

A REVIEW OF PRIVATISATION*

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Abstract: Privatisation and outsourcing provide both opportunities and threats to libraries, especially libraries in governments around the world. Creative and intelligent understanding of the role of libraries within organizations, with plenty of quantitative evidence to support the key roles of the staff and collections, will prove the best tonic for survival.

Introduction

Privatisation, outsourcing - these words have taken a weighty and almost frightening connotation for librarians around the world in the past twenty years. Both words have become part of the vocabularies of managers and staff as part of a language that stresses efficiency, profitability, and end results. What opportunities and threats are offered by privatisation and outsourcing? This paper will provide an overview to the issues, and discuss briefly some strategies provided by this sort of administrative and bureaucratic change.

What is Privatisation?

Privatisation is simply the full or partial transfer of government responsibility for certain activities to the private sector. Although privatisation appeared on the horizon most recently in 1979, it is not new to this generation of government officials. Adam Smith in 1776 proposed the sale of government properties and lands as a stimulus to the economies of every country in Europe, thereby producing a reduction in public debt and increasing overall productivity¹ More recently, the seeds for privatisation were planted in the 1960s by Peter Drucker when he argued in his book *The Age of Discontinuity* that the purpose of government was to govern, a role that made it unfit to perform certain tasks better left to business². Drucker's comments on government inefficiency were heard by some (the first appearance of the word privatisation in Great Britain occurred in a

* Paper presented at the 64th IFLA General Conference August 16 - August 21, 1998 in Amsterdam

¹ Adam Smith is quoted in Alzira Salama, 1995. *Privatization: Implications for Corporate Culture Change*. Aldershot, Eng.: Avebury, pp. 3-4

² Colin Chapman, 1990. *Selling the Family Silver: Has Privatization Worked?* London: Hutchinson Business Books, pp. 10-15.

pamphlet in May, 1970), but it was not until 1979 with Margaret Thatcher's promise to "roll back the frontiers of the state" that the word "privatisation" took on its decidedly modern connotation³.

Since 1979, privatisation has become a global phenomenon for several reasons. Politicians have made it a priority to demonstrate to their constituents their interests in reducing the sheer size of government at all levels, from national to local. The public has grown tired of repeated increases in taxes and other governmental fees, and has demanded that governments look for new and alternative sources of income. Politicians, bureaucrats and the public are interested in government agencies that are efficient and productive -- meeting the needs of all -- with minimal waste and paperwork. In certain countries, privatisation reflects a change in political philosophies and provides a means to translate change into new opportunities. It has been estimated that at least 7,000 different state enterprises around the world have been privatised since 1979⁴. Between 1985 and 1993, governments in 100 countries earned some \$328 billion in the sale of public enterprises to investors⁵.

The actual form of privatisation varies from state to state. In some cases, public services are simply slashed under the assumption that the private sector will take over. In other cases, the budgets of government agencies are cut in the hope that they will seek private funding. Sometimes, the costs for public service are passed directly to the public with new fees, with the expectation that the services will generate the income requisite if they are really needed. In other instances, public tasks are transferred directly to the private sector or joint ventures are developed between specific government agencies and certain businesses. Finally, on a few occasions, there is no sale or transfer of properties to the private sector, but just an encouragement within a given government agency - under the threat of privatisation - of the managerial notions of the private sector, with an emphasis on efficiency, profitability and customer satisfaction⁶.

The motives for privatisation are not always clear. Certainly, many politicians argue in favor of privatisation for ideological reasons, believing that the public is

³ Salama, p. 5.

⁴ Salama, p. 4.

⁵ Vincent Wright, 1994. "Industrial Privatization in Western Europe: Pressures, Problem and Paradoxes," In: Vincent Wright (editor). *Privatization in Western Europe: Pressures, Problem and Paradoxes*. London: Pinter, p. 1.

⁶ John Vickers and Vincent Wright, 1989. "The Politics of Industrial Privatisation in Western Europe: An Overview," In: John Vickers and Vincent Wright (editors). *The Politics of Industrial Privatisation in Western Europe*. London: Frank Cass, p. 3.

better served by choice rather than government monopolies. Others argue in favor of privatisation on economic grounds, that all public services are intrinsically less efficient than those offered by businesses. This interpretation of government as an economic black hole, of course, ignores the contributions of government agencies to society as a whole, contributions which do not easily translate to a spreadsheet⁷. These ideological and economic motives are not the only reasons for an interest in privatisation. For some, a move to privatisation is a managerial decision. Privatisation breaks up government fiefdoms, reducing battles between warring bureaucracies over limited financial and other resources, and reduces the threats of public enterprises to the careers of politicians. Privatisation has always carried this political context, but there has also been a financial angle, too. Reducing deficits, cutting personnel costs, developing new sources of income, these are important considerations for every politician considering privatisation⁸.

What is Outsourcing?

Outsourcing is the transfer of some function or activity within an organisation to a third-party⁹. The reasoning behind outsourcing is simple: provide opportunities for select tasks within an organisation to be completed with an improved efficiency and at less cost. Outsourcing can take several forms but often it accompanies technological changes within an organisation; new computer systems, software, and other digital tools alter the dynamics of the workplace. As an organisation evolves with new technologies, outside parties are brought in to assist in the process, accelerating the mapping of routines and resources to new techniques.

Outsourcing has both benefits and costs. Transformational outsourcing - when an organisation alters its fundamental habits - generally proves to be less expensive in terms of manpower and equipment costs. It also assists in the consolidation of different units or components within an organisation, providing the means to cut duplication of tasks. Outsourcing also means loss of control and a change in management and administration. Another group is legally required to do tasks once handled internally, and this act of contracting out is risky and difficult to reverse. There may be new and unexpected costs as a result of the act of outsourcing and it may be impossible to evaluate properly the impact of this

⁷ Paul Starr, 1987. *The Limits of Privatization*. Washington, D. C.: Economic Policy Institute, p. 3.

⁸ Vickers and Wright, pp. 5-8.

⁹ Daniel Minoli, 1995. *Analyzing Outsourcing: Reengineering Information and Communication Systems*. New York: McGraw-Hill, p. 1.

reassignment of specific tasks on the day-to-day activities of an organisation. Finally, there's always the possibility that decisions made by an outside agency may not always be in the best interests of a given organisation, say in terms of technology or new routines¹⁰.

Outsourcing has enormous effects on management, and sometimes these effects cannot be predicted properly. One survey of top executives found "extensive ignorance" about outsourcing, in spite of the fact that more than 20 percent were considering outsourcing as an option for their organisations¹¹. Any group considering outsourcing should first examine the potential impact of such a decision, for there can be considerable advantages and disadvantages for any organisation. Once the decision has been made to outsource a specific task or unit, a careful evaluation should occur of all potential contractors, with a careful examination of experience and results with other clients. Once a contractor has been selected, a well-written contract is needed, protecting the interests of the organisation outsourcing work to another party. Finally, numerous mechanisms should be in place to monitor the progress of work over time, to ensure that it is meeting the needs of the organisation in terms of quality and efficiency.

Opportunities and Threats

Privatisation has developed a history in the past two decades that give us an opportunity to evaluate realistically some of its promises and claims. The World Bank, a supporter of privatisation, has tried to analyse the impact of privatisation. It is a difficult task because privatisation has had varying effects on both governments and businesses. The World Bank found that privatisation enhances efficiency but not because of the often cited superiority of the corporate world. Public agencies that have privatised into sectors where there is intense competition in a given market indeed tend to be more efficient; those public agencies privatised into less competitive environments tend to be less efficient. The World Bank also found that efficiency was closely linked to the involvement of management; more closely supervised and regulated privatized agencies were more efficient than those operated at a bureaucratic distance. Finally, the World Bank found that in the Thatcher regime in the United Kingdom, public sector productivity grew more rapidly than private sector productivity, thanks to policies that provided public managers greater opportunities to make their offices and programs more efficient¹².

¹⁰ Minoli, p. 3.

¹¹ Brian Rothery and Ian Robertson, 1995. *The Truth About Outsourcing*. Aldershot, Eng.: Gower, p. 4.

¹² Wright, pp. 32-33.

Consider the privatisation of libraries and the opportunities it provides for the creative librarian. Privatisation plans always take a great deal of time, on the scale of years. Part of the problem is valuation - how do you really establish a price for a library, its services, its contents, its connections? Information about any given unit like a library might provide some clues about performance and customer base, but that information is often a poor basis for future predictions of post-privatisation performance¹³. Privatisation means that costs for materials, personnel, and other key components change, making valuation a guessing game. These questionable factors - of time and valuation - open opportunities for those looking for ways to reverse a privatisation decision.

The prospect of outsourcing gives an organisation like a library an opportunity to evaluate specific operations and processes, to discover new routines and resources, and ultimately to allow others to do tasks that were inefficiently handled internally in a more productive manner. The first step in outsourcing requires an inventory of manpower and technology, with a careful analysis of routines and processes. The sheer act of this analysis may lead many a library to more efficient habits, and a rediscovery of skills among staff that have been ignored for various reasons. This inventory will provide a good blueprint of the strengths and weaknesses of a given unit to both staff and management, supplying plenty of opportunities for change. With this inventory in hand, a library can develop a plan to improve specific routines, take advantage of new technologies, and create new processes for handling tasks. This evaluation and development of new alternatives may have a transformational effect on a library. The threat of outsourcing may be sufficient to shake the historical blunders of the past off a department or a library and transform it into an operationally more effective organisation. It may be necessary, however, after this process to continue with the outsourcing routine, in bringing outside assistance to implement and manage new technologies and tasks.

There are those who argue that outsourcing favors vendors and an efficiency mentality over services to clients and users. Some would also argue that outsourcing is inherently dangerous, as it turns over to other organisations tasks which might be difficult to recapture. Costs reductions as a result of outsourcing may not always measure up to expectations, and the quality of work may not always meet the demands of both clients and staff. It is crucial that any outsourcing decision consider alternatives, such as multisourcing (where several partners are selected to handle certain routines, rather than one exclusive third party) and temporary outsourcing (that is, short-term assignment of routines to another group on the scale of 6 to 24 months, rather than a 5 to 10-year time

¹³ Saul Estrin, 1994. *Privatisation in Central and Eastern Europe*. London: Longman, p. 22.

scale). Insourcing - the return of outsourced services or functions to an organisation - should also be anticipated, where certain routines once assigned to an outside party are brought back into an organisation. Certainly the current trend is for outsourcing to occur at a smaller scale than a decade ago, with only very specific routines or subsets of projects assigned to an outside organisation, rather than turning over whole units or departments to others.

Strategies

Given the ample track record for privatisation for nearly 20 years, it is crucial to look for evidence to support privatisation as a viable alternative. To make this analysis work, it requires a viable comparison of similar agencies performing similar tasks for comparable clientele. Most studies that compare public and private agencies fail to account for quality of services. Most fail to analyse lower costs in terms of personnel; e. g. are those lower costs due to a greater use of part-time workers with fewer benefits?¹⁴ One survey that examined the performance of some fifty different private and public enterprises found only nine private enterprises outperforming similar public enterprises¹⁵.

Any consideration of privatisation should require all parties to provide some evidence for claims of increased efficiency and profitability. Hence, privatisation plans should detail immediate benefits to end users of a given service and describe how competition will be enhanced (since increasing competition is one of the hallmarks of most privatisation schemes). Privatisation programs in advance should fully disclose their impact on personnel, with ground rules clearly spelled out for the removal of so-called "uneconomic services"¹⁶. Privatisation often favors special interest groups, groups that will look to protect their interests by demanding government concessions that limit unprofitable service or performance standards. Catering to these groups defeats the supposed benefits of privatisation, in terms of economic gain as well in terms of efficiency and productivity¹⁷. Finally, there is this mistaken notion in privatisation that one size fits all, a notion

¹⁴ Starr, pp. 6-7.

¹⁵ Simon Domberger and John Piggott, 1994. "Privatization Policies and Public Enterprise: A Survey," In: Matthew Bishop, John Kay and Colin Mayer (editors). *Privatization and Economic Performance*. Oxford: Oxford University Press, p. 40.

¹⁶ Michael Beesley and Stephen Littlechild, 1986. "Privatisation: Principles, Problems and Priorities," In: John Kay, Colin Mayer and David Thompson (editors). *Privatisation and Regulation: The UK Experience*. Oxford: Clarendon Press, pp. 55-56.

¹⁷ Domberger and Piggott, pp. 44-45, 56-57.

which fails to consider the wide differences in the needs of clients and patrons from one organization to another.

The prospect of outsourcing of any routine, task, or unit is an opportunity for the staff and managers of a library to prove their worth to an organisation. How? The mere act of evaluation provides a means to examine specific services and analyze their importance to clients and patrons relative to other transactions and activities¹⁸. This valuation can be used as negotiating point in contractual arrangements with potential outsourcers. Thanks to this evaluative process, a contract can be written in such a way that ties performance to fees and commissions. In the monitoring process, if a given contractor fails to meet the needs of both the library and its patrons, compensation is reduced. If the contractor exceeds the expectations of the library and its clients, compensation is increased. This sort of indexed compensation tightly links a unit within an organisation to a given contractor and provides flexibility and some control in a sometimes risky move.

A contractor has to consider its bottom line in this entire process, its profitability and its prospects for contract renewal. Most contractors will point out that they can meet their contractual obligations to an organisation because they do not have the bureaucratic burden of the parent organisation to deal with, the historical obligations to routines and employees that make some organisations less efficient¹⁹. These claims of greater efficiency and reduced bureaucracy can be used as part of a monitoring policy with a contractor. However proven methodologies that indeed reduce waste and lower bureaucratic overburden can be incorporated into an organisation; there's no reason to imagine a library as a fossilized and ineffective, unwilling to learn from another organisation merely because its goal is greater profits for its owners and shareholders. Indeed, every organisation, library or corporation, has a budget and a responsibility to efficiently use its resources well; profitability is not the exclusive domain of contractors.

Outsourcing may indeed lead to new ways of evaluating productivity and new formulae for funds. One ministry in Europe is considering linking personnel budgets to circulation statistics for academic libraries; if circulation rises compared to the average, personnel funds increase. If circulation drops below the

¹⁸ Dexter Whitfield, 1983. *Making It Public: Evidence and Action Against Privatisation*. London: Pluto Press, pp. 97-98.

¹⁹ Ronald A. Dubberly, 1998. "Wy Outsourcing is Our Friend," *American Libraries*, volume 29, number 1 (January), pp. 72-74.

average, personnel budgets drop²⁰. Some libraries may provide services for fees in some countries, and keep the fees earned (minus a charge for overhead). Outsourcing will indeed teach libraries that internal standards may not be the most appropriate, compared to those defined by patrons and clients.

Conclusion

Privatisation and outsourcing offer opportunities for libraries to prove their value to their communities in new and unexpected ways. Creative and intelligent understanding of the role of the library within an organization, with plenty of quantitative evidence to support the key position of the library and its staff and collections, will prove the best tonic for survival. Beyond the mere tabulation of statistics, vocal support for the library among its clients and users will add a human dimension to pages of graphics, text, and tables in defense of the library.

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Simon Domberger and John Piggott, 1994. "Privatization Policies and Public Enterprise: A Survey," In: Matthew Bishop, John Kay and Colin Mayer (editors). *Privatization and Economic Performance*. Oxford: Oxford University Press.

²⁰ From: Michael von Cotta-Schönberg, 1997. "Automation and Academic Library Structure," at <http://sun1.lib.cbs.dk/people/mcs/auto.html>

"As an example, the Danish Ministry of Education is proposing a reform of the system for allocation of funds to its academic libraries in which a part of the personnel allocation will be dependent on the number of books lent: if your lending rate falls or rises less than the average rise in the academic libraries, you will get less money the next years. On the other hand, the libraries as well as other public service organisations are now allowed to earn money by performing fee-based services and to spend the money they earn, except for an overhead to the state. The only condition is that the pricing structure for services does not constitute unfair competition with private enterprises performing the same services.

The main point of this is that academic libraries may have to stop defining objectives and standards on their own terms and instead switch to the terms of the customers. Thus the gap between academic libraries as relatively market-independent service organisations and the market-dependent industrial organisations may tend to fade away."

- Ronald A. Dubberly, 1998. "Why Outsourcing is Our Friend," *American Libraries*, volume 29, number 1 (January), pp. 72-74.
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