

Denmark/International: Danish study reviews research on contracting-out

(October 2011) A major review of the impact of contracting out calls into question the benefits of getting the private sector to deliver public services.

Researchers in Denmark examined the findings of 80 studies published since 2000 that analysed the impact of contracting out. They considered the evidence in terms of cost savings, impact on quality and outcomes for the employees affected. They also looked in particular at possible differences in results in relation to technical services and social services.

While the report found that the studies did reveal “minor cost savings” from contracting out, it points out that there is not enough evidence to show that these savings were achieved without a negative impact on quality.

A further reservation about any cost savings comes from the fact that most studies also fail to take account of the cost of the contracting out process – administrative, legal and transaction costs – or the costs of monitoring the contracts once they are awarded.

The researcher also found that the majority of studies are a snap-shot of a single and usually the first round of contracting and that there is some evidence that the relative advantage of using private companies disappears over time.

Some of the studies point to gains in public sector efficiency and attribute this to the competitive tendering process. In the light of this the researchers call for a genuine level playing field for public and private providers and of the need to ensure that a public sector monopoly is not simply replaced by a private sector one.

When comparing different service, the researchers acknowledge some cost savings with technical services (such as cleaning and waste management) but less evidence in relation to social services (such as elderly and child care, education and employment). This is particularly important for Denmark where there has been increased pressure for contracting out of social services. The report concludes that

there is no research-related justification for such contracting out.

In terms of the impact on employees the studies show generally negative results. Contracting out tends to “a faster pace of working, lower job satisfaction, less job security, stress and burn-out.” It also suggests that the impact on pay and conditions is less significant in Denmark and Sweden than it is in other countries and this can no doubt be linked to the higher level of collective bargaining coverage in those two countries and the fact that contracted-out employees will be covered by sectoral agreements that are often comparable to those in the public sector.

The study points out that: “When a balance is drawn up of the total effects of contracting out, its advantages and disadvantages, it is crucial that long-term socioeconomic costs resulting from redundancies, physical deterioration, reduced job security, etc., are taken into consideration.”

Effects of contracting out public sector tasks - a research-based review of Danish and international studies from 2000–2011, Ole Helby Petersen, Ulf Hjelmar, Karsten Vrangbæk & Lisa la Cour

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