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Outsourcing in the Public Sector- An Empirical Literature Review

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Abstract

Outsourcing in the public sector has not been examined in depth academically (Warner & Hefetz, 2008). This review addresses two key questions: (1) What does empirical research reveal about outsourcing decisions and outcomes in the public sector? and (2) What gaps remain for future study? To explore these, we analysed 36 empirical articles published between 2000 and 2025 across 35 scholarly journals. The literature highlights factors such as client and vendor capabilities, relationship dynamics, contractual governance, decision-making processes, and transaction features. A central theme is the role of governance—both relational and contractual—in shaping outcomes. Effective outsourcing is not purely transactional but relies on trust, collaboration, communication, and adaptive contract design. The review also identifies gaps in understanding strategic motivations, environmental influences, dynamic interactions, and new sourcing destinations, pointing to promising directions for future research.

Keywords: *public sector and outsourcing, public system and outsourcing, outsourcing in public sector, benefits of outsourcing in public sector, pros and cons of outsourcing in public sector.*

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Abstract

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1.Introduction

The public sector in the national accounts is composed of general government and public non-financial and financial corporations. The accounts of the public sector portray the role of public authorities in supplying goods and services to the economy and the demands made on the resources for production by the public authorities. The accounts also delineate the means of financing production, consumption, and capital formation used by the public sector. (National Accounts Statistics-Sources & Methods, 2007). Public Sector Units in India are commercial entities wherein the government holds at least 51% of the shares.

Given its complexity, outsourcing in the Public Sector presents a distinct set of risks and opportunities (Willcocks & Currie, 1997). Academic literature on outsourcing in the public sector remains fragmented and dispersed across journals and conference proceedings.

Studies of Dibbern et al. (2004) and Lacity, Khan, and Willcocks (2009) acknowledge the differences, while Rocheleau and Wu (2002) observed that private firms contracting extensively with the public sector often adopt bureaucratic procedures and organisational cultures that mirror those of government agencies.

There is a strong justification for focused research on outsourcing in the public sector, in view of (a) the economic significance of outsourcing in the public sector, (b) the fragmentation of the existing academic literature, and (c) the ongoing debate regarding the distinctiveness of public versus private sector outsourcing processes.

Among prior reviews, Dibbern et al. (2004) remains one of the most comprehensive studies published between 1992 and 2000. Since then, the outsourcing landscape has evolved dramatically. Given these shifts, it is important to assess whether the findings of outsourcing in the public sector have remained robust and which new patterns have emerged since 2000. The objective of this review is to encapsulate empirical research in a way that is clear, concise, and valuable to both emerging and experienced researchers. Specifically, we address two research questions:

1. What does the empirical academic literature reveal about outsourcing in the public sector?
2. What knowledge gaps remain to guide future research?

From the review, we identified 16 dependent variables and 88 independent variables.

Finally, we discuss current knowledge gaps and suggest future research areas, including under-explored or inconsistently supported themes. We also consider theoretical development opportunities, potential research dead ends, and limitations of this review.

2. Research Method

Our review methodology consisted of four systematic steps designed to identify, code, validate, and analyse the empirical literature on Outsourcing in the Public Sector.

Identification of 36 empirical outsourcing in public sector journal articles

To begin, we conducted comprehensive searches across four major academic databases— EBSCOhost, Scopus, Science Direct, and Google Scholar—using keyword combinations such as “Public sector AND outsourcing,” “Public system AND outsourcing, Outsourcing in Public Sector, Benefits of outsourcing in public sector, pros and cons of outsourcing in public sector”. This initial search yielded 155 articles potentially relevant to outsourcing in the public sector, spanning 55 academic journals.

We then applied a series of exclusion criteria to refine the dataset:

- Articles not directly related to outsourcing in the public sector
- Conceptual and theoretical-only contributions
- Papers related to outsourcing by Government departments and duplicates

After applying these filters, we identified 36 empirical articles published in 35 distinct academic journals, covering a period from 2000 to 2025 (see Table 1). Out of 36 papers, 29 have A*, A, B, and C ratings, and the remaining 7 are also considered, given the limited availability of research papers and the need to include the manufacturing and service sectors.

Fig 1:

Prisma Flow Diagram

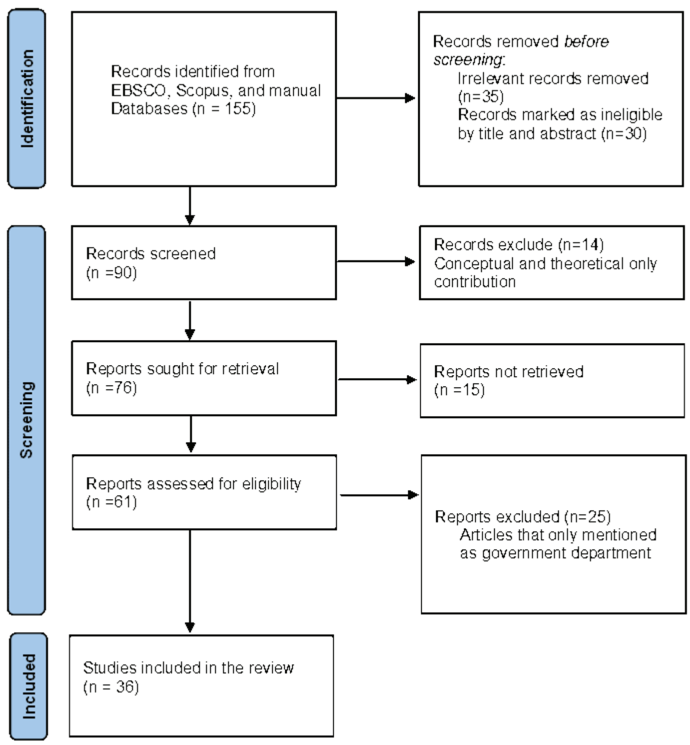

Table 1

List of Literature reviewed

Author	Title	Journal
Paul H. Jensen (2005)	Incentives and efficiency of Public Sector Outsourcing contracts.	Journal of Economic Surveys
Bobby Swar & Junghoon Moon & Junyoung Oh & Cheul Rhee (2012)	Determinants of relationship quality for IS/IT outsourcing success in public sector	Inf Syst Front
Harri I. Kulmala Mika Ojala Lea Ahoniemi Erkki Uusi-Rauva, (2006)	Unit cost behaviour in public sector	International Journal of Public Sector Management
William E Sullivan, Ojelanki K Ngwenyama (2005)	How are Public Sector Organisations managing IS Outsourcing risks?	Journal of Computer Information Systems
Arthur Ahimbisibwe (2014)	The Influence of Contractual Governance Mechanisms, Buyer–Supplier Trust, and Supplier Opportunistic Behaviour on Supplier Performance.	Journal of African Business

Kar-Ming Chong, Colin Dolley, Keith Houghton, Gary S. Monroe (2009)	Effect of outsourcing public sector audits on cost-efficiency	Accounting & Finance
Brian Perrin, Graham Pervan (2004)	Performance Monitoring Systems for Public Sector IT Outsourcing Contracts	International Journal of Productivity and Performance Management
Edephonce N. Nfukaa & Lazar Rusu (2013)	Critical Success Framework for Implementing Effective IT Governance in Tanzanian Public Sector Organizations	Journal of Global Information Technology Management
Junghoon Moon, Bobby Swar, Young Chan Choe, Miri Chung & Gu Hyun Jung (2010)	Innovation in IT outsourcing relationships: Where is the best practice of IT outsourcing in the public sector?	Innovation: Management, Policy & Practice
Miri Chung & Gu Hyun Jung (2010)		
Lynne Markus, Quang "Neo" Bui, Dax D. Jacobson, Kevin Mentzer, Olivier Lisein (2013)	IT Centralization and Enterprise-Wide IT Capabilities and Outcomes: A Public Sector Study	Association for Information Systems
Simon Domberger & Patrick Fernandez (2000)	Modelling the Price, Performance and Contract Characteristics of IT Outsourcing	Journal of Information Technology
Chad Lin, Graham Pervan, Donald McDermid (2007)	Issues and recommendations in evaluating and managing the benefits of public sector IS/IT outsourcing	Information Technology & People
Tai-Yi Yu (2014)	An empirical study of collaborative partnering among enterprises and public sector organizations for IS outsourcing	Applied Economics
Abdulwahed Khalfan & Tom G. Gough (2002)	Comparative analysis between public and private sectors on the IS/IT outsourcing practices in a developing country: a field study	Logistic Information Management
Bernard Burnes and Antisthenis (2003)	Outsourcing: A public-private sector comparison	Supply Chain Management
Bobby Swar, Junghoon Moon, Gohar Feroz Khan (2012)	Public sectors' perception on critical relationship factors in IS/IT outsourcing	Int. J. Services Technology and Management
Michael Cox, Martyn Roberts and John Walton (2011)	IT Outsourcing in the Public Sector: Experiences form Local Government	Electronic Journal Information Systems Evaluation
Junghoon Moon, Young Chan Choe, Miri Chung, Gu Hyun Jung (2014)	IT outsourcing success in the public sector: lessons from e-government practices in Korea	Sage Journals
Francois Duhamel, Isis Gutiérrez-Martínez, Luis Felipe Luna-Reyes (2025)	Implementing Successful Public–Private IT Outsourcing Relationships: Relational View	Journal of Theoretical and Applied Electronic Commerce Research

Erhan Edguer and Graham Pervan (2004)	Success Factors and Measures for Public Sector IS/IT Co-Sourcing Contracts	Australasian Journal of Information Systems
Maria da Conceição da Costa Marques (2016)	How Outsourcing can contribute to efficiency and effectiveness in the Public Sector: Some indicators about Portugal	Problems of Management
Normah Mutongerwa, Zimkhitha Final Juqu & Hlalele Matebese (2024)	A Paradigm Shift in Outsourcing Functions to External Service Providers in the Public Sector	American Journal of Supply Chain Management
D. Barton (2006)	Public sector accountability and commercial-in-confidence outsourcing contracts, Opacity Levels	Accounting, Auditing & Accountability Journal
Min-Seok Pang (2014)	IT governance and business value in the public sector organizations — The role of elected representatives	Decision Support Systems
Elizabeth J. Hartnett, Elizabeth M. Daniel, Richard Holti (2012)	Client and consultant engagement in public sector IS projects	International Journal of Information Management
Siva Prasad Ravi, Ravi Kumar Jain, Hari P. Sharma (2011)	An Analysis of Business Process Outsourcing Strategies of Public and Private Sector Banks in India	International Business & Economic Research Journal
Simon Domberger, Paul H. Jensen, Robin E. Stonecash (2012)	Examining the magnitude and sources of cost savings associated with outsourcing.	Public Performance & Management Review
Mikael Elinder, Henrik Jordahl (2013)	Political preferences and public sector outsourcing	European Journal of Political Economy
Chad Lin, Graham Pervan, Donald McDermid (2016)	Issues and recommendations in evaluating and managing the benefits of public sector IS/IT outsourcing	Information Technology & People
Josep M. Marco-Simó & Joan A. Pastor-Collado (2020)	IT Outsourcing in the Public Sector	Journal of Global Information Technology Management
Anton Joha, Marijn Janssen (2010)	Public-private partnerships, outsourcing or shared service centres?	Transforming Government: People, Process and Policy
Jenny Goodwin (2004)	A comparison of internal audit in the private and public sectors	Managerial Auditing Journal
Michael Cox, Martyn Roberts and John Walton (2012)	IT Outsourcing in the Public Sector Local Government: Experiences	Electronic Journal Information Systems Evaluation
Sergio Fernandez Craig R. Smith Jeffrey B. Wenger (2006)	Employment, Privatization, and Managerial Choice: Does Contracting Out Reduce Public Sector Employment?	Journal of Policy Analysis and Management
Anna Mori (2014)	Outsourcing in public sector organisations. Impacts on labour and employment	International Review of Economics
Fredrik Andersson, Henrik Jordahl, and Jens Josephson (2019)	Outsourcing Public Services: Contractibility, Cost, and Quality	Journal of Information Technology

3.Findings

We organised the findings from our review into two key sections, each addressing a different aspect of the empirical literature on Outsourcing in the Public Sector:

- Dependent Variables in Outsourcing Research
- Identifies and categorises the primary outcomes studied in the outsourcing in the public sector literature, including both operational and strategic performance indicators.
- Independent Variables in Outsourcing Research
- Here, we present the factors hypothesised or found to influence outsourcing in public sector decisions and outcomes, ranging from organisational characteristics to environmental and relational factors.

Together, these sections provide a comprehensive overview of the most studied constructs and the most consistent findings in the empirical outsourcing in public sector literature from 2000 to 2025.

3.1. Coding Procedure

To aggregate findings across studies, we developed a comprehensive list of master codes along with corresponding descriptions. This process was iterative in nature and required multiple rounds of coding individual papers. Initially, two researchers independently coded a set of randomly selected articles. For each study, we recorded the dependent and independent variables as identified and described by the original authors, creating a list of "author variables" and "author variable descriptions." Through discussion and comparison, we then examined these variables to identify overlaps and similarities, which allowed us to consolidate them into a refined set of "master variables" and "master variable descriptions."

3.2. Dependent Variables

As previously observed by Mahnke et al. (2005), the range of dependent variables employed in outsourcing in public sector research is notably diverse. A total of 16 distinct dependent variables were used across empirical studies (Table 2).

To enhance clarity and facilitate analysis, we organised these variables into two categories:

- **Decision Variables** – capturing aspects related to the initiation, structuring, and choice dimensions of outsourcing arrangements.
- **Outcome Variables** – measuring the effectiveness and performance of outsourcing after implementation, including economic, operational, and relational outcomes.

Variables related to outsourcing in public sector decisions account for 23 of the 59 coded relationships (39.0%), while variables about outsourcing in public sector outcomes comprise 36 of the relationships (61.0%). This suggests that outsourcing in public sector research has invested in understanding both the antecedents and the consequences of outsourcing decisions.

Decision Variables

Researchers have extensively investigated a variety of decisions that organisations face throughout the outsourcing process, ranging from foundational choices to more nuanced determinations. These studies span decisions from the basic make-or-buy dilemma to more specific considerations about which IT functions to outsource.

A significant body of work also explores choices related to:

- Contracting strategies, including the type, scale, and detail of contractual arrangements.
- Sourcing locations, with growing attention to offshoring and global sourcing dynamics.

In total, the empirical outsourcing literature in the public sector, as reviewed, utilised six distinct dependent variables to study outsourcing in public sector decision-making (see Table 2).

Table 2

Dependent variables: Decision variables

Sl. No.	Decision variables	Frequency
1	Outsourcing decision- Make or Buy	10
2	Outsourcing decision- Contract type	3
3	Outsourcing decision- End user support	7
4	Outsourcing decision- Degree of outsourcing	1
5	Outsourcing decision- System operations	1
6	Outsourcing decision- Operation & Maintenance	1
	Total	**23**

Table 3

Dependent variables: Outcome variables

Sl. No.	Outcome variables	Frequency
1	Outsourcing outcome- Success	10
2	Outsourcing outcome- Performance of client	4
3	Outsourcing outcome- Project performance	5
4	Outsourcing outcome- Satisfaction	5
5	Outsourcing outcome- length of relationship	1
6	Outsourcing outcome- Service quality	2
7	Outsourcing outcome- Business performance	3
8	Outsourcing outcome- Relational governance	3
9	Outsourcing outcome- Supplier management	1
10	Outsourcing outcome- methodological capability	2
	Total	**36**

Total number of dependent variables:16 Grand Total 59

Variables frequently studied:

- **Make-or-Buy**

  Refers to a strategic evaluation by a public sector organisation to determine whether a service or function should be produced internally ("make") using its own resources, or purchased externally ("buy") from third-party vendors. This decision forms the foundation of the outsourcing strategy and balances cost, control, capability, and mission alignment. Average cost savings across studies range between 20 and 30%, with some reports of 40%, though results vary by service type (Simon Domberger, Paul H. Jensen, Robin E. Stonecash, 2012).

- **End user support**

  Refers to the practice of contracting external vendors to provide frontline technical assistance to internal users (government employees) or external users (citizens) who interact with digital public services or systems. These services typically include incident resolution, user onboarding, remote troubleshooting, and basic IT support.

- **Contract Type**

  Concerns the strategic and managerial choices made by a public organisation to design, implement, and oversee the structures, processes, and relationships that guide the delivery, monitoring, and adaptation of outsourced services over time.

  The findings reflect the multi-dimensional nature of outsourcing in public sector decision-making and highlight the central role of governance, scope, and sourcing location in the empirical investigation of outsourcing strategies.

Outcome Variables

In addition to decision-making, researchers have thoroughly explored the consequences of outsourcing, as reflected in the use of 10 distinct dependent variables to assess various aspects of outsourcing in public sector outcomes.

The most frequently studied dependent variables in this category include:

- **Success**

  Outsourcing success refers to the extent to which an outsourcing in a public sector arrangement achieves its intended objectives—including cost savings, efficiency improvements, service quality, stakeholder satisfaction, innovation, and public accountability—without compromising public values such as equity, transparency, and long-term capability, and it was the most studied outcome in our review, examined 10 times. Companies that prioritise overall value and strategic goals over mere cost savings tend to experience more successful outsourcing outcomes (Junghoon Moon, Young Chan Choe, Miri Chung, Gu Hyun Jung, 2014).

- **Satisfaction**

  Refers to the perceived level of fulfilment and contentment among key stakeholders, including public managers, vendors, end-users, and citizens, with the results of an outsourcing arrangement. It reflects how well expectations regarding service quality, responsiveness, cost efficiency, and governance are met over time. Public sector organisations are constrained by procurement regulations and the need for transparency. Public organisations emphasise service quality, public satisfaction, and adherence to policy objectives (Bernard Burnes and Antisthenis, 2003).

- **Project performance**

  Refers to the extent to which an outsourced public sector project is delivered effectively, efficiently, and in alignment with predefined goals, including scope, time, cost, quality, and stakeholder satisfaction. It measures the execution success of the outsourced initiative rather than just strategic or relational outcomes.

- **Performance of the client**

  It refers to how effectively the client's public sector organisation fulfils its own responsibilities in the outsourcing relationship, including strategic oversight, contract management, communication, and governance. While outsourcing shifts service delivery to external vendors, the client's capabilities remain crucial in achieving desired outcomes. Establishing and monitoring performance metrics helps in the assessment of the vendor's effectiveness and making informed decisions (Erhan Edguer and Graham Pervan 2004).

  Outsourcing outcomes span multiple levels of analysis—from organisational performance and function efficiency to relationship quality and project success. While measures of satisfaction and perceived success dominate, the literature also reveals the critical influence of relational dynamics and context-specific factors. Together, these findings underscore that outsourcing success cannot be captured by a single dimension; it is a multifaceted construct shaped by strategic, operational, and relational considerations.

  There was a noticeable shift in the literature from focusing on outsourcing in public sector decisions toward studying outsourcing outcomes, reflecting the field's growing maturity and interest in post-decision performance. The trend clearly indicates a sustained interest in outcome-oriented research.

3.2 Independent Variables:

Our review identified 88 unique independent variables utilised across empirical studies. We categorised them into 13 thematic categories, organised by frequency of empirical examination (see Table 3).

Table 3

Independent variables

Independent variables	Frequency
Motivation to outsource	20
Transaction attributes	14
Relationship characteristics	26
Client firm characteristics	10
Client firm capabilities	13
Outsourcing in Public Sector Decisions	15
Contractual Governance	24
Supplier firm capabilities	05
Decision characteristics	06
Performance Monitoring	10
Environment	04
Influence sources	03
Supplier firm characteristics	03

Motivation to Outsource

The most frequently studied category is "Motivation to Outsource", reflecting the foundational importance of understanding why organisations choose to outsource functions.

Variables frequently studied are:

- **Cost reduction**

Cost reduction in the public sector refers to the decrease in total expenditures related to delivering a public service or function after it has been outsourced to an external provider. The choice of sourcing configuration is highly dependent on organisational motives, such as cost savings, service quality, or innovation needs. Outsourcing is often used for cost reduction and when external expertise is needed (Anton Joha, Marijn Janssen, 2010).

- **Access to Expertise/Skills**

Representing the need to leverage external talent and innovation capacity. Access to expertise or skills refers to a primary driver of outsourcing where public sector organisations seek external vendors to provide specialised knowledge, technical proficiency, or professional capabilities that are not available in-house.

- **Need for innovation**

The need for innovation and technological advancement is a key driver of outsourcing, where public sector organisations engage external providers to gain access to cutting-edge technologies, digital capabilities, and innovative service models that they cannot easily develop in-house.

While Transaction Cost Economics-based variables like uncertainty and asset specificity dominate, newer empirical studies could benefit from integrating dynamic or behavioural dimensions into transaction attributes—such as real-time adaptability, agility, or learning requirements. Moreover, with the advent of cloud computing and platform ecosystems, traditional notions of asset specificity and uncertainty may need re-conceptualisation to remain relevant.

Transaction Attributes

Outsourcing researchers have extensively examined the transaction attributes that client firms consider when making outsourcing decisions, as well as how these attributes influence outsourcing outcomes.

Variables frequently studied are:

- **Risk Assessment**

It consists of systematic identification, analysis, and evaluation of potential risks that may arise when an organisation delegates certain functions or processes to external service providers. It aims to anticipate threats that could affect cost, quality, performance, compliance, or strategic outcomes. The research shows that a thorough risk assessment must be taken before you enter into outsourcing agreements (Michael Cox, Martyn Roberts, and John Walton, 2012).

- **Transaction costs**

In the public sector, transaction costs are typically higher than in the private sector due to stringent procurement processes, involvement of multiple stakeholders, and the necessity to comply with legal and regulatory frameworks. These elevated transaction costs can discourage outsourcing, especially when the services in question are complex, politically sensitive, or require flexibility and long-term adaptability. Transaction costs in the public sector are often higher than in the private sector due to more complex accountability structures and regulatory constraints (Brown, T. L., & Potoski, M., 2003).

As transactions become more fluid, interconnected, and digitally mediated, there is a growing need to reconceptualise transaction attributes to align with these evolving realities. Future research should critically examine how digital transformation reshapes the nature and salience of transaction attributes, and explore the resulting implications for governance mechanisms, particularly in the distinct contexts of public sector outsourcing. Other TCE variables in this category include External Production Cost Advantage (e.g., Poppo and Zenger, 1998), Transaction Frequency, and Opportunism. We also see the influence of many task characteristics such as Task Complexity, Task Interdependence, and Task Structure (e.g., Fisher et al., 2008).

Relationship Characteristics

Outsourcing success is not solely transactional, but deeply relational. As outsourcing arrangements have matured into long-term partnerships, the nature and quality of client–supplier relationships have gained significant scholarly attention.

Variables frequently studied are:

- **Buyer-Supplier Trust**

The confidence between a public sector organisation and its private service provider is based on the understanding that each party will act in good faith, fulfil its obligations, and avoid opportunistic behaviour. A strong positive relationship was observed between trust, relationship quality, and outsourcing success (Bobby Swar & Junghoon Moon & Junyoung Oh, & Cheul Rhee, 2012). Successful outsourcing often involves a balance between contractual rigour and trust-based relationships (Junghoon Moon, Young Chan Choe, Miri Chung, Gu Hyun Jung, 2014).

- **Effective communication capability**

It refers to the public sector organisation's institutional ability to engage in timely, transparent, and coherent communication with outsourcing vendors and internal stakeholders. Factors like trust, effective communication, and mutual commitment between government agencies and vendors significantly impact outsourcing success (Junghoon Moon, Young Chan Choe, Miri Chung, Gu Hyun Jung, 2014).

- **Mutual dependency**

A situation in which both the public sector client and the outsourcing vendor rely on each other to achieve their respective goals, making the relationship interdependent rather than one-sided. In high mutual dependency, both parties are incentivised to maintain cooperation and manage risks jointly. Mutual dependency reduces opportunism and increases the likelihood of relational governance and long-term collaboration. (Poppo & Zenger, 2002; Kern & Willcocks, 2001; Brown, Potoski & Van Slyke, 2006).

- **Commitment**

Refers to the willingness and intent of the public sector client and the outsourcing vendor to invest time, effort, and resources into building and sustaining a successful, long-term outsourcing relationship. Mutual commitment contributes to relational stability and enhances the ability to adapt to changing conditions. (Poppo & Zenger, 2002; Kern & Willcocks, 2001; Brown, Potoski & Van Slyke, 2006).

The emphasis on relationship characteristics in outsourcing in the public sector reflects a shift from purely economic to socio-relational governance models. However, despite strong empirical support, future research could delve deeper into the longitudinal dynamics of how relationships evolve over time. In addition, further cross-cultural and behavioural studies could illuminate how relational factors mediate risk, performance, and innovation in global sourcing partnerships.

Client Firm Characteristics

It represents a major area of investigation in outsourcing in public sector research, as organisational context often determines outsourcing decisions and shapes performance outcomes. It focuses on the structural, financial, technological, and sectoral traits of the outsourcing organisation.

Frequently Studied Variables are:

- **Industry**

The sector in which the client firm operates (e.g., manufacturing, finance, government) can significantly affect outsourcing in public sector strategies, owing to varying outsourcing intensities, regulatory requirements, and competitive pressures. For instance, heavily regulated industries may exhibit more cautious or compliance-driven outsourcing behaviour. Public banks are more cautious due to regulations. Hence, they outsource fewer high-risk vertical processes, such as treasury, forex, and reconciliation, to safeguard customer data (Siva Prasad Ravi, Ravi Kumar Jain, Hari P. Sharma, 2011).

- **Senior management support**

Refers to the active involvement, endorsement, and leadership of high-level public sector executives in planning, executing, and sustaining outsourcing initiatives. Without visible and sustained support from senior leadership, outsourcing initiatives often face internal resistance, fragmented execution, or strategic misalignment. (Kern & Willcocks, 2001; Lacity et al., 2009).

- **Institutional characteristics**

Refer to the formal and informal rules, norms, structures, and capacities of public sector organisations that influence how outsourcing decisions are made, implemented, and governed.

While client characteristics provide critical explanatory power in outsourcing in public sector decisions and outcomes, existing research overemphasises structural variables (like size or industry) and underexplores behavioural and cultural traits, such as digital leadership, change readiness, and strategic alignment. There is also a lack of research on public sector client characteristics, especially in terms of public accountability, policy mandates, and political oversight, which may significantly alter outsourcing dynamics.

Client Firm Capabilities

Client firm capabilities refer to the internal competencies that enable an organisation to initiate, govern, and benefit from outsourcing in public sector arrangements. These capabilities go beyond structural characteristics and focus on the firm's know-how, systems, and managerial ability to engage effectively with suppliers.

Frequently studied Capabilities are:

- **Organisational Capability**

Refer to the internal skills, processes, systems, and resources that enable a public sector organisation to plan, manage, and evaluate outsourcing effectively. The success of outsourcing in the public sector is strongly influenced by the client's own organisational capabilities, including procurement expertise, contract management, and performance oversight. (Lacity & Willcocks, 2000; Brown & Potoski, 2003).

- **Cultural compatibility**

The degree of alignment between the organisational cultures, values, work practices, and communication styles of the public sector client and the outsourcing vendor. Cultural incompatibility is a common cause of conflict and performance breakdowns in public-private outsourcing arrangements. (Kern & Willcocks, 2001; Ghoshal & Bartlett, 1994; Lacity et al., 2009)

- **Risk Management Capability**

The extent to which a firm can anticipate, assess, and mitigate risks related to outsourcing in the public sector, such as data security, performance variability, and vendor lock-in (Kern et al., 2002).

- **Strong leadership**

The presence of decisive, visionary, and accountable leadership within the public sector organisation guides and supports outsourcing initiatives. Strong leadership influences outsourcing outcomes by fostering commitment, ensuring strategic alignment, and overcoming internal resistance. (Kern & Willcocks, 2001; Lacity et al., 2009; Guah & Currie, 2014).

Most studies focus on technical and managerial capabilities, while emerging areas like digital transformation leadership, data governance, and agile governance capabilities are still underexplored.

Decision of Outsourcing in the Public Sector

Unlike traditional use as a dependent variable (e.g., whether to outsource), here the focus is causal—how the nature of the outsourcing in public sector decision shapes success, satisfaction, or performance.

Prominent variables are:

- **Degree of outsourcing**

Refers to the extent to which a public sector organisation relies on external providers for delivering its services, ranging from partial to full outsourcing. It captures both the scope and the depth of the outsourcing arrangement. The degree of outsourcing varies across organisations and sectors, often influenced by cost pressures, policy mandates, and institutional capacity. (Domberger & Jensen, 1997; Brown 2003; Hodge, 2000)

- **Type of sourcing of vendors**

Refers to the strategy or model used by public sector organisations to select and engage external service providers. It includes decisions related to the number, origin, and specialisation of vendors, as well as the structure of the sourcing relationship.

By treating outsourcing in public sector decisions as independent variables, scholars explore the downstream effects of various sourcing configurations. This perspective provides insight into decision quality rather than just the determinants of the decision itself.

Contractual Governance

Contractual governance refers to the formal agreements and structures used to define and manage the outsourcing relationship between client and supplier.

Variables Studied:

- **Contract details**

Refers to the use of formal, legally binding contracts to define, regulate, and manage the rights, responsibilities, expectations, and performance standards of both public sector clients and outsourcing vendors. Public sector contracts are typically more rigid and detailed to ensure compliance and accountability (Bernard Burnes and Antisthenis, 2003).

- **Contract Clarity**

Refers to the degree to which an outsourcing contract clearly and comprehensively specifies the terms, roles, responsibilities, deliverables, performance metrics, and dispute resolution mechanisms between the public sector client and the vendor. "Clear contracts help reduce transaction costs, prevent disputes, and ensure mutual understanding between public agencies and vendors. (Brown & Potoski, 2003; Girth et al., 2012; Lacity & Willcocks, 2000).

- **Contract Design**

Refers to the process of structuring the formal outsourcing agreement to define the scope, expectations, governance mechanisms, risk allocations, and incentives that shape the client-vendor relationship. Contract design is a critical determinant of outsourcing success—it aligns incentives, manages uncertainty, and establishes control mechanisms. (Brown & Potoski, 2003; Lacity & Willcocks, 2000; Barthelemy, 2003)

When task complexity is high or trust level is low, well-structured contracts serve as a foundation for managing complex outsourcing in public sector relationships. However, overly rigid contracts may limit the ability to respond to environmental changes or innovation. Effective contractual governance often complements relational governance (e.g., trust, communication), especially in long-term engagements.

Supplier Firm Capabilities

This category includes the key capabilities that outsourcing suppliers must possess to effectively deliver services and sustain competitive advantage in the marketplace.

Frequently studied Variables are:

- **Service quality improvement goals**

Refer to the explicit objectives set by public sector organisations to enhance the effectiveness, reliability, accessibility, and user satisfaction of services through outsourcing. Public organisations emphasise service quality, public satisfaction, and adherence to policy objectives (Bernard Burnes and Antisthenis, 2003).

- **Commitment level**

Refers to the depth and consistency of effort, resources, and engagement that both the public sector client and the outsourcing vendor dedicate to the success of the outsourcing relationship. The level of commitment between partners significantly influences relationship quality, service outcomes, and adaptability over time. (Poppo & Zenger, 2002; Kern & Willcocks, 2001; Brown, Potoski & Van Slyke, 2006).

Supplier firm capability emerges as a decisive factor in outsourcing success, shaping service quality, innovation, and long-term value creation. Beyond technical expertise, effective suppliers demonstrate adaptability, relational skills, and strategic alignment with client goals. The literature consistently shows that clients benefit most when suppliers combine operational efficiency with learning and innovation capacity, underscoring that capability is not static but must evolve with changing technologies, market dynamics, and governance expectations.

Decision Characteristics

This category explores the processes and actors involved in making public sector decisions, examining how decision-making structures, involvement, and commitment affect the success and outcomes of outsourcing.

Frequently studied Variables are:

- **Procurement method**

Refers to the formal approach or process used by public sector organisations to acquire goods and services from external providers. It includes the rules, procedures, and strategies governing how vendors are invited, evaluated, and selected.

- **Outsourcing approach**

Refers to the strategic framework and method by which a public sector organisation plans, structures, and executes its outsourcing activities. It includes decisions about scope, depth, governance model, partner type, and performance expectations.

- **Managerial choice factors based on values**

Refer to the normative beliefs, ethical priorities, and public service values that influence managerial decisions in outsourcing—beyond economic rationality.

Decision characteristics play a pivotal role in shaping outsourcing outcomes, as factors such as asset specificity, uncertainty, strategic importance, and service complexity directly influence governance choices. Well-informed and context-sensitive decisions enable organisations to balance efficiency with accountability, while poorly designed decisions often heighten risks, costs, and coordination challenges. The literature suggests that decision characteristics are not merely technical parameters but strategic determinants that guide contract design, governance mechanisms, and the long-term sustainability of outsourcing arrangements.

Performance monitoring

This category focuses on systematic tracking, evaluation, and reporting of vendor performance against defined service standards, contractual obligations in an outsourcing arrangement. It ensures accountability, supports corrective action, and informs decision-making throughout the contract lifecycle.

- **Performance monitoring mechanisms**

Are the tools, processes, and structures used by public sector organisations to systematically assess, track, and ensure that outsourced service providers meet their contractual and service delivery obligations?

- **Oversight Mechanisms**

Refer to the formal and informal systems used by public sector entities to supervise, regulate, and ensure the integrity, accountability, and compliance of outsourced service providers.

Performance monitoring is a cornerstone of successful outsourcing, ensuring that services meet contractual obligations while aligning with broader organisational goals. Effective monitoring systems provide accountability, reduce opportunism, and enable timely corrective action. However, in the public sector, monitoring extends beyond efficiency—it must also safeguard transparency, equity, and citizen trust. The literature highlights that robust monitoring is not just about control but also about fostering collaboration, learning, and adaptability between clients and suppliers, thereby enhancing long-term outsourcing performance.

Environment

Despite its relevance, environmental factors have not been studied extensively.

- **Regulatory environment:**

Refers to the legal, policy, and institutional frameworks that govern how outsourcing in the public sector is planned, procured, implemented, and evaluated.

- **Political Colour of Ruling Majority:**

Refers to the ideological orientation (e.g., conservative, liberal, social democratic) of the political party or coalition in power, which influences policy priorities, including outsourcing in public sector decisions.

- **Local socioeconomic factors:**

Refer to the economic conditions, demographics, and social characteristics of a locality or region that influence how outsourcing in the public sector is designed, implemented, and received.

Legal and political uncertainty is especially important in government outsourcing in the public sector, where accountability, data sovereignty, and political interference are critical.

- There is scope to examine country risk, institutional voids, ESG regulations, and digital protectionism as determinants of outsourcing in public sector strategies.
- Incorporate surveys to directly link voter ideology with outsourcing outcomes.

Influence Sources

Influence sources refer to external and internal pressures or forces that shape a firm's decision to adopt outsourcing practices. This is one of the least studied categories.

- **Participant Attributes:**

Refers to the demographic, professional, organisational, and experiential characteristics of the individuals or stakeholder groups involved in outsourcing in public sector decisions, implementation, or evaluation. Found that role-based differences (vendor vs. client) shape perceptions of outsourcing success. Attributes such as organisational rank, task orientation, and communication styles were key differentiators (Goles & Chin, 2005).

- **Market competition:**

Market competition is a significant influence source in outsourcing decisions, and it functions as an external environmental pressure that shapes how organisations evaluate costs, agility, innovation, and strategic focus, which affect whether, how much, and what type of outsourcing they pursue. In highly competitive industries, outsourcing is used to achieve agility, cost savings, and service differentiation faster than building internal capabilities (McIvor 2005).

Supplier Firm Characteristics

This category captures attributes of outsourcing in public sector suppliers that might influence either outsourcing in public sector decisions or outsourcing in public sector outcomes.

- **Agency characteristics:**

  Internal attributes, resources, and capabilities of the private vendor contracted influence the supplier's ability to meet contractual obligations, adapt to client needs, innovate, and ensure service continuity in outsourcing in public sector arrangements.

- **Vendor reliability:**

  Refers to the consistency, dependability, and trustworthiness of a supplier in fulfilling contractual obligations over time.

3.3. Emerging Trends and Research Opportunities

Building on this review, several new and underexplored areas have emerged as promising directions:

Cross-national and cultural comparative studies that examine how institutional, cultural, and regulatory contexts shape outsourcing strategies and outcomes.

Shift towards strategic partnerships: Achieved by the evolving nature of outsourcing in public sector relationships from traditional, transactional contracts to collaborative, long-term partnerships focused on mutual value creation, shared goals, and continuous improvement. Best-practice outcomes arise when Strategic Impact is high, and Vendor substitution is significant (Junghoon Moon, Bobby Swar, Young Chan Choe, Miri Chung & Gu Hyun Jung, 2010).

Sustainability in Public Procurement: Sustainability is achieved through integration of environmental, social, and economic criteria into the policies and practices of public sector purchasing, including outsourcing.

Public Sector Capabilities for Managing Digital Outsourcing: Explore areas of Institutional, technical, managerial, and strategic competencies that enable government agencies to effectively procure, implement, and govern digital services through external vendors.

Citizen Engagement and Accountability: It involves structures, processes, and tools that enable citizens to participate in decision-making, provide feedback, and hold public agencies and vendors accountable in outsourced public service delivery.

Further, risk governance in dynamic environments, especially in light of increasing cyber threats, geopolitical shifts, and technological disruption, is to be explored.

3.4. Need for Further Research

a. Strategic Outsourcing Decisions

Strategic outsourcing decisions typically involve high-level judgments about which services to outsource, how to structure contracts, and which governance models to adopt. Although outsourcing is widely practised, there are still substantial gaps in research regarding the strategic rationale, organisational dynamics, and contextual factors that shape these decisions.

In view of the following, further research is required:

- Trade-offs between cost savings, service quality, public accountability, and long-term capacity are often unclear or under-analysed.
- Strategic outsourcing must now address digital transformation, equity, resilience, and sustainability, yet empirical evidence on how these are weighed in strategic decisions is limited.
- Most research is concentrated in Western, high-income contexts and core services (e.g., IT, waste, transportation), limiting generalizability.
- Strategic decisions are dynamic, but most studies are static or short-term. Hence, the long-term effects of outsourcing on institutional performance, policy adaptability, or citizen trust are to be examined.

Therefore, we argue that further empirical research is necessary to explore a better understanding of the strategic motives and outcomes associated with outsourcing in public sector decisions.

b. Outcomes of Strategic Outsourcing

Much of the existing literature emphasises cost savings and contract compliance, while neglecting broader and more nuanced dimensions of public service performance, such as equity, resilience, and innovation.

In view of the following, further research is required:

- Whether the savings are sustainable, realistic, or linked to service quality.
- Outsourcing in the public sector must be judged by its impact on citizen satisfaction, equity, transparency, and social value.
- Citizen experience, access, and satisfaction are often missing from performance reviews, especially in vulnerable communities.

c. Dynamic Interplay Between Outsourcing and the Firm's Capabilities

Outsourcing in the public sector is not merely a tool for service delivery, but it is a strategic process that interacts with and shapes the internal capabilities of public organisations. This dynamic relationship remains empirically underexplored in the context of the public sector.

In view of the following, further research is required:

- Capability Substitution vs. Capability Enhancement is observed on account of outsourcing of critical functions and building new capabilities via knowledge transfer, vendor interaction, and learning-by-doing.
- There is limited research on how learning flows between public agencies and vendors.
- In some cases, agencies re-insource functions or change sourcing strategies after outsourcing. These shifts reflect strategic learning but are rarely studied systematically.

4. Discussion

While outsourcing has long been adopted as a strategy to improve efficiency, reduce costs, and access specialised expertise, this research reveals a more complex interplay of strategic, institutional, relational, and contextual factors that shape its outcomes.

Questions were raised about the long-term sustainability of cost-focused outsourcing strategies, especially when they erode internal capabilities or increase dependency on external vendors.

Another significant theme emerging from the analysis is the importance of relational and contractual governance mechanisms. Effective outsourcing in the public sector is not purely transactional, and it depends heavily on the quality of collaboration, trust, communication, and adaptive contract design (Kern & Willcocks, 2001; Poppo & Zenger, 2002).

The study also highlights the role of environmental and institutional variables. Political ideology, market maturity, regulatory frameworks, and the level of citizen engagement significantly influenced outsourcing decisions and performance. This supports arguments made by scholars like Girth et al. (2012) and Van Slyke (2003), who call for more context-sensitive outsourcing models that consider external pressures and governance structures.

Importantly, the research identifies growing attention to emerging models such as public–private partnerships (PPPs), multi-sourcing, and digital outsourcing, which move beyond traditional contract-based service provision. These models are designed to deliver innovation, resilience, and public value, outcomes that go beyond the cost-efficiency paradigm. However, empirical data on their effectiveness remains limited, pointing to a rich area for future investigation.

Agencies that actively managed outsourcing relationships and invested in client-side capabilities (e.g., contract management, performance monitoring, and knowledge retention) reported more strategic outcomes. This aligns with the dynamic capability's perspective, suggesting that outsourcing is not only about external provision but also about internal transformation.

Finally, the research underscores the need for more theoretically integrated and comparative studies as the current literature draws from disciplines like economics or management. Still, there is a clear opportunity for outsourcing in the public sector to enlighten with broader theoretical debates, especially in areas like institutional theory, relational governance, and public value theory.

5. Conclusion

Outsourcing in the public sector reveals a field that is both theoretically rich and practically significant, yet still evolving. While outsourcing has become a widely adopted strategy to improve efficiency, reduce costs, and access external expertise, the literature review shows that its outcomes are highly contingent on a complex interplay of contractual design, governance structures, political context, organisational capabilities, and market conditions.

From a **Transaction Cost Economics (TCE)** perspective, outsourcing decisions can be explained by the role of asset specificity, uncertainty, and transaction frequency in shaping make-or-buy choices. Public sector organisations, however, operate under conditions that extend beyond efficiency concerns. The limitations of TCE become clear when accountability, political oversight, and citizen equity considerations influence outsourcing outcomes in ways that cannot be reduced to transaction cost minimisation alone.

Institutional Theory complements this view by capturing the broader pressures that shape public sector outsourcing. Formal rules, procurement regulations, political scrutiny, and societal expectations often override cost-driven decisions. For example, public sector may select a vendor not solely based on the lowest transaction cost, but also with transparency mandates or alignment with public value objectives. This theoretical lens explains why public outsourcing practices sometimes persist even when they appear economically suboptimal, highlighting the influence of legitimacy, norms, and institutional logics.

Yet, neither TCE nor Institutional Theory sufficiently explains how outsourcing relationships evolve in practice to deliver innovation, resilience, or service quality. Here, **Relational Governance Theory** provides critical insights by emphasising the role of trust, collaboration, and mutual adaptation between clients and suppliers. Long-term partnerships, knowledge sharing, and cooperative problem-solving are increasingly recognised as indispensable in ensuring public sector outsourcing success, especially where rigid contracts and compliance-focused rules may fall short. Relational governance shifts the focus from control to cooperation, demonstrating that sustainable outcomes depend on both formal mechanisms and informal norms.

In view of the scale and growth trajectory, the relevance of outsourcing in public sector research remains high. While outsourcing may appear routine, our review affirms that it is far from simple. There is no “quick fix” during economic expansion, nor in downturns. Outsourcing is not a universal remedy; rather, it represents a fundamentally different mode of management.

Success in outsourcing depends heavily on experiential learning, organisational capabilities, and diligent, ongoing effort from both clients and suppliers. As previous work suggests (Lacity & Willcocks, 2009), clients must climb a significant learning curve, developing internal competencies to manage outsourced functions effectively. They must recognise that outsourcing does not mean relinquishing management, but rather managing differently. Meanwhile, suppliers must constantly reassess and evolve their capabilities, service offerings, and strategic positioning in a competitive landscape.

In conclusion, outsourcing in the public sector is no longer a simple question of make-or-buy; it is a complex strategic and governance challenge. A **critical synthesis of TCE, Institutional Theory, and Relational Governance Theory** highlights that outsourcing decisions are shaped simultaneously by economic efficiency, institutional legitimacy, and relational dynamics. Future research must therefore move beyond transactional logic to explore how outsourcing can contribute to public value, resilience, and institutional learning, while also addressing issues of transparency, capability retention, and contextual variation. Advancement in this field requires both empirical innovation and a commitment to reciprocally informing and enriching theoretical foundations across disciplines. It offers rich opportunities for academic scholars to deliver valuable insights and practical guidance in a domain that remains both critical and complex. As outsourcing becomes further embedded in organisational practice, the role of rigorous academic research in illuminating its challenges and potential becomes more vital than ever.

6. Limitations of the Research

While we made every effort to conduct a comprehensive and systematic search, it is observed that articles on outsourcing published in a peer-reviewed journal are very limited. As such, we extend our apologies for the inadvertent omission of any of the contributions by colleague researchers.

Even though the researchers independently coded the findings and a verification process was undertaken, minor discrepancies did occur.

The literature on outsourcing in the public sector is theoretically and methodologically fragmented, drawing from diverse fields such as economics, public administration, strategic management, and information systems. This interdisciplinarity, while enriching, poses challenges for theoretical integration and comparative synthesis, making it difficult to derive universally applicable causal explanations.

A large proportion of existing studies focus on developed countries (e.g., the UK, US, Australia) and in public sectors (primarily IT, infrastructure, Finance, and Health services). This introduces a potential geographical and sectoral bias, limiting the generalizability of findings to developing economies or under-researched sectors like environmental services, social welfare, or emergency management.

There is a lack of longitudinal research that tracks performance, capability development, or governance adaptation over time.

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