

## Downsizing with Competitive Outsourcing: its Impact on Absenteeism in the Public Sector

**Nathan P. Cote**

*Embry-Riddle Aeronautical University,  
Webster University, and Park University, extended campuses  
10 Cholla Ave, Alamogordo, NM 88310-890, USA*

**Raymon R. Bruce**

*University of Texas at Arlington,  
School of Urban and Public Affairs,  
Box 19588, Arlington Texas, 76019-0588, USA*

*The authors were asked to examine a problem of employee absenteeism from the abuse of sick and annual leave during Competitive Sourcing Program (CSP) study at an U.S. Air Force organization. The purpose of this study was therefore, to determine if there was statistically more or less absenteeism in the form of leave being taken in an organization undergoing downsizing through a CSP. Therefore, in order to answer that question, a comparison of two sets of stratified random samples of leave usage data comparing employees in a CSP study organization against employees in an organization not under a CSP study was conducted. The research showed that the employees in an organization undergoing a Competitive Study took fewer sick leaves than the employees in the control organizations not undergoing a CSP study. Whether this was due to fear of being singled out for being let go first or a prudent strategy for the employees to improve the unit's competitiveness with outside contractors must be the subjects of further research. In any case, this research shows the value of researching the facts to verify significant management's concerns about employee behavior.*

Raktažodžiai: išorės ištekliai, konkursinis išteklių gavimas, tarnautojų absenteizmas, įstaigų mažinimas.

Keywords: outsourcing, competitive sourcing, employee absenteeism, downsizing, public sector.

### Introduction

The post-cold war realignment of nations in Eastern and Central Europe, the commercialization of China, international trade agreements, and the European Union, have all been factors contributing to a new global economy. In the United States as well as in many other countries, this economy has brought new technology and foreign trade competition to an unprecedented level. As the economic cycle fluctuates, many organizations, private companies and government agencies alike find it necessary to reduce

their costs. The workforce is usually the organization's largest cost budget expenditure impacting the bottom-line in private industry, and the budget in government agencies. Therefore, these organizations often focus on reducing their immediate workforce. For the US Government, this becomes intensively true during the competitive outsourcing process under Office of Management and Budget (OMB) *Competitive Sourcing Program* (CSP) [1]. This program is a form of outsourcing services to private contractors in order to reduce employee costs to the organization. It forces functional government units to compete in open bidding in with outside private contractor providers in order to determine who would best furnish the current services. Supervisors in government organizations expressed their concerns that when undergoing down-sizing through CSP study employee absenteeism in those organizations would increase. The authors were asked to examine this problem of employee absenteeism from the abuse of sick and annual leave during CSP study at an U.S. Air Force organization. The purpose of this study

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*Nathan P. Cote* - Embry-Riddle aeronautikos universiteto, Webster universiteto ir Park universiteto jungtinio centro (JAV) lektorius, viešojo administravimo magistras.

El. paštas: [ncote@zianet.com](mailto:ncote@zianet.com)

*Raymon R. Bruce* - Teksaso universiteto Arlingtone Miesto ir viešųjų reikalų mokyklos (JAV) profesorius, PhD; Demokracijos horizontų fondo viceprezidentas.

El. paštas: [Fuimus@aol.com](mailto:Fuimus@aol.com)

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therefore, was to determine if there was statistically more or less absenteeism in the form of leave being taken in an organization under-going downsizing through a CSP study.

Much of the research on absenteeism conducted in the recent past has failed to generate significant dividends, whether the research concerned the prediction, explanation, or control of absence [2]. Absenteeism research has in fact been described as everything from bewildering to not very informative [3]. Therefore, in order to answer the supervisor's concerns, a comparison of two sets of stratified random samples of leave usage data comparing employees in a CSP study organization against employees in an organization not under a CSP study was conducted. The stratified random sample totaling seven employee records comprising 18 percent of the population in the CSP study organization was compared with an exact number of a stratified random sampling of employee records in a similar, but larger organization comprising 10 percent of its population. A statistical significance could then be established from these samples to answer the supervisors' immediate question of whether or not the employees' use of either types of leave might be significantly more in the study organization compared to a non-study organization, or whether there would be no significant difference.

### **It All Begins with Downsizing**

Since the Clinton administration *National Performance Review* (NPR), there have been several changes in the US federal government, all designed to either improve its efficiency and/or to reduce costs. The ultimate goal of one of the primary down-sizing and cost-saving tools, the federal competitive outsourcing process, is to make government work better at a lesser cost by Competitive outsourcing various government service support functions through a competitive bidding process. This concept was originally attempted nearly 50 years ago and has undergone several modifications since then. To that end, competitive outsourcing has been a critical component of actions taken in later years as re-energized by the NPR and most recently as one of President George W. Bush's agenda issues.

Most public sector downsizing is driven by the strategy to reduce funded items in a budget to make better use of the remaining budget for technological improvements. Rationally, establishing more efficient governmental organizations or outsourcing non-core governmental functions made good sense. However, a drawback to competitive outsourcing is that if it is to be successful, it generally results in fewer workers who must perform the same amount of work. For

example, the *Federal Workforce Restructuring Act* of 1994 required a reduction of 272,900 employees over the fiscal years 1994 through 1999. It also required federal agencies to look toward changing work processes, utilizing evolving technology, and eliminating functions and programs. As a result, federal managers had to reorganize, train, and empower a smaller workforce to deliver essentially the same services and programs to U.S. citizens. Often, a misleading representation of downsizing through competitive sourcing involves only the reduction of employees providing immediate monetary savings. However, it is only later the find that many key employees were let go, those who were instrumental with the success of the organization.

The results of downsizing through competitive sourcing effect most governmental agencies including the military. In May 1997, the Department of Defense (DOD) published its first *Quadrennial Defense Review* (QDR) of U.S. defense posture. This review, mandated by the U.S. Congress as part of its efforts to improve the performance of governmental agencies, sought to set the course of U.S. defense policy for the next eight years, in large part by setting guidelines for the investment of over \$2 trillion in defense expenditures. Congress also mandated an independent nonpartisan *National Defense Panel* to conduct a comprehensive assessment of the QDR and alternative force structures through the year 2010.

Downsizing is not an easy process and it is one in which the end result impacts employees in some negative way. This is especially true when downsizing is by a competitive outsourcing process that can take anywhere from 18 months to four years to complete. In this paper, the authors examine the possible effect a competitive sourcing study had on employee's use of annual and sick leave. It must be noted that one of the reasons for doing research on this paper was because supervisors in an organization conducting a competitive outsourcing program perceived their employees to be demoralized as a result of the competitive sourcing process. They believed that as a result employees were taking more time off from work. These supervisors believed the use of sick leave in particular was being abused, partly because of an increase in stress caused by the competitive sourcing process.

### **Competitive Sourcing**

Outsourcing is a management strategy by which an organization invites other organizations in a competitive bidding venue involving more efficient specialty service providers, to provide major, non-core functions for the host organization. Private companies have always hired special contractors for

particular types of work, or to level-off peaks and valleys in their workload. Also, they have always formed long-term relationships with firms whose capabilities complement their own. In recent years, companies have commonly contracted for shared access to resources that were beyond their individual reach - whether it be buildings, technology or people. However, the difference between simple sub-contracting and outsourcing is that outsourcing involves the wholesale restructuring of the host organization around core competencies and outside relationships.

Outsourcing is often referred to as Competitive Sourcing. It pits the government service unit performing the function to become a competitive bidder against independent private contractors to perform the government support function of that government unit. Competitive Sourcing in the public sector has been increasing, and is now driven by economic concerns, which is a drastic change from the past. Military leaders continue to downsize and reorganize their respective agencies to meet U.S. military objectives using this Competitive Sourcing strategy. However, spending on support functions has not seen any significant reduction due to overhead costs that still remain high. In fact, support and infrastructure now consume nearly 70% of all defense dollars, at an annual sum of roughly \$160 billion [4]. Outsourcing in the DOD is encouraged to promote efficiency and improve service. P.Taibl noted, however, that real value to the DOD's bottom line will not occur until there is buy-in at the top, with incentives for first-line managers to risk new outsourcing and privatization opportunities - an acceptance that, in many cases, the private sector has an advantage over the public sector [4].

There is little known about the specific impact of DOD's competitive sourcing process on employees on a military installation. A lengthy competitive sourcing process continues to have an impact on employees, who receive a mixed message because of legal exclusions and shortcuts to the use of outsourcing providers. Outsourcing is growing at a rapid rate in the U.S. because organizations view it as a way to achieve strategic goals, reduce costs, improve customer satisfaction, and provide other efficiency and effectiveness improvements. Like any organizational decision, however, outsourcing requires effective management from the outset. This becomes intensively true during the competitive sourcing process under Office of Management and Budget (OMB) CSP [1].

### **Absenteeism During a Post Competitive Sourcing Program**

Absenteeism is defined as an abnormally larger number of employees in an organization who are on

sick, annual leave, or leave without pay on any given day. Because of the prevalent availability of annual and sick leave, the use of leave without pay is rare. The U.S. Department of Labor calculates rates of absenteeism by dividing the number of working days lost through absence in any given period by the number of available working days in the same period [5].

Absenteeism often causes work to remain undone, or to require that other workers complete certain tasks with no additional compensation. It is therefore important that management assess any causes of excessive employee absence. This is especially true because varying levels of absenteeism on any given day can appear excessive, but may in fact not be due to such reasonable causes as flu outbreaks, inclement weather or natural disasters. G.Levine notes that absenteeism costs organizations millions of dollars each year [5].

Moreover, relationships of other variables with absence are often inconsistent. Even when well established and of practical magnitude, such relationships may be poorly understood [3]. Unfortunately, much of the research on absenteeism conducted in the recent past has failed to generate significant dividends, whether the research concerned the prediction, explanation, or control of absence [2]. Absenteeism research has in fact been described as everything from bewildering to not very informative [3].

It is also the case that conclusions drawn from absenteeism research may be of little value to managers unless "the information about the incident of absenteeism leads to procedures which reduce it without being in violation of the law or being completely impractical" [3, p.293]. They suggest that early absenteeism research had been done in order to draw a correlation between demographics and attitude; however, results do not easily correlate to organizational intervention. Indeed: in many cases, organizational policies not only do not reduce absenteeism, but they may actually encourage it [3]. P.O.Brooke summarized the idea of "organizational permissiveness" with, "Do firms reward employees for failing to show up for work on a regular basis? As preposterous as this question may appear, recent studies indicate that the compensation programs of some firms encourage and even reward absenteeism" [6, p.345].

Absenteeism in the context of downsizing may be a withdrawal behavior. D.R.Dalton and W.D. To-dor suggested that some employees who are unable to transfer to another job as a way to change an unacceptable work situation might quit. It is likely that employees may also temporarily remove themselves - through absences - from unacceptable work situations. Essentially, there are any numbers of situations in which employees utilize sick leave or

un-planned vacation time to avoid their places of work.

Organizational stress causing increased absenteeism, lower morale and motivation, deteriorating industrial relations, lateness, high staff turnover, and a decline in productivity and quality. Personal stress can manifest itself in relatively minor symptoms such as headaches, general feelings of lethargy, and tension. C.Herbert suggested, "employers can introduce a workplace policy that recognizes mental health as an important issue and outlines the support available to employees with mental health problems" [10, p.27]. Finally, J.Vahtera wrote that those individuals who remain at work during downsizing may suffer an increase in ill health, but the extent of that ill health is dependent on the degree of the downsizing [8].

## Methodology

The purpose of this study was to determine if there was statistically more or less absenteeism in the form of leave being taken in an organization under a CSP study than one not under a competitive sourcing study. This study was established to examine one specific unit undergoing a competitive sourcing study on a medium to large size Air Force installation. The ultimate goal was to provide a quantitative analysis to reject or fail to reject a null hypothesis. The research hypothesis statements are:

1. There is no significant difference between the amounts of absenteeism in the form of annual leave taken by employees in an organization under competitive sourcing study than in an organization not under competitive sourcing study.
2. There is no significant difference between the amounts of absenteeism in the form of sick leave taken by employees in an organization under competitive sourcing study than in an organization not under competitive sourcing study.

In order to answer the question of whether or not employees were absent from work more often during a CSP study it was necessary to look at annual and sick leave usage. To do so, a comparison of two sets of stratified random samples of leave usage data comparing employees in the study organization against employees in an organization not under study was required. The stratified random sample totaling seven employee records comprising 18 percent of the population in the CSP study organization was compared with an exact number of a stratified random sampling of employee records in a similar, but larger organization comprising 10 percent of its population. The sampling was of career employees in

similar blue-collar occupations and pay classification levels. The stratified random sample was obtained by selecting names from an alphabetical list of employees retrieved from the human resources data file, retrieved by predetermined defined parameters to include pay classification levels, pay play (blue collar), and career tenure. Every seventh employee from the alphabetical competitive sourcing study organization list was selected and every tenth employee the non-study organization list.

Based on the results of the statistical analysis between the non-study organization and the organization under competitive sourcing study, a decision could be made to reject or fail to reject the null hypothesis. The two-tailed *t*-test was used; the *t*-test is used to compare the mean of two different sets of independent samples. Using this methodology meets the following test [9]:

1. The sampling groups used are independent of each other;
2. Each sampling subject appears only in one of the groups; and
3. The two groups represent a random sample of their respective populations.

The results using the two-tailed *t*-test to compare the two independent sample groups were expected to either reject the null hypothesis or fail to reject the null hypothesis. Two sets of independent sample data were compared; one set was annual leave usage, the other was sick leave usage (see *Table 1*). A statistical significance could then be established from these samples to answer the immediate question of whether or not the use of either types of leave might be significantly more in the study organization compared to a non-study organization, or if there was any significant difference. The results would then address the supervisor's question of whether or not there was increased absenteeism in the organization under competitive sourcing study.

## Limitations of the Study

This study relied on a stratified random sample of employee data maintained on annual and sick leave usage. The findings from this research may have limited value to public organizations of varying size in other geographical locations or in governmental organizations conducting their CSP study with varying degrees of communication, more or less aggressive labor union involvement, or other factors that might cause more or less absenteeism.

Because parameters were imposed by this study, the exact replication of any findings may be done given the availability of the data. Therefore, the results may or may not show any significant relationship of competitive sourcing on employee absentee-

eism. Additionally, the results of this study may be different from those of future studies made under different situations.

**Table 1. Random Sampling Data**

Random Sampling of Employee Leave Records				
	<i>Non Competitive Sourcing Organization</i>	<i>Competitive Sourcing Organization</i>	<i>Non Competitive Sourcing Organization</i>	<i>Competitive Sourcing Organization</i>
<i>Type of Leave</i>	Annual Leave	Annual Leave	Sick Leave	Sick Leave
	224	162.25	109	111.5
	148.5	197	169.5	107
	185	123	181.5	118
	232	221.5	182.5	150
	162	186	73.5	43.5
	139	148.6	174	97.9
	162	173	77	104.5
<b>Total</b>	1252.5	1211.35	967	732.4
<b>Mean</b>	178.9	173.1	138.1	104.6
<b>Standard Deviation</b>	36.5	32.4	48.9	31.8

Finally, the results drawn from the review of available historical data resulted in a particular research paradigm, which may or may not be similar to data, used in future studies. In addition, the available historical data for this study is limited due to the relatively short period of time, 13-months, and of the small sampling size.

### Results, Findings and Conclusions

The averages of 14 of employees selected by a stratified random process, seven in a function under CSP study and seven in a function not under CSP study revealed less annual leave and sick leave used by the Competitive Sourcing Program group than the Non-Competitive Sourcing Program group.

To determine the statistical significance between the two sets of stratified random data, the mean of each group was compared using a two-tail *t*-test analysis. Data was retrieved on seven employees from one organization under Competitive Sourcing Program study and a similar organization not under competitive sourcing study. Annual leave usage analysis was accomplished for the same 13-month time period during the competitive sourcing process. A mean was determined for each set of data, the standard deviations computed, and the *t*-test analysis accomplished.

The same sample was used and compared using both annual and sick leave usage in each of the two separate organizations (see *Tables 2 and 3*).

**Table 2. Hypothesis A. Annual Leave Usage**

<i>Sample Set</i>	<i>Mean</i>	<i>Standard Deviation</i>
Non Competitive Sourcing Study Organization	178.9	36.5
Competitive Sourcing Study Organization	173.1	32.4

*t* Ratio = 3.142  
*t* Critical Value = 2.179  
*t* (12) = 3142, P > .05  
 Fail to reject null hypothesis

**Table 3. Hypothesis B. Sick Leave Usage**

<i>Sample Set</i>	<i>Mean</i>	<i>Standard Deviation</i>
Non Competitive Sourcing Study Organization	138.1	48.9
Competitive Sourcing Study Organization	104.6	31.8

*t* Ratio = 5.175  
*t* Critical Value = 4.318  
*t* (12) = 5.175, P < .0011.78  
 Reject null hypothesis

The difference in the use of annual leave by the two groups was insignificant (see *Table 2*). These results were not surprising because civil service personnel tend to take annual leave only at the rate they earn it. Also, annual leave is a valued commodity to those who face termination or near retirement because of its cash value. Unused annual leave is worth dollar for dollar the same amount per hour as a person's normal wage. Those employees under an CSP study could receive cash payment for unused annual leave upon separation from employment and may be holding as much of it as possible with the understanding that the CSP study may go on for another year or two.

The results of the *t*-test revealed a statistically significant difference only between the two sick leave groups. Unexpectedly, the Non-Competitive Sourcing Program group used significantly more sick leave than the CSP group. Supervisory perceptions of an absenteeism problem in the CSP study group were not justified according to this research (see *Table 3*).

These results were counterintuitive to the Supervisor's expectations. A couple of observations are offered based on the experience the authors have had at the executive level in the field of human resources.

Unused sick leave has no value at termination of employment for employees of the Federal Government. Under the current *Federal Employees Retirement System* (FERS) unused sick leave has no value toward additional retirement annuity. However, unused sick leave under the pre-1986 *Civil Service Retirement System* (CSRS), in which many senior employees are grand-fathered in, is used to extend creditable service hour for hour for annuity computation purposes. Therefore, there is the possibility that employees in the CSP study organization do not want to bring negative notoriety upon themselves should their work unit in the organization actually be outsourced. They may be taking the prudent path of not becoming possible targets for disciplinary action for sick leave abuse or thought to lack commitment to their employer.

The unexpected research results pose more questions than they answer. For example, are employees in work units under CSP study denying themselves needed sick time in fear of being selected for termination? Or are they applying themselves to productivity by refraining from taking unnecessary sick leave as a strategy to become more competitive with outside private source providers? This is perhaps an area for further research. In any case, this research shows the value of researching the facts to verify significant management's concerns about employee behavior. In any case, this research shows the value of researching the facts to verify significant management's concerns about employee behavior.

## Summary

As the economic cycle fluctuates, many organizations, private companies and government agencies alike find it necessary to reduce costs. They often focus on reducing their immediate workforce. The workforce is usually the organization's largest cost bud-get expenditure impacting the bottom-line in private industry, and the budget in government agencies. This becomes intensively true during the competitive sourcing process under Office of Management and Budget CPS [1]. Supervisor's in government organizations undergoing downsizing through a CPS study expressed their concerns the increased absenteeism in their organizations undergoing a *Competitive Sourcing Study*.

The authors were asked to examine this problem of employee absenteeism from the abuse of sick leave during CSP in a U.S. Air Force organization. The purpose of this study therefore, was to determine if there was statistically more or less absenteeism in the form of leave being taken in an organization undergoing downsizing through a CSP. In order to answer that question, a comparison of two sets of stratified

random samples of leave usage data comparing employees in a CSP study organization against employees in an organization not under a CSP study was required. The stratified random sample totaling seven employee records comprising 18 percent of the population in the CSP study organization was compared with an exact number of a stratified random sampling of employee records in a similar, but larger organization comprising 10 percent of its population. A statistical significance could then be established from these samples to answer the immediate question of whether or not the use of either types of leave might be significantly more in the study organization compared to a non-study organization, or if there was any significant difference. However, relationships of other variables with employee absence are often inconsistent. Even when well established and of practical magnitude, such relationships may be poorly understood [3] Unfortunately, much of the research on absenteeism conducted in the recent past has failed to generate significant dividends, whether the research concerned the prediction, explanation, or control of absence [2]. Absenteeism research has in fact been described as everything from bewildering to not very informative [3].

These results were counterintuitive to the Supervisor's expectations. The research results show that employees in an organization undergoing a CSP study not only did not use more sick leave, but actually used less sick leave than those employees in the control organization not undergoing a CSP study. The unexpected research results pose more questions than they answer. For example, are employees in work units under CSP study denying themselves needed sick time in fear of being selected for termination? Or are they applying themselves to productivity by refraining from taking unnecessary sick leave as a strategy to become more competitive with outside private source providers? This is perhaps an area for further research. In any case, this research shows the value of researching the facts to verify significant management's concerns about employee behavior. In any case, this research shows the value of researching the facts to verify significant management's concerns about employee behavior.

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Nathan P. Cote and Raymon R. Bruce

### **Įstaigų mažinimas, konkurso būdu perduodant funkcijas, ir to įtaka absenteizmui viešajame sektoriuje**

#### **Reziumė**

Autoriai tyrė tarnautojų absenteizmo problemą vienoje JAV karinių oro pajėgų organizacijoje, norėdami išsiaiškinti, ar *Konkursinio resursų gavimo programa* veikia su organizacijos mažinimu susietą absenteizmą. Tuo tikslu buvo tirtas tikimybinis būdu atrinktų dviejų organizacijų – dalyvaujančių ir nedalyvaujančių *Konkursinio resursų gavimo programoje* – tarnautojų neatvykimo į darbą dėl įvairių priežasčių pasiskirstymas. Tyrimas parodė, kad organizacijos, dalyvaujančios *Konkursinio resursų gavimo programoje*, tarnautojai mažiau dienų neatvyko į darbą dėl ligos negu nedalyvaujančios toje programoje organizacijos tarnautojai. Ar tai yra todėl, kad dalyvaujančios minėtoje programoje organizacijos labiau baiminasi dėl savo išlikimo, ar todėl, kad tos organizacijos stengiasi įgyvendinti labiau apgalvotą strategiją konkurencingumui išlaikyti, – turėtų išsiaiškinti tolesni tyrimai.