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Efficiencies of and Motivations for Contracting Out in the Public Sector: The Case of Social Services in Spain

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ABSTRACT

Debates on contracting out to the private sector is primarily focused on the cost efficiency of its provision, drawing on experiences with hard or technical services such as waste and water management. This paper focuses on a growing interest in the role and impact of sourcing decisions in softer or more human-centered services, such as social services, where sourcing decisions are more complex or multifaceted. Using actual cost data obtained from open access government sources on social services in Spain, the first objective was to compare the cost efficiencies of different sourcing decisions using estimations of Technology Gap Ratios of different municipalities through Order-M Panel Data. The second objective analyzed motivations for contracting out through a survey of municipal managers in Andalusia using principal components analysis combined with multinomial logit regressions. Our findings suggest that while contracting out to the private sector is, relatively speaking, the most cost efficient, most municipalities have decided to keep service provision in-house. Decisions to contract out social services are not based only on cost but also incorporate a range of other considerations such as the municipalities' population size, its stakeholder expectations, and other complexities associated with service provision.

Resumen

Los debates sobre la contratación externa en el sector privado se centran principalmente en la rentabilidad de su prestación, a raíz de experiencias con servicios duros o técnicos como la gestión de residuos y del agua. Este artículo se centra en el creciente interés por el papel y el impacto de las decisiones de externalización en servicios más blandos o centrados en el ser humano, como los servicios sociales, en los que las decisiones de externalización son más complejas o polifacéticas. Utilizando datos de costes reales, obtenidos de fuentes gubernamentales de libre acceso sobre los servicios sociales en España, el primer objetivo consiste en comparar las eficiencias en costes de diferentes formas de gestión, a través de los Technology Gap Ratio de diferentes municipios, obtenidos mediante un análisis de Orden- M con datos de Panel. El segundo objetivo analiza las motivaciones para la contratación externa a través de una encuesta a gestores municipales en Andalucía, utilizando el análisis de componentes principales combinado con regresiones logit multinomial. Nuestros resultados sugieren que, aunque la contratación externa con el sector privado es, en términos relativos, la más eficiente en términos de costes, la mayoría de los municipios han decidido mantener la prestación de servicios dentro de la empresa. La decisión de externalizar servicios sociales no se basa únicamente en el coste, sino que también incorpora otras consideraciones, como el tamaño de la población del municipio, las expectativas de las partes interesadas y otras complejidades asociadas a la prestación de servicios.

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1 | Introduction

The decision to outsource or contract out to the private sector is one the most significant considerations facing governments in their efforts to streamline public services (Pollitt and Bouckaert 2017). The issue is notable because the way in which services are organized have a bearing on the cost efficiency of its provision. Sourcing decisions, which considers alternatives to direct (in-house) provision of public services (Hefetz and Warner 2012), has become a core consideration for government policy makers (Bel and Fageda 2007; Bel and Warner 2016; Pérez-López et al. 2016; Pérez-López, Prior, and Zafra-Gómez 2018; Lindholst et al. 2018).

Outsourcing service provision was initially seen as a way in which to reduce costs and increase efficiency when compared with in-house delivery (Savas 2000; Osborne and Gaebler 1992). Variants of private sector involvement in the decision to contract out have been developed, such as commissioning external agencies and corporatization (Bel and Warner 2016; Aldag, Warner, and Bel 2020; Alonso and Andrews 2020). However, some authors have started to challenge the convention of contracting out to the private sector, as projected cost savings either failed to materialize (Jensen and Stonecash 2005; Bel and Gradus 2018), and/or due to other challenges faced in service delivery. These include the need to sustain a complex ecosystem comprising of providers, public values, and community interests (Bel, Hebdon, and Warner 2018).

Research on alternative sourcing decisions, such as inter-municipal cooperation (IMC, broadly, the sharing of service provisions between municipalities) have shown, for instance, that wider civic objectives such as improved service quality and regional coordination can be enabling, even if the service turns out to be less cost efficient overall (Pérez-López, Prior, and Zafra-Gómez 2015; Aldag, Warner, and Bel 2020; Warner, Aldag, and Kim 2021). That said, there is little consensus in the literature on the factors that drive IMC adoption, which must contend beyond basic economic concerns to encompass the intricacies of governance structures and spatial context (Bel and Warner 2016).

A further consideration influencing the decision to outsource is attributable to the complexity of service provision. (Brown and Potoski (2005)) argue that governments outsource the delivery of certain services (e.g., social services) that are more complex to deliver, especially when they lack the capabilities and experience to provide them. However, the expected cost savings and/or improved managerial performance from seeking alternative sourcing decisions to deal with complex services is not assured (Aldag, Warner, and Bel 2020).

Whilst there is a growing understanding of the relative cost efficiencies of different sourcing decisions for public services that are “hard” (Lamothe and Lamothe 2010) or more “technical” (Petersen, Houlberg, and Christensen 2015) in function, such as waste management and water, it is less predictable for those that are more welfare oriented, such as social services (Bel and Fageda 2017). Furthermore, unlike technical services, the often-personalized nature of social services (i.e., elderly

care, retirement/nursing homes, social assistance; youth work, childcare) provision means that it can be difficult to achieve cost efficiencies when compared with more scalable services, such as waste management and water (Aldag, Warner, and Bel 2020; Plata-Díaz et al. 2019). These unique features make social services an interesting case to examine, leading (Hefetz and Warner (2012)) and (Bel and Fageda (2017)) to call for more research to understand how the complexity of service provision affects sourcing decisions.

In their study of alternative sourcing decisions across a range of public services in New York state, (Aldag, Warner, and Bel (2020)) contrasted longitudinal data of service level costs with a survey detailing the influences on, and outcomes from, municipalities adopting alternative sourcing decisions. Their findings point to the complexities influencing sourcing decisions: for some services, cost efficiency is a main driver and outsourcing is beneficial. However, for others, cost efficiency is but one of a multitude of factors explaining the decision. In this paper, we build on (Aldag, Warner, and Bel’s (2020)) findings and approach through an exploration of two key issues impacting on social services provision highlighted in the wider literature review: the relative cost efficiencies of and complexities that inform the need for alternative sourcing decisions. Two research questions are proposed:

RQ1: What are the cost efficiencies of alternative sourcing decisions?

RQ2: Exploring the factors that influence sourcing decisions in social services.

The remainder of the paper is as follows. The next section situates the research questions through a review of the literature on the efficiencies of alternative sourcing decisions and its impacts on the complexity of social services delivery. The methodology section that follows outlines the data collection process and analytical approach taken. The final two sections analyze the findings and concludes.

2 | Sourcing Decisions and Complexities of Social Services Delivery

2.1 | Motivations for Seeking Alternative Sources of Service Delivery

Key motivations for municipalities seeking alternative sourcing decisions are centered on responses to unsatisfactory experiences with outsourcing service delivery fully to the private sector (Bel, Hebdon, and Warner 2018). The motivations go beyond dissatisfaction with a lack of real efficiency improvements from privatization, to also include: (i) Ideological and political influences (Feiock 2007; Alonso, Andrews, and Hodgkinson 2016; Alonso and Andrews 2020; Alonso, Clifton, and Díaz-Fuentes 2022); (ii) the need to accommodate the size of the municipality (Bel and Warner 2016; Plata-Díaz et al. 2019); and (iii) complexities arising from geographically dispersed populations within the domain of a municipality (Zafra-Gómez and Chica-Olmo 2019).

In a widely cited review, (Bel and Fageda (2007)) found that outsourcing to the private sector appears to be guided by pragmatic rather than ideological motivations. Bel and Fageda notes that, for smaller municipalities, economic scale is an important factor when seeking alternative arrangements. Larger municipalities benefit from having more capacity for external contracting, because their size enables them to absorb transaction costs associated with such provision (Bel and Fageda 2017). Municipalities (typically smaller ones) that enter IMC arrangements do so to benefit from jointly scaling up their operations, as shown in (Elston and Bel's (2023)) study of how municipalities in England cope with various challenges during Covid-19. Despite the greater absorptive capacity afforded by IMC, however, the complexity and additional transaction costs involved in its organization can exceed its benefits. There are also other drivers of IMC arrangements not solely driven by the need for cost efficiencies and/or scale alone, such as a focus on citizen-oriented and community-centered approaches to service provision (Bel, Hebdon, and Warner 2018), the need to enhance the administrative and technical capabilities of smaller municipalities, and to comply with specific governmental policy directives that forbid outsourcing (Silvestre et al. 2020).

The benefit(s) from seeking alternative sources of service provision to achieve the requisite scale is therefore more relevant for technical services that utilizes specialist assets and are more dependent on capital investment (Aldag, Warner, and Bel 2020). In this context, IMC from for-profit contracting may generate lower transaction costs. This is due to the greater alignment of objectives between principal and agent, given that both contracting parties are themselves municipalities (ibid.). For instance, (Garrido-Rodríguez et al. (2018)) found that IMC is the most efficient sourcing decision for reducing the cost of asset-specific services such as waste management. Broadly speaking, studies generally find that IMC reduces costs of service delivery (Bel, Hebdon, and Warner 2018). For some countries, such as Brazil, cost reductions from IMC even extend to social services (Silvestre et al. 2020).

However, when the cost efficiencies of both technical and “softer” (Lamothe and Lamothe 2010) services such as social and cultural services are considered together, IMC generally reduces efficiencies when compared with other sourcing decisions, except in an economic crisis (Pérez-López, Prior, and Zafra-Gómez 2015). For instance, dis-economies of scale become more pronounced when the costs of coordination and communication increases with the scale of the activity. This is because of a correspondingly larger increase in administrative intensity required under IMC. As social services are inherently labor-intensive, it becomes harder to reach the necessary economies of scale through IMC (Allers and De Greef 2018).

Given the possibility that not all decisions will be made on cost efficiency grounds alone, the type of public service, output or population size and institutional design are also important in determining whether cost savings are possible from IMC (Bel and Warner 2016; Allers and De Greef 2018; Aldag, Warner, and Bel 2020). For example, (Hammerschmid et al. (2019)) found that contracting out and downsizing are both positively related to perceptions of cost efficiency (i.e., reduced costs of providing services). However, Hammerschmid et al. results also show that

the cost reduction from downsizing (but not necessarily contracting out) comes at the expense of service quality, or “quality shading” (Jensen and Stonecash 2005).

The evidence however on factors that influence alternative sourcing decisions is mixed. (Brown and Potoski (2005)) found that governments may decide to competitively outsource the delivery of these services because they lack internal capacity and experience, as sometimes is the case with social services. Amongst municipalities in Switzerland, IMC arrangements are more likely to be found in services that require personalized service provision, such as social assistance, youth work, children and elderly care, and nursing homes (Strebel and Bundi 2023).

The opposite outcome is also observed. Given the complexities involved in delivering “personal” (i.e., social) services, in certain contexts, only municipalities have sufficient capacity to deliver them (Albalade and Bel 2021). In a pan-European comparative study, (Bel et al. 2023; cf. Bel et al. 2022) attempt to reconcile these divergent observations by suggesting that the differences can be attributed to national or institutional specificities. Some countries, such as Spain and Italy, benefit from (or perhaps require) a supra-municipal tier of government (also known as “diputación”) that sits in-between the cooperating municipalities and the service delivery organizations to resolve issues arising from having multiple principals (a characteristic of IMC). Supra-municipal tiers of government also serve to ensure that citizens living in lightly populated municipalities (there are numerous in Spain and Italy) have basic access to social services infrastructure that would otherwise be difficult to provide without the requisite economies of scale. Such arrangements, however, are uncommon elsewhere.

2.2 | Complexities in the Provision of Social Services

Drawing on transaction cost theory, Rodrigues, Tavares, and Araújo (2012) concluded that service complexity is a key determinant of sourcing decisions across a range of public services. When services become more complex to deliver, municipalities are more likely to adopt what Rodrigues et al. label as “hierarchical” approaches (i.e., direct provision), rather than market-based provision. In this regard, service complexity contributes to contracting complexity as activities become harder to measure and agreements more difficult to design and monitor.

In addition, complexity also arises when idiosyncratic factors are at play, such as the influence of ideology mixed with the cost efficiencies of alternative sourcing decisions previously discussed. For instance, right-leaning politicians have shown a marked preference for contracting out a vast swathe of public services (Savas 2000; Van Slyke 2003; Van Slyke 2007; Fredriksson et al. 2010; Stolt and Winblad 2009; Stolt, Blomqvist, and Winblad 2011; Elinder and Jordahl 2013; Plata-Díaz et al. 2019; Alonso and Andrews 2020). In the context of social services, attempts to transform the cost efficiency of social services through privatized outsourcing or IMC is reflective of a growing belief that privatization of social care is the only way in which to control costs and/or alleviate fiscal stress (Van Slyke 2003; van Slyke 2007). The expanding role of the private sector is driven in

part by a political desire to demonstrate that a smaller state can deliver more efficient outcomes.

For example, it has been argued that increased efficiency can be achieved if the state relinquishes its responsibilities for direct service provision to focus instead on nurturing a vibrant marketplace of private sector firms to deliver services. Such ideologies are embedded within technologies built around the private sector or other forms of indirect provision used to manage fiscal pressures (Purcell and Chow 2011; Bracci and Llewellyn 2012; Chow and Bracci 2020).

A greater focus on cost efficiencies can also be seen in the growing use of “accounting logics” to encourage more financial “responsibilization” and greater receptivity toward contracting external providers (Llewellyn 1998a, 1998b; Chow, Greatbatch, and Bracci 2019; Lejarraga, Ortiz Martínez, and Marín Hernández 2024). In such environments, individual clients are being made to shoulder more of the risks and responsibilities stemming from shrinking welfare budgets and/or the consequences of outsourcing (Llewellyn 1998a, 1998b; Bracci and Llewellyn 2012; Junne and Huber 2014; Junne 2018; Pastor Seller, Verde Diego, and Lima Fernandez 2019; Chow, Greatbatch, and Bracci 2019; Chow and Bracci 2020).

New technologies of the self are developed, drawing on accounting logics that emphasize the need to embed cost–benefit comparisons and other financial considerations when it comes to developing care plans for individuals (Chow, Greatbatch, and Bracci 2019). The widening application of accounting logics in the provision of social services across Scotland (Llewellyn 1998a, 1998b), Italy (Bracci and Llewellyn 2012), England (Chow and Bracci 2020) and Germany (Junné and Huber 2014; Junne 2018) have also led to more responsibilities for financial decision-making being shared with the client (e.g., planning and budgeting for care) and/or their extended family network. The risks however are that personalization and transfers of responsibility onto individuals receiving care (and their families) are done solely for the benefit of the state’s fiscal position.

The first risk is evident during the 2008–09 economic crisis, when the European Commission (EC), the European Central Bank (ECB), and the International Monetary Fund (IMF; collectively, the “Troika”) imposed reforms on the Spanish government that require citizens to shoulder greater personal responsibility for their own care, as well as austerity measures that significantly reduce aggregate public spending (Pastor Seller, Verde Diego, and Lima Fernandez 2019; Bertz, Quinn, and Burns 2023). In implementing such changes, it is implicit that the extended familial network—a socio-economic feature common to some Mediterranean countries such as Spain and Italy (Del Valle et al. 2013) – would fill in for reductions in state support (Pastor Seller, Verde Diego, and Lima Fernandez 2019). The second risk is when the use of accounting logics to improve cost efficiency: (1) De-personalizes the experience of clients receiving care, as an Italian study has found (Bracci and Llewellyn 2012); and/or (2) potentially masking coercive elements of such policies, as (Junné’s (2018)) study on the implementation of personal budgets for disabled individuals in Germany shows.

From the perspective of the state, the inclination to adopt policies that encourage greater privatization and market-based solutions

such as outsourcing social services are more likely to be adopted by right-leaning municipalities. The effects of such political partisanship are evident across much of northern Europe, from England (Alonso and Andrews 2020), Finland (Fredriksson et al. 2010; Tynkkynen, Lehto, and Miettinen 2012), Sweden (Stolt and Winblad 2009; Stolt, Blomqvist, and Winblad 2011; Elinder and Jordahl 2013; Guo and Willner 2017; Lindh and Johansson Sevä 2018; Lindholm et al. 2018) to Denmark (Petersen, Houlberg, and Christensen 2015; Foged and Aaskoven 2017).

The impact of ideology on social services, however, is not uniform. Despite evidence of ideological partisanship in Sweden (Elinder and Jordahl 2013), the privatization of elderly services was found to not only generate substantial cost savings (from a more intensive use of labor) but also improved service quality (Stolt, Blomqvist, and Winblad 2011). In Denmark however, the political partisanship evident in social services is not present in more technical services, where decisions to contract out are generally made on pragmatic or economically rational grounds (Petersen, Houlberg, and Christensen 2015). Similarly, larger and/or wealthier Danish municipalities are also more likely to outsource social services but less so for technical services (*ibid.*).

Like Denmark, larger and/or more right-leaning municipalities in Spain, along with an additional factor of fiscal stress, have been found to be key determinants in the outsourcing of social services (Plata-Díaz et al. 2019; Cabaleiro and Buch 2023; Cuadrado-Ballesteros and Peña-Miguel 2024). Some nuance is needed, however, when comparing social services in Spain with experiences from England and/or Scandinavia (Finland, Sweden, and Denmark). (Plata-Díaz et al. (2019)) notes that austerity in Spain (as discussed earlier in Pastor Seller, Verde Diego, and Lima Fernandez 2019) was not a key determinant of contracting out, despite their data drawing on the period immediately following the global financial crisis in 2009–10.

Instead, municipalities in Spain manage the effects of austerity policies by attempting to keep the provision of social services in-house, confounding expectations that they would be outsourced. In this regard, in addition to a growing preference for Direct provision when complexity of service provision increases (Rodrigues, Tavares, and Araújo 2012; Hancu-Budui and Zorio-Grima 2024), the impact of austerity also gives rise to a similar preference, ostensibly by reducing the challenges involved in managing multiple external contracts. It is notable that IMC has relatively higher costs than other sourcing decisions, due to the complexity involved in collaboration (Elston, MacCarthaigh, and Verhoest 2018). It is therefore unsurprising that, in the case of Spain at least, coping with austerity-induced reductions in funding would drive a preference for Direct provision.

3 | Context, Data, and Method

This paper considers the case of social services in Spain. Austerity policies imposed by the Troika (EC, ECB, and IMF) in 2008 has led the Spanish government to limit public spending on key services (including social services) and to accelerate outsourcing to the private sector (Pastor Seller, Verde Diego, and Lima Fernandez 2019). As previously discussed, (Pastor

Seller et al. (2019), p. 279) highlighted how ideological discourse was used to justify the reduction in funding for social services in Spain, with the budget falling by 23% between 2011 and 2015. Pastor Seller et al. also pointed out that the reduction in resources was made despite demands for emergency social services increasing by 182% in 2012, with women and children most affected. The cost efficiencies of, and influences on, alternative sourcing decisions are therefore important considerations for municipalities when managing pressures on social services during a time of rising demands for services and budget constraints. The first part of our analysis (RQ1) compares the relative cost efficiencies of municipalities' alternative sourcing decisions across the whole of Spain. The second (RQ2) analyses the results from a survey of municipal managers across Andalusia to understand the factors influencing their sourcing decisions.

3.1 | Data

For RQ1, our study measures the cost efficiencies of alternative sourcing decisions taken by municipalities (“ayuntamientos”) across Spain. Our data are taken from municipal provisions of social services in Spain, which are organized based on population size and geographical distribution. The Local Government Act (Article 26 of Act 7/1985 (2 April 1985) amended Act 27/2013 (27 December 2013)) on the rationalization and sustainability of local government obliges municipalities to provide social services when their population exceeds 20,000 inhabitants. The provision of social services, however, is voluntary for municipalities with populations below that threshold, with users here either have services provided by the “diputación” or are expected to avail of the next nearest municipality.

As sizeable numbers of municipalities across Spain are below the threshold, our sampling is based on the following criteria: (i) The inclusion of any municipality that provides at least some social services, regardless of its population size; (ii) filtering out anomalous results from the data source (e.g., implausible numbers of facilities per municipality); and (iii) the exclusion of municipalities with incomplete and/or missing data. Out of a total of 8132 municipalities with full data available over a nine-year

period from 2014 to 2022, our sampling yielded 735 usable municipalities for inclusion in the analyses.

The cost of running social services is calculated from the Effective Cost of Local Services (CESEL), as defined by the local government Act 27/2013 (27 December 2013), for ($N = 735$) municipalities across Spain. CESEL represents the minimum actual expenditure (which includes both Direct and Indirect costs for each public service) required to maintain a baseline service, as defined by the legislation HAP/2075/2014, 6 November 2014. All municipalities in Spain are legally required to compile figures of actual expenditures for the Ministry of Finance. Table 1 provides the weblink to the published expenditure data used in this study.

In RQ2, we analyze the factors that influence municipal managers' sourcing decisions. Studies that elicit the opinions of municipal managers to gain insights into motivations for contracting out are relatively rare in the literature, with (van Slyke (2003, 2007); Lindholm et al. (2018)) and (Aldag, Warner, and Bel (2020)) being notable exceptions. For instance, (Aldag, Warner, and Bel (2020)) surveyed municipalities to capture impressions of outcomes (cost savings, quality, coordination) from shared service provisions. (Lindholm et al. (2018)) highlighted the multifaceted nature of sourcing decisions beyond cost efficiencies to discuss the political and operational complexities of managing municipal services. (Van Slyke (2003, 2007)) interviewed municipal managers in social services, finding that, beyond cost efficiency considerations: (i) The need to accommodate prevailing politics and ideologies; (ii) the state of market competition for service provision; (iii) and managerial capacity all contribute to the complexity of sourcing decisions for social services.

Our survey questionnaire therefore aims to capture the multifaceted nature of influences on managers' sourcing decisions. Drawing on (Aldag et al. (2020), p. 279) approach, the survey measures both managerial impressions of the factors that influence sourcing decisions and outcomes from the decision taken. The questions used are listed in the lefthand columns of Tables 2 and 3 (translated from Spanish into English by a co-author). The survey contains 31 items on an ordinal scale (1–10), with

TABLE 1 | Variables and source of data used.

Type	Variable	Definition
Input	Effective cost (CESEL)	The minimum cost (both direct and indirect) to provide the service
Output	Local shelters	Number of local shelters in the municipality
	Drug rehabilitation centres	Number of centres for drug rehabilitation (drop-in only and residential stay)
	Day care centres	Number of centres for pre-school children
	Centres for social assistance	Number of reception centres for general social assistance
	Staff attached to the service	Number of employees
	Nursing homes	Number of centres for adult care
	Size of Social Assistance Centres	Total area, in m ² , of the centres

Note: All public data can be downloaded from the following link: <https://serviciostelematicosext.hacienda.gob.es/sgcief/Cesel/Consulta/Consulta.aspx>. Source: Ministry of Finance, Spain.

TABLE 2 | The principal components representing managerial impressions of factors influencing sourcing decisions.

Components (Influences)	Principal components (variance %)		
	Users	Providers	Complexity
	35%	12%	11.5%
Service provision is not a statutory requirement	-0.025	-0.014	-0.122
The cost of the service is unaffordable	0.000	-0.011	-0.019
The service requires bespoke assets, which the municipality is reluctant to acquire on cost grounds	0.000	-0.031	-0.041
Reduction of transfers/subsidies from other administrations for service provision	0.001	-0.030	-0.074
To achieve economies of scale	0.063	0.163	0.111
To reduce the cost of providing services	-0.007	-0.080	0.054
To manage the complexities of service provision	0.167	-0.123	0.659
It improves the management of services and reduces organizational issues	0.101	-0.358	0.143
It enables the municipality to improve coordination with and control over the service provider (prevention and social inclusion)	0.001	-0.074	0.141
Better monitoring of service provision	0.292	-0.441	-0.283
Proposals submitted by potential service providers (companies, other municipalities, or other institutions)	0.089	0.309	0.084
To cope with increases in the volume of services	0.281	0.054	0.001
To meet the demands of service users or citizens in general	0.253	0.274	-0.161
To meet the demands of associations and civic groups	0.044	-0.021	-0.173
To meet the demands of municipal staff and unions	0.109	-0.019	-0.257
Proposals for improving services from municipal board (plenary) debates	0.015	0.246	0.022

Note: Shaded cells are the most representative components in the dimension.

Source: Authors.

16 questions detailing influences on municipalities' sourcing decisions, 13 on impressions of outcomes and the final two on accounting logics and on impressions of efficiency.

The survey forms part of a larger cohort of related studies commissioned by the Andalusian provincial government to examine how organization of public services can be improved. The survey was emailed to municipal managers located across the province of Andalusia (the most populated region of Spain, pop. 8.47 million (2021), INE: National Institute of Statistics). From a total of 785 municipalities in Andalusia, surveys were only emailed to 258 that met the population threshold of 5000. Municipalities under this threshold are unlikely to have a full complement of social services infrastructure that is needed for the analysis. Out of the 258 municipalities, an average of two responses per municipality was received from managers located at 39 municipalities ($N=78$). The survey response rate, based on the number of unique municipalities, is $39/258=15.1\%$. In terms of geographical representativeness, responses were received from municipalities located in all the largest metropolitan

areas across the province (Almería, Cádiz, Córdoba, Granada, Huelva, Jaén, Málaga, and Seville).

3.2 | Method: Cost Efficiencies of Different Sourcing Decisions (RQ1)

In RQ1, the cost efficiencies across three sourcing decisions were compared: "Direct," "Indirect," and "Inter-municipal co-operation" (IMC). The approach taken in categorizing different types of sourcing decisions draws on (Pérez-López et al. (2016)) and (Bel et al. (2022)) method. The Direct approach is defined as when a municipality either delivers the service in-house, through a public agency, and/or company controlled by the municipality. Risks and rewards remain with the municipality.

The Indirect approach is when services are delivered by an external organization, either as a private or jointly controlled (e.g., public-private partnerships) company. The Indirect provider, the private or the jointly controlled company, is expected to take on

TABLE 3 | The principal components representing managerial impressions of outcomes from the adopting alternative sourcing decisions.

Components (Outcomes)	Principal components (variance %)		
	Satisfaction	Efficiency	Privileging
	54%	14%	7.5%
Improved cost savings	0.015	-0.002	0.002
Generated economies of scale	0.068	0.159	0.136
Reduction in the complexity of service provision	0.042	0.175	0.378
Problems arising from the way in which the service is organized in the municipality	0.128	0.192	0.015
Increased costs due to poorly drafted service contracts	0.010	0.025	0.009
Increased costs for the municipality arising from the need to monitor services provided externally	0.001	0.015	0.037
Increased number of potential organizations offering their services	0.005	-0.017	0.021
Increased volume of services provided	0.122	0.123	-0.113
Increased satisfaction of service users	0.242	-0.358	-0.919
Increased satisfaction of associations and civic groups	0.123	0.264	-0.076
Agreeing to the demands of municipal staff and unions	0.189	-0.305	0.789
Improving the consensus of the municipal board (plenary) on services operated	0.178	0.385	-0.156
Improved satisfaction of the municipal administration on services operated	0.201	-0.545	0.213

Note: Shaded cells are the most representative components in the dimension.

Source: Authors.

or share the risks and rewards from the provision of services. To mitigate against the potential for a private sector provider renouncing an unprofitable contract, it is common for municipalities in Spain to demand collateral or sureties. Indirect approaches can include for-profit, not-for-profit and all other forms of outsourcing ventures between the municipality and the private sector. (Pérez-López et al. (2016)) distinguishes between municipal under contract (MUC) and private production with cooperation (PPC). However, we adopt (Bel et al. (2022)) definition to grouping sourcing decisions by combining both MUC and PPC under a single category of Indirect provision as differences between the two are negligible in our sample.

Finally, IMC is defined as an approach undertaken by multiple municipalities to jointly manage and operate social services, typically through a vehicle created specifically for this purpose (e.g., a consortium or association). Risks and rewards are shared across the municipalities.

Across all three sourcing decisions, cost efficiency is estimated using the Technology Gap Ratio approach (TGR). TGR estimation requires input (CESEL) and multiple output variables, which are listed in Table 1. Technology gap ratios (Battese and Rao 2002; Battese, Rao, and O'Donnell 2004; O'Donnell, Rao, and Battese 2008) are estimated using the regressed data on local frontiers (CEF). TGR is simply the distance between the efficiency measure of the municipality under a local frontier and

the meta-frontier (CE). For a given level of output, TGR is defined as the lowest possible cost of the meta-frontier divided by the lowest total cost of the local frontier:

$$TGR^{f,t} = \frac{CE^t}{CE^{f,t}}$$

TGR is representative of recent innovations in panel data that combine meta-frontier analysis (Garrido-Rodríguez et al. 2018; Pérez-López, Prior, and Zafrá-Gómez 2018; Campos-Alba et al. 2020, 2021, ahead-of-print). This methodological innovation has the advantage of temporal stability (Campos-Alba et al. 2020), meaning that cost efficiencies attributable to different sourcing decisions are not specific to (or conditional on) the point in time on which it was measured. The approach enables more robust and time-invariant comparisons of cost efficiencies between different sourcing decisions, mitigating against the potential for its reversal (e.g., Hefetz and Warner 2012; Bel, Hebdon, and Warner 2018; Albalade and Bel 2021; Jansson et al. 2021).

The estimation of time-invariant cost efficiencies for social services requires the application of a meta-frontier (Battese and Rao 2002; Battese, Rao, and O'Donnell 2004). There are however limitations with this approach, because the efficiency of municipalities operating under a particular sourcing decision cannot be immediately compared with that of other municipalities

operating under other forms (Beltrán-Esteve et al. 2014; Cordero-Ferrera, Santín, and Simancas Rodríguez 2017). The lack of comparability is discussed in studies that have established the presence of intrinsic differences in cost efficiency values across the different sourcing decisions (Balaguer-Coll, Prior, and Tortosa-Ausina 2013; Simões, Carvalho, and Marques 2012). Thus, when the meta-frontier concept is applied, different efficiency frontiers are obtained for each sourcing decision considered, called local frontiers.

To overcome this limitation, efficiency values are initially estimated for each municipality that corresponds to each local frontier, or sourcing decision. This estimate facilitates the comparability of municipalities that provide similar services using the same sourcing decision. Next, a general frontier (i.e., meta-frontier), an “umbrella” variable that includes all the local frontiers (Rao, O'Donnell, and Battese 2003), is estimated for all municipalities irrespective of the sourcing decision used. This method calculates municipality cost efficiencies by comparing it with a subsample of m -units, whilst controlling for the presence of outliers (Simar and Wilson 2008). The approach taken is based on established methodologies developed by (Garrido-Rodríguez et al. (2018); Campos-Alba et al. (2020); Campos-Alba et al. (2021)), all of which adapted the order- m data panel (OMDP) method for municipal cost efficiency data.

A ranking of TGR values would facilitate the determination of the sourcing decision closest to the meta-frontier. As TGR values enable the comparison of relative cost efficiencies of sourcing decisions (Zafra-Gómez et al. 2013; Plata-Díaz et al. 2019; Esteve et al. 2024), the sourcing decisions based on TGR is likely to reduce costs and raise levels of efficiency.

3.3 | Method: Impressions of Factors Influencing Sourcing Decisions and Outcomes (RQ2)

In RQ2, the factors influencing municipal sourcing decisions are analyzed using a combination of Principal Components Analysis (PCA) and multinomial logit regression analysis (MLA). The survey data are first made more representative and tractable through PCA, by reducing the number of variables for consideration (Wold, Esbensen, and Geladi 1987; Peres-Neto, Jackson, and Somers 2005). This is achieved by “transforming the data into fewer dimensions, which act as summaries of features” (Lever, Krzywinski, and Altman 2017, p. 641). PCA is an approach commonly used to analyze high-dimensional data while retaining its underlying trends and patterns. Three dimensions for the impressions of factors influencing sourcing decisions (“Influences”; Table 2) and a further three on impressions of its outcomes (“Outcomes”; Table 3) are extracted from the survey data. The shaded figures represent individual components that make up each of the three principal components.

In Table 2, the principal components of “Influences” are categorized as being driven by “users” of social services (35% variance), “providers” of those services (12%), and the “complexity” (11.5%) involved in operating such services, giving a cumulative variance of 59.0% (note additions affected by rounding errors). For the largest principal component, users, it appears

that demands from users and the need for improved management capacity are key influences of sourcing decisions. For the next two components, providers and complexity, it can be interpreted that some sourcing decisions were taken based on organizational and political expediency (e.g., in providers, see contrasts between the negative figures for improved services and better monitoring with positive figures for proposals from service providers and the municipal board itself).

In Table 3, the principal components of “Outcomes” are “Satisfaction” (54% variance) of various stakeholders from the choice of sourcing decision, whether the decisions have changed the “Efficiency” (14%) of the municipalities’ operations, and whether the outcomes reflect a “Privileging” (7.5%) of the interests of certain stakeholders over others, giving a cumulative variance of 74.9%. For the largest principal component, Satisfaction, it appears that a key outcome from adopting a specific sourcing decision is improved satisfaction across all stakeholder groups (users, citizens, staff, unions, municipal board). The magnitude of differences in variance between Satisfaction (54%) and Efficiency (14%) suggests that the former is by far the key component explaining impressions of outcomes from adopting alternative sourcing decisions.

Next, the relationship between cost efficiency (TGR values in RQ1) and managerial impressions of factors influencing sourcing decisions and outcomes was examined using multinomial logit regression analysis (MLA). As our model does not specify nor require, a priori, a clear ordering of sourcing decisions, MLA is a preferred approach because it does not impose an arbitrary structure on the analysis (Long 1997). The MLA dependent variable is sourcing decision. Control variables included in the regression are population size, political leaning, power sharing, with data taken from the National Institute of Statistics and Ministry of the Interior. For managerial impressions, variables consist of the three principal components from Table 2 (Users, Providers, and Complexity) and Table 3 (Satisfaction, Efficiency, and Privileging). Two additional control variables (not in the PCA) from the survey are also included in the MLA, on managerial impressions on the use of “accounting logics” and on the “effectiveness” of alternative sourcing decisions. Table 4 outlines the data sources and descriptive statistics of the variables used in the MLA.

4 | Results and Discussion

4.1 | Cost Efficiencies of Different Sourcing Decisions (RQ1)

Table 5 presents the results of order- M panel data regressions of TGR values of alternative sourcing decisions. As articulated in (Pérez-López et al. (2016)) and (Campos-Alba et al. (2020)), TGR enables comparisons of the cost efficiencies, with larger TGR values indicating greater cost efficiency. Table 5 shows that Indirect provision is the most efficient sourcing decision (Mean TGR = 0.9751), followed by Direct provision (0.9594) and IMC (0.8436). At face value, the results (with Indirect provision ranking the most efficient) appear to support the assertion that private sector involvement improves the cost efficiency of service provision across the public sector.

TABLE 4 | Descriptive statistics of the multinomial logit analysis (MLA).

Variable	Source	Definition	Measure	N	Mean	SD	Min	Max
Efficiency value (TGR)	Ministry of Finance	Estimation of efficiency parameters using the order-m technique	Scale	78	0.5387	0.3154	0.0128	1.9212
Population size (ln)	National Institute of Statistics	Number of inhabitants expressed in natural logarithm	Scale	78	10.651	0.772	9.914	12.701
Political leaning	Ministry of the Interior	Dummy variable where 0 if the municipality is conservative (right-leaning) or 1 if it is left-leaning	Categorical (0 or 1)	78	0.579	0.115	0	1
Power sharing	Ministry of the Interior	Dummy variable where 0 if the municipality is in a coalition or 1 if it has an absolute majority	Categorical (0 or 1)	78	0.752	0.087	0	1
Accounting logics	Survey data	Measures the extent to which accounting-based techniques influences sourcing decisions	Ordinal (1–10)	78	6.000	2.538	1	10
Effectiveness	Survey data	Measures managerial impressions of the effectiveness of different sourcing decisions	Ordinal (1–10)	78	7.231	1.172	5	9
Influences		Impression of factors driving the sourcing decision						
Users	PCA (Table 2)	Components with the highest variance	Scale	78	8.221	97.5	–234.5	398.0
Providers	PCA (Table 2)	Components with the second highest variance	Scale	78	12.527	95.9	–172.6	389.8
Complexity	PCA (Table 2)	Components with the third highest variance	Scale	78	2.412	90.9	–346.6	242.5
Outcomes		Impression of outcomes from a sourcing decision						
Satisfaction	PCA (Table 3)	Components with the highest variance	Scale	78	2.053	91.3	–198.6	362.3
Efficiency	PCA (Table 3)	Components with the second highest variance	Scale	78	–9.997	90.7	–290.4	239.7
Privileging	PCA (Table 3)	Components with the third highest variance	Scale	78	15.292	86.9	–237.2	213.2

Abbreviation: PCA = principal components analysis.

Source: authors. The sample of N= 78 municipalities in Andalusia includes 24 municipalities provide social services directly, a further 24 adopted various indirect approaches, and the final 30 utilized IMC.

TABLE 5 | Order-m data panel results by sourcing decision (2014–2022).

Sourcing decision	Mean	Min	Max	Std. Dev.
Direct ($n = 3258$; municipalities = 362)				
Meta-frontier	0.2844	0.0017	1.3653	0.3426
Local frontier	0.2992	0.0020	1.3687	0.3499
TGR	0.9594	0.0108	1.0617	0.1385
Indirect ($n = 1692$; municipalities = 188)				
Meta-frontier	0.5984	0.0032	2.0897	0.7021
Local frontier	0.5932	0.0091	1.1401	0.4068
TGR	0.9751	0.0228	1.9340	0.7030
IMC ($n = 1665$; municipalities = 185)				
Meta-frontier	0.3173	0.0016	1.1889	0.3368
Local frontier	0.4008	0.0019	1.1186	0.3687
TGR	0.8436	0.0127	1.3998	0.2701

Source: Authors; Sample of $N = 735$ municipalities across Spain.

However, some circumspection is required in interpreting the results. Direct provision is the most common sourcing decision by a large margin amongst municipalities ($n = 362$ or about 50% of the sourcing decision), despite being marginally less cost efficient when compared with indirect provision ($n = 188$ or about 25%). Furthermore, IMC adoption is not insubstantial, despite its relative inefficiency, with a ($n = 185$) 25% share. The dominance of direct sourcing decisions for social services in our sample are comparable to proportions reported in other studies, with (Rodrigues et al. (2012), p. 629) documenting a range from 55.88% (senior centres) to 93.24% (childcare services). For (Zullo (2009), p. 464), it is a figure of 67.8% (nursing homes). The popularity of Direct provision, and the fact that only a quarter of sourcing decisions are Indirect, suggests that other factors are also at play in the decision process.

4.2 | Impressions of Factors Influencing Sourcing Decisions and Outcomes (RQ2)

Table 6 presents the MLA results. Using Direct provision as the base and Indirect and IMC as comparators, two regressions were modeled, Model 1 (Influences) and Model 2 (Outcomes). Both are both statistically significant ($p < 0.01$ each) and have good fit, as approximated by pseudo- R^2 of 0.2089 and 0.2815 respectively. Pseudo- R^2 s ranging from 0.2–0.4 are considered excellent fits for the regression (McFadden 1977). The variables considered have a statistically significant bearing on both managerial impressions of the Influences on sourcing decisions, as well as its Outcomes.

In Model 1, the results for TGR coefficients (Table 6) are significant in the MLA, indicating that differences between the cost efficiencies of alternative sourcing decisions are significant (both $p < 0.01$). The positive TGR coefficient (0.491) indicates that Indirect is more efficient than Direct, while a negative coefficient reflects the opposite, with IMC (−1.319) less efficient than Direct.

The other major determinant of sourcing decisions in Model 1 is population size ($p < 0.05$). The results indicate that municipalities with larger populations that are in a position (i.e., they have the political support and/or operational capacity to do so) to opt for Indirect sourcing decisions can benefit from economies of scale. In other words, the result suggests that the private sector is more effective at benefiting from scale compared to Direct provision. The negative relationship between population size and IMC in Table 6 suggests that a lack of scale is a reason for municipalities opting for IMC. This result contrasts with (Zafra-Gómez and Chica-Olmo (2019)), who found IMC improved cost efficiencies in services that are more technical and asset-specific, such as waste management. The view of the literature that IMC for social services is often not based on cost efficiency considerations alone is borne by the results in Model 1. The needs of “users” ($p < 0.05$) and “providers” ($p < 0.1$) appear to be relatively stronger influences on the decision to adopt IMC compared to decisions to adopt indirect approaches (users, $p < 0.1$; providers—not significant).

Key control variables such as political leaning and accounting logics do not appear to be a major factor influencing sourcing decisions. Furthermore, despite the presence of elected parties on municipal boards, the effects of politically motivated preferences for specific sourcing decisions are also absent. These findings stand in contrast with the politicized nature that surrounds sourcing decisions in social services in some countries, where right-leaning parties in Denmark (Petersen, Houlberg, and Christensen 2015), Sweden (Jansson et al. 2021) and England (Alonso and Andrews 2020) are shown to have a higher propensity for Indirect provision. The findings are unexpected given indications that such propensities are also present elsewhere in the Spanish public sector. For instance, (Alonso, Clifton, and Díaz-Fuentes (2022)) alerted to the politically motivated corporatization of hospitals in Spain, while (Pastor Seller, Verde Diego, and Lima Fernandez (2019)) argued that ideology and austerity did play a part in undermining the provision of social services.

TABLE 6 | Multinomial logit regression (MLA) models—Influences and Outcomes.

Variables	Model 1: Influences		Model 2: Outcomes	
	Direct (base) v Indirect	Direct (base) v IMC	Direct (base) v Indirect	Direct (base) v IMC
Cost efficiency, TGR	0.491***	−1.319***	0.846***	−2.891***
Population size (ln)	0.937**	−0.891**	0.983*	−0.867*
Political leaning	0.475	0.341	0.457	0.522
Power sharing	0.043	0.052	0.049	0.035
Accounting logics	0.031	0.051	0.039*	0.029*
Effectiveness	0.031	−0.054	0.022	−0.049
Influences (PCA)				
Users	0.061*	0.745**	—	—
Providers	−0.018	0.134*	—	—
Complexity	0.024	0.027	—	—
Outcomes (PCA)				
Satisfaction	—	—	−0.041**	−0.141***
Efficiency	—	—	−0.053**	−0.212***
Privileging	—	—	0.003	0.002
Constant	−1.341	−1.135	−2.145	−2.333
Observations (N)		78		78
Wald χ^2 (14)		19.93		33.80
Prob > χ^2		0.0000		0.0009
Pseudo R^2		0.2089		0.2815

* $p < 0.1$.** $p < 0.05$.*** $p < 0.01$.

Source: Authors.

Model 2 measures managerial impressions of the outcomes from municipalities' sourcing decisions. Like Model 1, the relative differences in cost efficiency variables are all significant ($p < 0.01$), with a positive coefficient for Indirect (0.846) and negative for IMC (−2.891). Indirect sourcing decisions have a bigger positive influence on impressions of outcomes compared with Direct, while it is the opposite for IMC. There is also a marginal ($p < 0.1$) effect of accounting logics for Model 2, suggesting that some managers perceive a positive outcome on the municipality and its stakeholders, even if this is not seen as a significant factor influencing the sourcing decision (from Model 1).

For the principal components regressed in Model 2, the negative but significant variables suggests that, when compared with Direct provision, managers perceive less Satisfaction (Indirect = −0.041; IMC = −0.141, both $p < 0.05$) and Efficiency (Indirect = −0.053; IMC = −0.212, both $p < 0.01$) with alternative sourcing decisions. The stronger statistical effect for IMC makes plain that not only has IMC the lowest cost efficiency (Table 5), but managers are also under the impression that it produces the least favorable outcomes for stakeholders.

Note that the Efficiency variable in Model 2 does not only imply gains from economies of scale, but also wider benefits from reductions in the complexity of service provision, such as streamlining the organization to cope with fluctuations in demand (see principal components in Table 3). These observations add nuance to (Hammerschmid et al. (2019)) conclusions, where some forms of contracting out can contribute to improved efficiency but only at the expense of quality shading (Jensen and Stonecash 2005).

More generally, our findings contrast with a broader understanding that smaller municipalities are more likely to benefit from scale increases (e.g., through IMC) compared with larger municipalities (Dijkgraaf, Gradus, and Melenberg 2003; Bel and Warner 2016). Our analysis augments (Lindholm et al. (2018)) and (Aldag, Warner, and Bel's (2020)) conclusion that, for social services at least, the reasons for sharing amongst municipalities (i.e., IMC) are more varied. These reasons extend beyond cost efficiencies alone as a key influence on alternative sourcing decisions, to take into consideration other complexities associated with service delivery and stakeholders' interests. In the context of Andalusia, IMC is seen as a less favored option for its

numerous (and small) municipalities, as not only is it less cost efficient, but it is also perceived to generate poorer outcomes for various stakeholders. Managers may be aware that smaller municipalities often have little choice but to plump for IMC if they are to maintain a minimum level of service provision, complementing (Elston, MacCarthaigh, and Verhoest's (2018)) observations on the importance of complexity-driven collaborations for some municipalities.

5 | Conclusion

In this study, we extend the literature on outsourcing, exploring the relative cost efficiencies of alternative sourcing decisions in social services and the complex factors that underpin those decisions. Our findings indicate that the services' cost efficiency can be improved if the sourcing decisions involve, at least in some part, the private sector (Indirect provision) when compared with exclusive in-house (Direct) provision. The preference for the latter suggests that managers are yet to be convinced that quality can be maintained when social services are outsourced. Furthermore, the challenges facing social services provision means that, unlike for more technical services, municipalities who decide on IMCs do so for reasons other than trying to attain cost efficiencies alone.

Unlike decision makers in primarily northern European countries (Scandinavia; UK), political and ideological influences are notably absent in our study. Instead, municipal managers must contend with making sourcing decisions based on conflicting factors. Managerial perceptions where the adoption of alternative sourcing decisions (i.e., Indirect and IMC) generate more unfavorable outcomes for many stakeholders may explain why Direct provision in social services is the most popular choice.

In this regard, the complexity of the managerial decision process in Spain reflects an attitude that is more prosaic or rational, rather than political or ideological (cf. Feiock 2007; Zullo 2009), when dealing with the conflicting demands of social services operations. Decisions to deviate from Direct provision are probably only made when the cost efficiencies and other benefits outweigh the potential dissatisfaction from stakeholders and added organizational complications. (Rodrigues, Tavares, and Araújo (2012)) also reaches a similar conclusion in the case of Portugal, finding that NPM approaches to sourcing decisions are based on pragmatism rather than (ideological) mimicry.

While our study has provided clear evidence of the cost efficiencies of alternative sourcing decisions and the factors that motivate their adoption, there are several ways in which it can be improved and extended. We used managerial impressions of 'outcomes' from alternative sourcing decisions as way of controlling for the quality of services provided, but future studies should also explore other means of doing so. There is also a need, in the context of social services, to improve understanding of how geographical dispersion influences municipalities' sourcing decisions. Finally, it would be insightful to contrast the institutional differences of countries that mainly adopt IMC for social services (e.g., Switzerland; Strebel and Bundi 2023) with those that rely on more traditional approaches, such as Direct provision.

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Conflicts of Interest

The authors declare no conflicts of interest.

Data Availability Statement

The data that support the findings of this study are available from the corresponding author upon reasonable request.

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