outsourcing, Reed (1997) puts it this way:

> The theory is simple, but grounded in profound truths about the nature of humans and their responses to incentives and disincentives. Tie up the performance of a task with red tape, bureaucracy, and politics within a system that is guaranteed to exist regardless of

> outcome and the result is usually mediocrity at great expense. Infuse competition, accountability, and the fear of losing a valued customer into the task and mediocrity becomes the exception, excellence the rule.

Proponents are convinced that whatever the government does, the private sector can do better. Economic efficiency can be gained by allowing market-based approaches, such as outsourcing, to determine the best ways to deliver public services. Savas (2000) and Starr (1988) share this line of thinking as they argue that a smaller government and greater individual choice would result, if property rights and market forces were expanded. Proponents expand their view by arguing that private labour costs are lower because government workers (i.e. public) are notoriously "overpaid" and have higher benefits (Starr, 1988). Also, the private sector, unlike the public sector, has the flexibility to hire and lay off employees as required. Kaul (1996) observes that flexibility and concern for service quality as well as sustainability are key features of successful outsourcing initiatives.

In addition, those in favour of market-driven approaches to service delivery maintain that the use of such approaches does not necessarily lead to loss of jobs, wages and morale. Savas (2000) is of the view that there could be negotiated arrangements for transferring public employees to private employers or to other public institutions. For instance, Starr (1988) reports that New York City outsourced its school busing, but drivers remained represented by the same union with no change in wage levels. The 1985 General Accounting Office study of the Department of Defence downsizing in United States showed that of 9,650 employees impacted by outsourcing, 94 per cent were transferred to other government agencies or retired, 3 per cent went to work for a private contractor and only 3 per cent were laid off.

Along the same lines, there is an assumption that outsourcing leads to a reduction in government expenditure. It is supported by the fact that when the government enters into an arrangement with a third party to provide services, some risks and costs are shared. Jensen and Stonecash (2004) point out that, overall, most empirical research on outsourcing supports the conclusion that outsourcing results in a reduction in government expenditure. Hodge (1999) confirmed statistical heterogeneity in the level of savings across industries and argued that overall the level of savings from outsourcing is approximately 6 to 12 per cent. As regards to social equity, the proponents argue that by saving government money, consumers will be rewarded with lower taxes and hence there will be more money in their pockets. However, it is important to note that the case for outsourcing on the grounds of efficiency enhancement and cost reduction is not easy to substantiate. Efficiency is difficult to measure in the public sector due to lack of data on operating costs and outputs (Jensen and Stonecash, 2004). That can be due to a plethora of reasons, for instance, the fact that unlike the private sector, cost minimization has not been, until relatively recently, a priority in the public sector and also because cost-allocation techniques are difficult to apply in the public sector as many outputs are joint products.

Pertaining to the quality of services, the proponents of outsourcing contend that due to contractual arrangements, third-party firms are in danger of not having their contracts extended. There is uncertainty which, when combined with market discipline, compels third-party firms to provide quality services efficiently. This is not the case with governments that have a monopoly over some services. Proponents of market-driven approaches to service delivery would prefer that when services are poorly delivered, protestors would set up shop outside the private service provider's door or even better, switch to a different provider, leading to what is termed going from "voice to exit" as the usual and preferred tactic of coping with dissatisfaction (Starr, 1988). Thus, "voice" is an opportunity to look for better performance from public service providers, without opting for alternative sources of supply, whereas "exit" is the extent to which the public has access to alternative suppliers, public or private, of a given public service. Savas (2000) argues that the primary goal of any privatization effort is, or should be, to introduce competition and market forces in the delivery of public services.

Reducing government overload is another argument by proponents of market-driven approaches to public service delivery. The theory is that governments should restrict themselves to a few things, while leaving the provision of the remaining services to the free market. By diverting demands away from the state, the overload that governments face will be diminished and public spending will be reduced (Osborne and Gaebler, 1992; Kaul, 1996). The main argument is that the role of government should be restricted to enforcing the laws. Moreover, the proponents regard outsourcing as the best way of returning power to communities. Right-wing thinkers consider a community that takes part in the provision of public services, which is normally the responsibility of governments, to be highly empowered, particularly families, non-profit organizations and faith-based organizations. Starr (1988) believes in market-based approaches with a human face and argues that government programmes should only be permitted where there has been a demonstrated failure of non-profit organisations in delivering public services.

Theoretical Framework

The principal agency theory is one of the key theories that can explain the outsourcing process in an organization. The theory addresses basic behavioural issues that arise when two parties work towards a relationship with shared economic objectives. It is also concerned with problems that arise when the organization (principal) delegates work to another party (the agent) [Jensen and Meckling, 1976]. The theory has four major assumptions, which are as follows:

(i) The parties, principal and agent, have rational behaviour and rational expectations and interact on the basis of freedom of contract and private property.

(ii) Activities undertaken by the agent that result from his or her activities have external effects on the principal's profits and success.

(iii) The agent has discretionary freedom due to incomplete and asymmetric information and monitoring costs. The agent's discretionary freedom leads ex-ante to uncertainty (since the principal cannot rely on any motivation like loyalty or conscientiousness) and ex-post to concrete disadvantages. The less the ability to control the agent's activity (the greater the information asymmetry), the greater is the principal's uncertainty.

(iv) Divergence of interests exists in that the agent shows opportunistic behaviour to maximize her own expected profits instead of acting in line with the goals of the principal. The three types of opportunistic behaviour are hidden characteristics (abilities and skills of the agent are not common knowledge), hidden intention (agent has goals and interests not known by the principal) and hidden action (principal cannot fully control the agent's actions).

The theory holds that the principal controls (through monitoring) and manipulates (through incentives) the agent into meeting contractual obligations. Therefore, the principal is assumed to be active and in charge, specifying preferences, creating incentives and designing contracts, while the agent is assumed to be passively reactive to the terms and conditions of the principal's offer. The theory suggests that principals have problems in ensuring that agents carry out their functions in the interests of the principal, because of two major inherent problems in the contractual relationship. These problems are adverse selection and moral hazards (Arrow, 1985).

The adverse selection problem occurs in a contract because, before the start of the interaction (ex ante), the principal cannot fully judge the agent's ability to carry out tasks. This is because of the hidden characteristics and hidden intentions that agents have, which they can use to maximize their own profits. Therefore, in outsourcing, the principal enters into a contract with the agent without being sure of the agent's capacity to deliver. This leads to quality uncertainty, which means that the principal risks paying a price higher than the agent's real market value (Keill, 2005). Akerlof (1970) showed that adverse selection can lead to partial market failure, since the principal's offer of average prices may be extremely low for high-quality applicants. Therefore, only low-quality firms offer their services, even if the minimum price that high-quality agents want is lower than the maximum that the principal is willing to pay. There are three major ways to minimize the risk of selecting an underperforming partner at the selection stage.

The first way is to minimize risk through verification by independent authorities. If market research firms or other independent firms collect information about the track record of development firms, the uncertainty of outsourcers can be massively reduced (Keil, 2005). Supplier evaluations and rankings may be very useful and valuable if they are collected independently and the reviews follow the same methodology. Second is by screening and self-selection. The technique holds that since it is costly for the principal to properly evaluate the quality of a service offered, a screening mechanism to cut the contract or task into parts and choose a contractor for the first small package can be employed. The output is then evaluated based on the agent's performance and it determines whether the agent's contract will be prolonged or not. The principal benefits from this mechanism only if the quality of outputs can be judged and it is not dependent on unidentifiable exogenous influences. The third mechanism to avoid adverse selection is known as signaling. It was introduced by Spence (1973) and is based on the idea that the agent chooses an action that credibly signals private information. What happens here is that the principal still does not know the real characteristics, but can lower uncertainty through using various indices (information on track record, number of employees and so forth).

The problem of moral hazard occurs after the vendor is selected. It largely emanates from the inability of the principal to completely monitor and control the behaviour and actions of the agents in performing their duties. The underlying cause of the problem is information advantage concerning the quantity and quality of the agent's input and output (hidden information). It gives an agent the opportunity to utilize discretionary freedom and maximize his/her profits through reduced efforts and unnecessarily high budgets (to mention a few), which lead to inefficiency. The best way to reduce moral hazard is by introducing an incentive system, which homogenizes the goals of principal and agent, which can be arranged in such a way that the agent's payoff is a function of the principal's profits.

Information asymmetry occurs in the agency-principal relationship because agents typically know more about their tasks than the principals. In contractual relationships, parties tend to have different information available to them. Therefore, due to the agent's full knowledge, it is possible to skew information in their favour at the expense of the principal. To this end, it is important for the outsourcing organization to have several mechanisms for getting information. This is of prime importance to the organization because the principal, as the theory suggests, may fail to monitor the actions of the agent, who owns the information, if the principal lacks accurate information.

The value of the theory lies in understanding the relationship between the outsourcer and vendor, how to select the vendor, how risk is allocated among contracting parties, the trade-off between the costs of information, managing the relationship through monitoring and evaluation, the cost of risk bearing and the incentives operating in contractual agreements (Eisenhardt, 1989; Perunovic, 2007). This shows that a study on outsourcing and public service delivery seems to embody the principal-agent model and therefore seems to meet Eisenhardt's (1989) and Perunovic's (2007) requirements for useful application of the theory. The theory provides for the University of Dar es Salaam being the principal and third party firms that provide cleaning and health services the agents. In this way, the University is conceived as having power over third-party firms in their daily operations and performance. The University's power lies in the fact that it designs the contracts, specifies preferences and creates incentives.

The Principal Agency theory explains thoroughly the vendor selection process and the problems that arise at this stage. Hence, it helps the outsourcing organization to design ways to address adverse selection problems. In addition, the theory identifies more sources of problems that principals have in monitoring the performance of agents, such as information asymmetry, moral hazard and adverse selection.

Tanzania and Outsourcing

After independence, Tanzania embarked on economic development programmes aimed at boosting the national economy to fight the three major enemies, namely poverty, disease and ignorance. To enable the fight, the government rapidly expanded its provision of public services. With the adoption of the Arusha Declaration in 1967, the economy became highly centralized and the provision of public services became a major preoccupation of the government. From the mid-1970s, Tanzania started to experience economic decline and stagnation (Ndulu and Hyuha, 1984). Real per capita income declined and the rate of inflation increased between 20-40 per cent annually during the 1980s (UCP, 1982-2004). The government emphasized external causal factors, which were supposedly beyond the capacity of the state to handle. They were the 1974 drought, the war with Uganda and the oil crisis. Like other countries in the developing world, Tanzania had to turn to the Bretton-Woods institutions for financial assistance.

One of the most significant manifestations of the crisis in Tanzania was a shortage of foreign exchange. The shortage was extremely severe in the 1970s, affecting not only the trade deficit, but also development projects, social services and the maintenance of infrastructure. Drops in agricultural production and exports were the major factors explaining the foreign exchange crisis. The volume of exports was reduced by half from 1970 to 1980, even when commodity terms of trade improved (UCP, 1982-2004). From 1970 to 1980 agricultural producer prices for fourteen key crops in Tanzania declined by an average of 31 per cent, while their sale prices on the world market increased in real terms by 12 per cent (UCP, 1982-2004). Ellis (1983) points out that half of the transferred revenue from a continuous decline in producer share went directly to the central government through the taxation of exports and the other half went to running the crop marketing authorities, in particular, the National Milling Corporation, which were running at a loss. He concludes that the transfer of resources was so crucial that the state itself became involved in the transfer of financial resources from agricultural producers. Ndulu and Hyuha (1984) argue that, although agriculture continued to be the main sector contributing to real output and the key generator of foreign exchange, investment in agriculture declined from 1976 to 1981 by 37 per cent.

Between 1967 and 1970, public enterprises performed fairly well in terms of delivering public goods and services in the country. However, beginning early in the 1980s, public enterprises started to exhibit all sorts of poor management (Ellis, 1983; Ndulu and Hyuha, 1984, Mukandala, 1988). Industrial production stood at 30 per cent of installed production capacity. As a result, consumer items became critically scarce in the local market and the ability to pay taxes to the treasury dwindled. The government started to subsidize the parastatals to enable them to continue operating. In 1980, the government halted the provision of subsidies due to shortage of funds at the treasury (UCP, 1982-2004).

Because of the economic crisis, Tanzania had limited ability to determine most of its own domestic policies. This threat gained strength in the 1980s, inspired by IMF and WB conditionalities following economic hardships. Because of the economic crisis, Tanzania had no alternative but to narrow the scope of its public services in order to qualify for the loan. The IMF and WB conditionalities were packages, exporting neo-liberal ideology to Tanzania. Some Structural Adjustment Policies (SAPs) were required, including trade/market liberalization, privatization of publicly owned enterprises and currency devaluation. Therefore, Tanzania being part of the world was affected by what took place at the global level and the rolling back of the government in public service provision was a combination of economic reality and neo-liberal ideology.

Different approaches to public service delivery in Tanzania (Outsourcing, Contracting Out, Public Private Partnerships, Executive Agencies and Privatization) were prescribed and adopted as solutions to fill the gap left by the state in the provision of public services. Such approaches to public service delivery were borrowed from the private sector in order to improve efficiency and effectiveness in public service delivery. These approaches were greatly influenced by the New Public Management (NPM) model (Walsh, 1995; Kaul, 1996).

The University of Dar es Salaam

The case selection is justified on the grounds that the University of Dar es Salaam is one of the oldest and biggest public institution in Tanzania. Over half a century since its inception, the University has evolved as a pace setter in responding to changes that have swept the world in Tanzania. Its reputation and status among public institutions in Tanzania is second to none. The University was established on the 20th of October 1961 (one and a half month before Tanzania attained its independence) with special affiliation to the University of London (UDSM, 2004). It became a constituent college of the University of East Africa in 1963 and later on, in 1970, Act of Parliament Number 12 of 1970 established the University of Dar es Salaam. The three primary objectives of establishing the University included establishing a place in the country where knowledge as a basis for action would be transferred from one generation to another, acting as a centre where frontiers of knowledge could be advanced through relevant scientific research and lastly, through teaching, the centre would train the high-level human resources needed for the economic growth of Tanzania.

The economic problems that faced Tanzania in the late 1970s became complex and led to a sharp decline in the flow of resources from the government to the University (Luhanga, 2009; UDSM, 2004). The economic hardships not only affected the economy, which was highly centralized, but they also affected the provision of public services that were largely the government's preoccupation. Public institutions such as the University of Dar es Salaam, which were funded by the government, were in bad shape due to the shortage of funds from the government (Luhanga, 2009). The financial inability of the government to subsidize its parastatals greatly affected the efficiency and effectiveness of these institutions in the provision of public services, and the University of Dar es Salaam was no exception (UDSM, 2004). In the case of the University of Dar es Salaam, the government continued to approve less and less of what the University requested for essential maintenance of its normal operations (UDSM, 2000). For instance, while it approved 78 per cent of the requested budget in 1985/86, it approved only 29 per cent in the 1994/95 financial year. Table 1 illustrates this:

Table 1: UDSM Main Campus Recurrent Budget Council vs. Government Approval (Tshs.) From 1984/85 to 1998/99

Year	Council Approval	Government Approval	Government-Council Approvals
1984/85	284,919,537	272,464,500	***96%***
1985/86	418,957,709	325,882,500	***78%***
1986/87	503,421,340	445,555,523	***89%***
1987/88	821,838,912	501,059,119	***61%***
1988/89	1,235,487,578	801,322,000	***65%***
1989/90	2,417,696,072	1,302,701,900	***54%***

1990/91	4,801,596,072	2,003,770,300	***42%***
1991/92	6,646,992,388	3,385,762,381	***51%***
1992/93	9,401,322,350	3,295,663,800	***35%***
1993/94	8,149,135,676	3,065,900,000	***38%***
1994/95	10,441,897,000	3,009,961,500	***29%***
1995/96	14,013,691,389	4,559,755,690	***33%***
1996/97	13,390,379,814	6,372,447,920	***48%***
1997/98	16,118,723,805	7,103,878,452	***44%***
1998/99	15,990,249,150	7,491,069,208	***47%***

Source: UDSM (2000). Key: 1US$ estimated to 2,000Tshs

The observation from Table 1 is that over time (from mid-1980s to 1990s), the University received less than what it requested from the government. This trend affected the University to a large extent. Some of the main manifestations of the crisis at the University were reduced government scholarships to the University, limited scholarships from the private sector, including development partners, and limited teaching facilities in terms of seminar rooms and teaching theatres to mention a few (UDSM, 2004). This fact is also captured by Mukandala (1988) as he argues that most state owned enterprises in Tanzania were loss making, with inefficient managerial and technical staff, poor and bureaucratic customer services, corruption, vandalism and the like. All these features made it difficult for public institutions to realize their objectives.

However, the University continued to grow in various areas of specialization, irrespective of the problems facing it and the country at large. Several constituent colleges, some of which became fully-fledged Universities in Tanzania, were under the University of Dar es Salaam. They include Sokoine University of Agriculture, Muhimbili University of Health and Allied Sciences and Ardhi University.

The continued growth of the University amid the economic problems that severely affected its efficiency and effectiveness, with increased enrolment and increased demand for higher education in Tanzania, motivated the University to institute transformation measures. For instance, beginning in 1985, major social and economic changes took place in the country. The economy was changing from a centralized economy to a market-oriented economy and the political atmosphere changed from a one-party state to multi-party democracy. This increased competition for the demand and supply of goods and services. Although the University had enjoyed a monopoly from its inception, trade liberalization and the involvement of the private sector in the provision of higher education resulted in new institutions of higher learning being established, thereby reducing the monopoly of the University (UDSM, 2004). The search for better quality education services started to increase and the University had to redefine its vision and mission so as to maintain its regional and internal reputation for relevance together with the quality of its core outputs.

On 25th August 1994, The University Council approved the first ever UDSM Corporate Strategic Plan (CSP), which was a long-term plan covering the period 1993 to 2008. It was a concept document that defined the Institutional Transformation Programme (ITP). The University of Dar es Salaam, since 1994, has been implementing ITP as a way of positioning itself to meet the demands of society and global challenges (UDSM, 2000; 2004).

The primary focus of CSP, which was implemented under the ITP by the University, includes promoting internal and external awareness of the University's strengths and weaknesses; finding measures to reduce unit costs; improving internal management and efficiency; improving the flow of resources; advocating a more flexible University Act; and improving working conditions as well as the environment (UDSM, 2004). It is worth noting that the overall objective of the ITP was to build the institutional capacity of UDSM so as to offer sustainable services and expert support to Tanzanian society. Among other initiatives, which were included in the implementation of the ITP to reduce costs and improve management efficiency, was the outsourcing of non-core functions of the University so that the University could concentrate on its core mission.

The University started to implement the programme by outsourcing municipal services, which were not a core business of the University, and were a very big burden on the University's finances. Luhanga (2009) points out that the municipal services outsourced included sanitation, health and transport. Other services included the University garage, catering, security and garbage collection (to mention a few). Estate cleaning and landscaping were rationalized and outsourced concurrently with the retrenchment of all staff engaged in the provision of such services. Canteens were leased out to private companies so as to provide services to the University at a fee.

The Outcome of Outsourcing

Cleaning Services

The University from early 2000 outsourced the cleaning services. The objective is to establish the extent to which the University has managed/not managed to cut down the operating cost regarding the cleaning services. This can be done by comparing the costs incurred by the University in pre and post outsourcing era in the field of cleaning. The analysis on this component is captured as follows:

Pre-Outsourcing Era

In the Outsourcing process, the Outsourcing firm incurs many costs. Such costs are always associated with advertising tenders, designing contracts and managing the relationship, especially if the vendor does not adhere to the contractual obligations. However, as proponents of Outsourcing suggest, the approach is aimed at creating a cost-effective organization with improved quality of services. Cost-effectiveness is realized when the organization is able to cut down its operating costs and yet provide improved services. Before the University of Dar es Salaam embarked on the outsourcing of cleaning services in 2000 (that came with retrenchment measures), the available data show that 220 workers were hired by the University to clean students' halls of residence and academic and administrative buildings. Out of the 220 workers, 71 cleaned the halls of residence and the remaining 149 cleaned the academic and administrative buildings (UDSM, 2003). The retrenched staff received monthly gross salaries ranging between Tshs. 58,360 and Tshs. 147,300 per person, excluding other benefits they were entitled to that consisted of free medical services for the staff and family members, fares to and from the place of domicile during leave, social welfare contributions to the Parastatal Pension Fund (PPF) and burial service costs (UDSM, 2003).

In the 1999/2000 academic year, 71 workers responsible for cleaning and supervisory activities in students' halls of residence were paid a total of Tshs. 63,029,040 in salaries by the University. The employer's contribution to NSSF/PPF amounted to Tshs. 9,454,356, medical services amounted to Tshs. 3,300,000 and fares to and from the place of domicile Tshs. 2,292,526. In total, the University paid out Tshs. 77,100,792, inclusive of benefits (UDSM 2003). Table 2 presents further information pertaining to the issue.

Table 2: Cost of Workers Assigned for cleaning halls of residence during academic year 1999/2000

No of workers	Salaries	NSSF/PPF Tshs	Medical allowances	Fare allowances	Total (Tshs.)
71	63,023,040	9,454,356	3,300,000	2,292,526	77,100,792

Source: UDSM (2003). Key: 1US$ estimated to 2,000Tshs

In the academic and administrative zones, the University had a total of 149 workers of whom 106 were messengers-cum cleaners and the remaining 43 worked as cleaners only. The total cost incurred by the University for the up-keep of all 149 workers in the academic year 1999/2000 was Tshs. 160 million. Table 3 illustrates the information,

Table 3: Cost of messengers and cleaners in academic and administration zones during academic year 1999/2000

No. of workers	Salaries Tshs	NSSF/PPF Tshs	Medical Allowances Tshs	Fare Allowances Tshs	Total Tshs
149	131,542,080	19,731,312	6,800,000	2,059,452	160,132,844

Source: UDSM (2003). Key: 1US$ estimated to 2,000Tshs

It is worth noting that the total cost in the form of salaries and benefits in a single year (1999/2000) for cleaners/messenger that came under the retrenched exercise was Tshs. 237,233,636.

Another important aspect is that before the University outsourced cleaning services to private companies, it used to purchase the cleaning equipment and materials. To this end, it is important to establish how much the University spent on tools, disinfectants, deodorants, soaps and protective gears (uniforms, shoes, gloves and so on) for cleaning operations. The available breakdown for the academic year 1999/2000 shows that a total of Tshs. 17,424,604 was spent on equipment, tools, chemicals and other materials (UDSM, 2003).

Post-Outsourcing Era

Performance Based Pay (PBP) is one of the variables that most organizations that have outsourced use to evaluate the vendors' performance and pay them accordingly. When the University of Dar es Salaam outsourced cleaning services to private firms, it adopted the PBP system to compensate them. The advantage of the method is that the vendor is paid based on his/her performance in delivering the service in question. The University of Dar es Salaam has adopted this strategy whereby service vendors are paid according to their performance on a monthly basis. The Investment and Resource Mobilization (IRM) and Estates department of the University evaluate the companies' performance (using Assessment Forms), which at the end determine the actual amount each company has to be paid. It is important to observe that the IRM and Estates department work under the Deputy Vice Chancellor-Administration, who is in charge of these activities at the University. Although the University lacks data on the exact costs in monetary terms that has been saved since the inception of outsourcing of cleaning services, the fact that the University uses the PBP pay system is one of the indicators of cost-effectiveness.

From the managerial perspective, outsourcing measures also have some perceived advantages. It helps the management of an organization to hive off some responsibilities and concentrate on core functions, which, from the management's point of view, the University of Dar es Salaam has managed to do, to a great extent, in order to focus more on core activities. If comparison is made between now and before the University outsourced the cleaning services, it can be seen that the University no longer manages the staff who work for private firms, as they are the ones responsible for this task, unlike prior to 2000 when the University was responsible for their management as the employer. Also, the University no longer purchases the cleaning tools and liquids, which means that it can focus more on academic staff affairs and its core functions. The University has also managed to do away with providing the staff who work for private firms with medical services and pensions, as these matters are delegated to the contracted firms.

Regarding the actual costs incurred by the University before it outsourced cleaning services and in the post-outsourcing era, the findings reveal that costs have increased. This is also the case if the costs incurred by the University in the early years of outsourcing (between 2001 and 2003) and the costs the University incurs now are compared. One of the reasons for the increased costs is the expansion of the University. Recently, the number of activities at the University has expanded, new buildings have been erected and the number of contracted companies has increased. New courses are being offered by the University, new Colleges and Schools have started and so forth. Moreover, there are more students now than before (for instance, the University had 19,024 students in the academic year 2009/2010). In comparing actual the costs of cleaning services of the pre-outsourcing and post-outsourcing periods, it can be seen that the amount of money spent by the University has sky-rocketed. For instance, in 1999/00, the University spent Tshs. 254,658,240.00 on cleaning services, whereas in 2010/11 the University spent almost three times as much (Tshs. 722,702,640). Tables 4 and 5 illustrate the difference.

Table 4: Total Costs Incurred by the University for Cleaning Services in 1999/2000 (Before Outsourcing)

Halls of Residence (Salaries and other benefits)	Academic zones (Salaries and other benefits)	Cost of Materials and Equipment	Total Cost
77,100,792.00	160,132,844.00	17,424,604.00	254,658,240.00

Source: UDSM (2003). Key: 1US$ estimated to 2,000Tshs

Table 5: Total Costs Incurred by the University for Cleaning Services each Month in 2010/11 (The Actual Amount Paid to the Cleaning Companies each Month by the University)

S/N	Name of the Firm/Company	Monthly Prices (Tshs.)
1	Trust Services Group	3,691,200.00
2	Primetime Cleaning Services	2,870,000.00
3	Care Sanitations and Supplies Ltd	7,570,800.00
4	Property Market Consult Ltd	956,000.00
5	Petals International Co Ltd	6,191,200.00
6	Perfect Cleaning Services	12,120,600.00
7	Flower Centre Company Ltd	4,833,220.00
8	Rik's Enterprises Ltd	8,492,200.00
9	Septica Cleaning Company Ltd	2,400,000.00
10	Paragon Company Ltd	11,100,000.00
Total		60,225,220.00

Source: UDSM-PMU (2011). Key: 1US$ estimated to 2,000Tshs

From the data presented in Tables 4 and 5, it can be observed that, currently, the University of Dar es Salaam is spending about Tshs. 60,225,220.00 each month to pay cleaning companies. This amount, if paid for the whole year (60,225,220 times 12), gives a grand total of Tshs. 722,702,640.00. If this amount is compared with the amount spent in the period before outsourcing (Tshs. 254,658,240.00), it shows that it has increased 2.84 times.

Another important aspect concerns the costs unaccounted for by the University, which cannot easily be established but also they cannot be ignored as far as cost-effectiveness is concerned. For instance, the findings reveal that under the old system, the University procured disinfectants of a high quality that were used in cleaning operations. Under the current system, the companies are procuring detergents and disinfectants, but their quality is either poor, or if they are of a high quality, then they are being over-diluted, because the companies want to save money. Some other costs unaccounted for by the University relate to the cleaners' income-seeking behaviour. Some cleaners are accused of theft at the University, which often takes place in the halls of residence, offices and washrooms of the University.

The Outcome of Outsourcing

Health Services

Central to the outsourcing of health services by the University was the establishment of the National Health Insurance Fund (NHIF), which was established by the National Health Insurance Fund Act Number 8 of 1999. Section 4(1) of the Act reads that, "…There is hereby established an autonomous institution to be known as the National Health Insurance Fund…"

Section 4(2) of the Act reads that, "…the Fund shall be a body corporate with perpetual succession and a common seal, shall in its own name be capable of:

a) Suing and being sued;
b) Acquiring and holding movable and immovable property, disposing of property and entering into any contract or other transaction which may be performed by a body corporate lawfully…"

Therefore, the NHIF is the fully mandated institution of which every civil servant in Tanzania is/should be a member. Section 14(1) of the Act states that every civil servant shall be a member of the Fund. Sections 8 to 10 are about registration and contributions. Section 8 states that all contributing employers and employees shall be registered with the Fund. In addition, each employer is supposed to make a monthly contribution to the Fund equivalent to three percent of his/her employee's salary [Section 9(1)]. The Act also specifies that the Treasury shall deposit the monthly contribution of the employee together with another three percent contribution from the employer in the Fund. Section 10 of the Act empowers the Board to vary the rate of contributions, as it may deem proper. It is also important that the scheme covers all civil servants, their spouses, their children or dependants not exceeding four in number. Moreover, Section 11(2) states that in the event of both spouses being civil servants, the board may set criteria for the enrolment of more than four children or dependants as beneficiaries under the Act.

This arrangement helps the University of Dar es Salaam to cut down costs for health services due to two main reasons. The first reason is that under the NHIF, the government contributes money and not the University (on top of employees' contributions) and the second reason is that the University is paid/receives money from the NHIF due to its provision of health services to its staff, students and the public at large. Therefore, the University Health Centre can continue to work and offer services to the members of the University and public at large and receive compensations from the NHIF. These reasons show the desire of the University to lower its spending on health services.

As discussed above, the law makes it mandatory to members of staff of the University and the employer (government) to contribute on a monthly basis to the Fund. Therefore, deductions are made on a monthly basis from employees' salaries and the government contributes its part. Total contributions for University employees to the NHIF per month are Tshs. 67 million (1US$ estimated to 2,000Tshs). For the whole year (2010/11), total contributions of University employees to the NHIF would amount to Tshs. 804 million. For students, the University has entered into an arrangement with the NHIF whereby students pay a medical capitation fee (Tshs. 50,400 per year) to the University, which is transferred to the NHIF, which takes charge of providing health services. The total amount paid by students to the NHIF for the academic year 2010/11 was Tshs. 400 million.

Under the current arrangements between the University and the NHIF, the NHIF has become the principal coordinator in providing health services to the University community. The University Health Centre admits staff and students who are already members of the Fund. The University no longer contributes money for health services of its staff as the employer because the government on top of employees' contributions covers it. In addition, the University gets paid by the NHIF for delivering health services, which seems to reduce the costs to the University of providing health services. However, the snag is that the NHIF delays compensating the money that the University claims. The delay in compensation means that the University has to find some extra sources of income to support the Health Centre before compensation is paid. Late compensation leaves the Health Centre short of money needed for purchasing medicines and other basics such as cotton wool. In addition, the University has continued to support the Health Centre in several ways. For instance, the University pays all staff employed by the Health Centre, pays for the running and maintenance of health centre vehicles including the ambulances, buys bed sheets and finances some in-house materials such as disinfectants and detergents. Unlike cleaning services, there is no Performance Based Pay (PBP) system in the health services outsourced by the University.

In monetary terms, the University has managed to make some savings. For instance, the budget allocated for purchasing medicines before the outsourcing of health services in 2007 was Tshs. 300 million per year, which came from the University. The University budget allocated for the purchase of medicines in the academic years 2007/08 and 2008/09 was Tshs. 600 million in total (1US$ estimated to 2,000Tshs). However, after outsourcing health services in the academic year 2009/10, the University no longer incurs the cost but rather the NHIF does. It is important to note that there are several problems associated with the NHIF contributing funds to purchase medicines at the University Health Centre.

The first problem is that the Health Centre receives a relatively small amount of money with which to purchase medicines. For instance, in the fiscal year 2010/11 (July 2010 to June 2011) the Health Centre received Tshs. 198,802,888 for the purchase of medicines, which is less than the amount the University contributed to the Health Centre for purchasing medicines before outsourcing (1US$ estimated to 2,000Tshs). In several occasions, the University Health Centre has failed to purchase some medicines due to limitation of funds [the difference between money they used to receive (Tshs. 300,000,000) in the pre-outsourcing era and the amount allocated in the post-outsourcing era (Tshs. 198,802,888) in fiscal year 2010/11 for purchasing medicines per year].

Given the fact that the University Health Centre is paid money to purchase medicines by the NHIF after claiming it, it is important to observe that apart from delayed compensation (that can take up to three months) from the NHIF, there is also a problem of the timing of compensation due to the academic calendar. When the University closes during the long vacation, the number of clients who access medical services (students and staff) declines.

Hence, during that period the Health Centre claims less compensation than when the University is open. For instance, when the University is open, the Health Centre can claim maximum compensation of up to Tshs. 30 million per month from the NHIF. Therefore, this limits the ability of the Health Centre to purchase medicines in the low season because the amount received tends to be relatively small and some medicines subscribed to patients by doctors are never available.

Moreover, the University has continued to incur some of the running costs of the Health Centre as argued before. For the academic year 2010/11, the University allocated a total of Tshs. 250 million to cover operating costs (paying water bills, electricity bills, running the ambulances, repairs, cleaning operations and night shift allowances). This amount does not include the salaries of the Health Centre employees.

However, it is important to observe that the University has benefited from the funds and loans it receives from the NHIF. Since the University entered in an arrangement with the NHIF, it has received loans from it in two phases. Phase one of the loan of Tshs. 129 million was for the rehabilitation of the University Health Centre, such as repairing pipes, wiring and painting at the Health Centre. The second phase of the loan of Tshs. 300 million was for the construction of a one-storey building as part of the expansion of the Health Centre. The project is supposed to modernize the Health Centre since the new building will have a Dental Unit offering dental services, a labour ward, Computer Tomography-scan, X-ray, Ultra-sound and other modern medical facilities.

Analysis

The analysis of outsourced cleaning services shows that the University has failed to cut down operating costs. The costs have tripled in comparison with the pre-outsourcing era. For outsourced health services, the analysis shows that the University has traded off the quality of health services for cost minimization. In other words, while the University has failed to minimize costs of cleaning services following outsourcing, it seems to have succeeded doing so in outsourced health services with decrease in quality. The question is whether there is marked improvement in quality of cleaning services due to increased costs and why is it that the outsourced health services are manifesting one positive outcome of outsourcing only (cost minimization rather than cost minimization and service improvement).

For cleaning services, one justification being given is that the University has continued to grow immensely and comparing the budget of pre-outsourcing and post-outsourcing era only is to miss a point. While this is true, it is important to note that the quality of cleaning services, especially on landscaping has improved compared to the pre-outsourcing era. There are some problems that are not inherent on the failure of outsourcing but rather on poor planning/lack of infrastructure maintenance and expansion by the University. For instance, the washroom facilities are very few compared to the number of students at the University. Therefore, the cleaning companies try to adhere to their contractual obligations of cleaning the toilets but with increased number of users it is hardly possible to notice an improvement. Another example is frequent water cuts/lack of water at the University. This is a big problem and one cannot blame outsourcing for it. It is the University that has to make sure that there is running water for both cleaning by the outsourced companies and for washroom usage by students and members of staff. Lack of water means that outsourced firms are incapable of doing their due diligence especially in the toilets. The same can be said for watering gardens. Table six illustrates how rapidly the University has expanded over the last two decades:

Table 6: Student Enrollment at the University of Dar es Salaam from 1993/94 to 2009/2010

Year	Number of undergraduate students enrolled	Number of postgraduate students enrolled
1993/94	3,164	114
1994/95	3,357	132
1995/96	3,906	136
1996/97	4,127	167
1997/98	4,334	166
1998/99	5,250	-
1999/00	5,511	493
2000/01	6,861	700
2001/02	8,305	859
2002/03	10,127	1,046
2003/04	12,265	1,669
2004/05	14,221	1,852
2005/06	12, 479	1,733
2006/07	14,529	2,576
2007/08	17,098	2,890

2008/09	17,166	2,552
2009/10	16,419	2,605

Source: UDSM (2004, 2005, 2011)

For health services, the analysis shows that although there are some elements of cost minimization, by and large, the quality of services has declined (with the exception of the loans received to expand and modernize the University Health Center). The budget for buying medicines has shrunk dramatically whereas the University has continued to expand dramatically. Moreover, as already discussed, there is no continuity in flowage of funds compared to the pre-outsourcing era. Therefore, in holiday seasons the Health Center is in deficiency of certain medicines and services.

The centralization of the issuing of identity cards to the members of staff and students who are already paying their contribution is the very big problem. The NHIF issues the IDs from the headquarters and the process takes a very long time. For the staff it takes up to four months after they start contributing to get their IDs. For students, the problem is big because they pay the money at the beginning of the semester, and to some, it takes them a semester to get the ID. When they fall sick in the mean time it really becomes difficult to access health services. Moreover, it is theft to charge people while not granting them access to the services they pay for.

The biggest reason for all these blunders and failures by the NHIF to improve the quality of outsourced health services can be attributed to the fact that it operates under the monopoly atmosphere. This is clearly against the principles of outsourcing which calls upon competition in service delivery. The law that establishes NHIF compels all the civil servants to be members and deprives them the right to choose between public and other private health insurance schemes in the country. That is why the NHIF can afford honeymoon amidst the grieving period by centralizing even the ID issuance. The monopolistic tendencies of the NHIF Act has far reaching effects as it compels members of staff who are not principle beneficiaries but dependants (by the virtue of the fact that their spouses are principle beneficiaries) and students who are not principle beneficiaries but dependants (by the virtue of the fact that their parents, uncles and relatives are principle beneficiaries) to contribute forcefully. This is again theft, because either their spouses or parents who already contribute to the Fund already cover them.

Likewise, unlike outsourced cleaning services that have registered improvement amidst increasing costs, the locus of control of outsourced health services is not the University but rather the central government. This is not the typical outsourcing framework. The outsourcing framework posits that the outsourcing firm is in control and checks the activities of the third party in adhering to the contractual obligations. Unlike cleaning services, there is no timeframe which the contract between the University and NHIF ends and gets renewed through a competitive tendering process. This makes it obvious for the outsourced cleaning services to outperform outsourced health services in as far as the quality is concerned.

Conclusion

The article addressed one question, whether outsourcing has minimized operating costs of the University in cleaning and health services. This has not been realized because of the failure of the University to expand and maintain infrastructure, poor planning and monopolistic tendencies that are incompatible with the outsourcing framework. It is important to observe that, the University, like many other public institutions, does not operate clear of external forces especially the central government. Some of the failures to deliver by outsourcing should not be looked at the institutional level only, but at the bigger scope of the government. The University funds come from the government and hence the question of infrastructure expansion cannot be solely left on the hands of the University. The priorities by the government to expand higher education in Tanzania should go hand in hand with the reality of the learning environment.

Failure of outsourcing to produce rosy results suggests that the process requires carefully planning by the outsourcing firm. Rather than acting abruptly, the firm needs to put and consolidate the needed infrastructure in place. As discussed, poor infrastructure frustrates the efficiency of outsourcing. Moreover, the outsourcing model calls for monitoring mechanisms to be put in place before the firm commits to any outsourcing arrangement. However, for the case of the University this component is lacking especially in health services. The problem has already been highlighted as originating from the government that has accorded monopoly to the NHIF leaving the University to behave as an agent in an arrangement that it is supposed to behave as a principal. It can be observed that, much as many of the reform measures came as a surprise (donor benchmark), the public institutions and the government have been caught off-guard. The monopoly hangover by the government in Tanzania has not demised in this regard. Successful outsourcing requires proactive planning and preparation by the outsourcing firm. Firms that outsource with less external pressure stand a better chance of succeeding rather than those that are under intense pressure. How the University can adapt and cooperate with other public institutions and the government to create conducive environment for outsourcing to blossom remains the key to success in realization of the very objectives of outsourcing.

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