

Cost Control in the United States Postal Service - The Institutional Effects and Implications

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Abstract: Nowadays, in times of persisting national budget deficits, issues of corporate finance for state-owned enterprises become a hot topic. This paper explores why the state postal agency/company should rely in outsourcing as a major method to control costs to achieve sustainable financial viability. The paper also explores the link between institution factors and the contracting decisions by using the Value-Institutions-Market (VIM) framework on the federal business data, with a focus on the period of 1995-2007 (where data is available). The overarching question of the study is how the USPS outsourcing decisions were affected by changing business environment. The finding is that at the macro level, contracting is a potential strategy to cut costs for the USPS, as well as for other public agencies and enterprises. However, the degrees the USPS can rely in outsourcing is largely framed by institutions factors, that changes in this category affect the magnitude of contracting.

Keywords: Cost control; Postal service; State-Owned Enterprise; Outsourcing/ Contracting-out.

1. Background of the research

1.1. Context of challenges facing the financial viability of the USPS

Postal network is an essential infrastructure with public services and public economy function. Postal service is a traditional core function of any government. According to the Universal Postal Union (UPU), virtually all NPOs are a state-owned entity providing

services nationwide and most enjoy statutory monopoly in varied range of products and services. Like the challenges that other public infrastructure industries are facing [1, p. 2] in the last decades, NPOs in most DCs have been characterized as a low efficient operator - suffered from inefficient management and production, low productivity labor, low resource and asset utilization, and consequently poor financial performance and underinvestment - as well as a financial burden to the government budget. In addition, NPOs around the world are facing certain very serious problems, including (i) powerful competition from substitute services (i.e.,

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telecommunication and internet services) and competitors (i.e., logistic corporations) leading to shifting customer demands and severe financial losses, and (ii) rigid institutional constraints that prevent them from controlling their most important input factors of production (i.e., labor, offices, pricing) [2-5]. Thus, NPOs in many countries have been in various stages of searching for and transforming their postal sector into a more viable model that include fundamental competitive restructuring, establishment of effective regulatory mechanisms, and especially private participation in form of outsourcing. Private sector participation is introduced into the system so that the postal incumbent can explore the outside expertise to cut costs or improve performance. Private sector participation can be developed through concession or management contracts, outsourcing non-core activities (such as office building and car fleet maintenance and cleaning, supplies, etc.), and franchising retail outlets [4]. The private participation lead to fundamental changes in the corporate governance practices of the NPOs.

The USPS is not out of this context. The USPS is the only delivery service that visits every address in the nation, 155 million homes and businesses, six days a week. The USPS and the industries it supports account for roughly 9% of gross domestic product or \$900 billion (www.USPS.gov; 2016). To fulfill its duty with the Americans, the USPS posses a huge labor force of over 620,000 staffs and a multilayered network of 37,000 functional offices, processing centers, and retail locations [6, p. 2, 7].

The USPS is facing serious problems that threaten its sustainable future, including persisting financial deficit, overpaid labor, strong labor union resistance, rigid institutional constraints, powerful competitions, and shifting customer demands. In addition, unlike most other countries, the USPS has to keep pace with a customer base still in fast growing with over two millions new addresses added each year, while at the same time the volume growth has slowed down due to competition, leading to decline in revenue per delivery point from \$469 in 2000 to \$433 in 2006 alone [7, 8] and worsened financial deficits in 15 consecutive years [7, 9, 10].

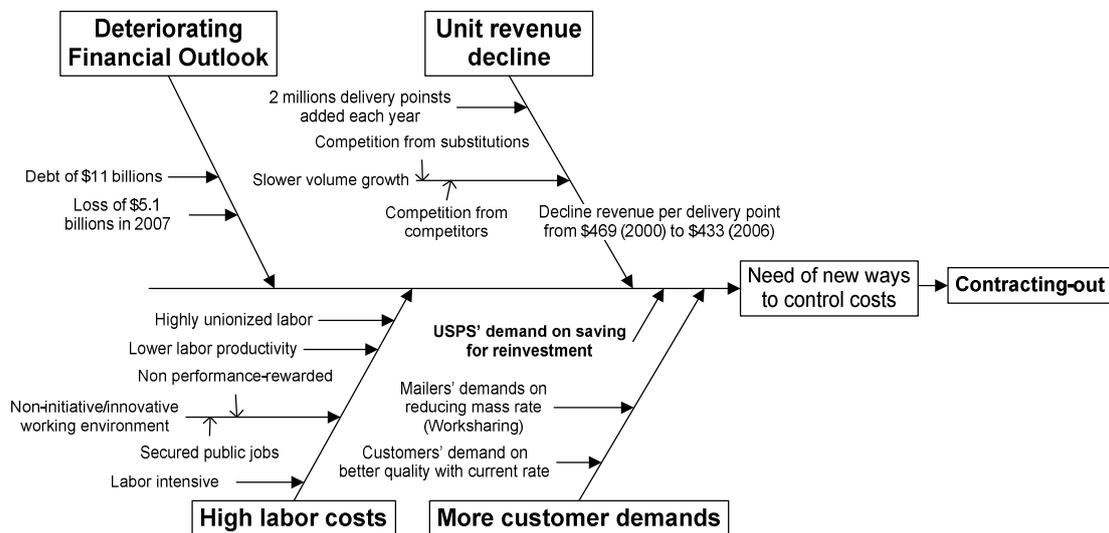


Figure 1. Pressures of cost control of the USPS.

Pressures from deteriorating business performance and financial outlook consequently make the USPS to continually look for new measures to control costs and improve productivity to address rapidly escalating delivery costs. Contracting is one of strategies that is an unavoidable way to adapt to the new business situation and comply with the Postal Act of 2006. The contracting-out has helped the USPS to reduce 100,000 staff positions without laying-off and decreases in production capacity [11]. Contracts are classified into five portfolios: (1) Facilities, (2) Mail Equipment, (3) Services, (4) Supplies, and (5) Transportation.

In contracting out, the USPS sees both encouragements and impediments from values, institutions, and nature and marketplace of products and services it is buying. For examples, while the Congress and the USPS recognize potential benefits of contracting for parts of mail collection and delivery operations, they are also concerned of protecting user privacy and network integrity. While the postal law encourages the USPS to operate in a business-like manner, it forbids the USPS at the same time to close a post office for non-profitability reason and contract that office's operations to a private retailer though this helps to save costs. While the mail collection can be contracted with ease, the mail delivery attracts little bidding attention due to its high asset specificity. Thus, understanding how the USPS decisions to make some products or to perform some operations internally by its own resources while get other products or operations provided by outside vendors were affected by changing business environment, or understanding roles of value, institution, and market factors in the USPS's contracting policy and practices is critically important for policymakers and the USPS itself, given the importance of an efficient and effective national postal service and the potential for the USPS to contract for billions of dollars in products and services; And this is also the motivation of this paper.

1.2. Outsourcing as a cost control for the financial viability in public sectors

Nowadays, almost every governmental organization outsources [12], seeking for benefits resulted from potential cost saving, quality improvement, and even labor cutting [13, 14]. Outsourcing is considered one of primary strategies to solve the financial viability of public sectors. Outsourcing – also referred as contracting-out – involves make-or-buy decisions: a choice by government not to produce a product or service itself but to buy it from the outside [13, 15]. This decision can be analyzed from two perspectives of System Theory and Transaction Cost Economic theory.

A make versus buy decision analysis conducted by a business must always address both strategic and operating considerations. The strategic aspect stresses protecting the firm competitive advantage, while the operating aspect is concerned with tactical and cost-related issues. At strategic level, the primary management decisions includes defining organizational missions and domain, as well as developing and protecting core competencies for the organization to achieve its missions in best ways in an environment contingent upon technologies, suppliers and customers. In the “*Organizations in Action*”, Thompson's system theory argued that the missions of an organization are a democratic reflection of the collective attempts of stakeholders to achieve their values; The domain is constrained by institutional arrangements; The core competencies are mostly affected by the market factors [16]. At the operating level, the managers analyzing the organization's operational and production processes are concerned with how to economize and mitigate kinds of costs and risk inherent in the exchange transactions between organizations or between successive tasks. These contents are discussed in the Transaction Cost Economic theory (TCE), whose primary focuses are centered in market-related factors.

The System Theory perspective at a more overarching and strategic level sees that incorporating in the agency activities which otherwise would be sources of serious contingencies is an essential way to minimize the uncertainty to the agency and dependency of the agency on the environment. Such direct productions not only maximize stable continuity and responsiveness of service delivery through capacity constantly available to public managers, but also increase responsibility of public managers. Thus, the vertical integration as in the postal production system helps improve standardization for increased efficiency and potential cost-savings through coordinated actions of interdependent elements [16, 17].

The TCE perspective at a tactical and operating level, however, suggests including in the agency only activities which can be performed in house at lower costs than the markets can provide. These indirect productions through markets are advantageous in that they help the agency acquire additional capacity and expertise economically. Since the strategic considerations always take precedence over operating ones, many agencies still perform activities crucial to the continuity of its production even though they could be bought at a lower cost from the markets. The TCE framework suggests unbundling service delivery into separate area productions and management activities with identifiable discrete tasks and responsibility to reveal which tasks may better be performed internally and which tasks via contracting, based on the transaction costs inherent in service [15, 18-22].

A vast literature explores the Contracting-out/Outsourcing topic in different levels of government. Nonetheless, postal sector has been paid little attention, since it is considered an old traditional governmental duty having natural monopolistic power. Though, in the last 20 years, the postal industry worldwide is in the midst of various, slow, and incremental structural adjustment stages, marked by three main trends, namely market liberalization,

corporatization, and partnership-building between public and private service operators. The broader private participation into the NPO system is expected to help reducing costs of service provisions, as well as altering corporate governance to make the NPO to perform. Values, institutions, and markets are three important factor categories that frame the government public-private partnership, including the contracting environment and contracting decisions [23]. The United States Postal Services (USPS) provides an exclusive case for examining these three factors' driving influences to contracting decisions at the federal level in the United States. This is because, being the only statutory monopolistic state-owned enterprise in the United States and an independent federal agency, contracting with the USPS quite differs from contracting with other government agencies. Mandated by law, the USPS operates like a business with its own procurement rules and regulations. The USPS is also exempted from many of the key federal laws, regulations, and executive orders pertaining to procurement that apply to government contracting, such as the Federal Acquisition Regulation, Competition in Contracting Act (CICA), the Small Business Act (GAO/GGD-91-103, 1991; USPS's Let's do business).

1.3. Research questions

The motivation of this research is to develop an understanding of why outsourcing would help with deteriorating financial status and how institutions frame the service delivery environment and drive contracting decisions to control cost in the context of the USPS. There are certain compelling research questions that come from a postal organization's decision to organize its basic production process: (i) why some tasks are conducted internally with public personnel, while other tasks are bought through contracts with outside vendors, and (ii) why some activities see higher aggregate contracting levels than others. Answers to these questions would enrich the current literature on public

finance, public corporate governance, with the application on a very particular case of a public monopoly which does not operate under most of the federal laws regarding purchases.

2. Values, institutions and markets framework (VIM)

The framework that the study uses to answer the research question of value-institution factors' roles in USPS contracting is the one suggested by Trevor Brown, Matthew Potoski, and David Slyke [23], which takes into account the combination of three main components values, institutions and service markets conditions throughout the whole contract management process. This is a comprehensive framework for researching contracting. In short, in this framework, "(1) stakeholder preferences decide compromised set of values for the service to deliver; (2) public laws and organizational arrangements define the contracting tools available for balancing competing values; and (3) the nature of service markets influence which contracting tools and vendors are best suited to achieve stakeholder values" [23].

The overarching proposition from the framework is that: under the influences of intertwined interactions of three categories of factor to the contracting environment, changes in each of categories of factors would drive the USPS use of contracting to control cost. Specifically, the proposal is "*Changes in the regulation and organization governing contracting will alter the magnitude of contracting*".

3. Methods and data

3.1. Theories

This research is a case study on the USPS's contracting. It provides theoretical explanations of USPS postal production arrangement and make-buy decisions from perspectives of systems theory (ST - particularly Thompson's arguments from *Organizations in Action*) and

the Transaction Cost Economic theory (TCE - particularly Williamson's arguments, 1975, 1981, 1993). It then analyzes USPS value and institution environment to identify possible and potential impacts of value and institution changes to its contracting policies and practices.

3.2. Empirical verification

In addition, an important part of the study is to find the empirical evidence supporting propositions laid out in the theoretical explanation section by the simplified Intervention Time Series Analysis (ITSA). The research looks to the USPS's supply chain management policy and purchasing regulations to identify turning points where value and institutional changes occurred in the USPS purchasing policy. The research also analyze the available data of the USPS's purchasing portfolios over the time span of 1995-2007 by the ITSA model to identify variations in the aggregate levels of contracting, and then tie them to purchasing policy turning points above. Though that will not help to explain the make-or-buy decisions, that helps us to learn when the USPS changed the rules and the structure, and how that increased the aggregate levels of outsourcing versus the internal services provision. This will indicate the impacts of values-institutions-market factors on make-buy decisions.

3.3. Time series intervention analysis

The Intervention Time Series Analysis empirically tests time series values (i.e., number of contract awards) and answers the common research question of whether an outside event affected subsequent observations. In general, we want to evaluate the impacts of one or more discrete events on the values in the time series. Four major types of impacts that are possible include (1) permanent abrupt; (2) permanent gradual; (3) abrupt temporary, and (4) gradual temporary, depending on their onset and duration characteristics [24].

The intervention model can be basically explained in the equation below. For a

particular service s , the magnitude of contracting can be explained as:

$$M_{st} = \beta_{s0} + \beta_{s1} \times \text{time}_{st} + \beta_{s2} \times \text{intervention}_{st} + \beta_{s3} \times \text{time after intervention}_{st} + e_{st}$$

In which,

M_{st} Magnitude of contracting for the service s at time t .

β_{s0} estimates the baseline level of the outcome at the beginning of the time series.

β_{s1} estimates the pre-intervention trend where time is a continuous variable indicating the time in month at time t from the start of the study period.

β_{s2} estimates the change in level post-intervention where $\text{intervention}_{st} = 0$ before the intervention, and $\text{intervention}_{st} = 1$ after the intervention.

β_{s3} estimates the change in post-intervention trend where $\text{time after intervention}$ is a continuous variable indicating the number of months after the start of the intervention at time t . It is coded as zero before the intervention.

e_{st} includes random error and autocorrelation.

The null hypothesis includes

(1) The level of the series before the intervention (β_{s0}) is the same as the level of the series after the intervention (β_{s2}) or $H_0: \beta_{s0} - \beta_{s2} = 0$;

(2) The trend of the series before the intervention is the same as the trend of the series after the intervention, $H_0: \beta_{s1} - \beta_{s3} = 0$

However, a major limitation of the traditional time series intervention model is that many data points are required for adequate model development. To solve this problem, Warren Tryon presented a method of time series analysis that can be used on small data sets to evaluate the effects of treatment interventions [25, p. 424]. This approach requires calculating the C statistic and Z statistic given by the following equations:

$$C = 1 - \frac{\sum_{i=1}^{N-1} (X_i - X_{i+1})^2}{2 \sum_{i=1}^N (X_i - \bar{X})^2}$$

Standard error of the C statistic

$$Sc = \sqrt{\frac{(N-2)}{(N-1)(N+1)}}$$

Young shows that the ratio of C to its standard error is the Z statistic which is normally distributed for time series containing 25 or more values, and the deviation from normality is not marked even for time series containing just 8 values [25, 26].

$$Z = \frac{C}{Sc}$$

Due to the limited number of observations in our data source, this model is perfectly suited for analyzing this case study.

3.4. Data source

The primary source of quantitative data on USPS contracting was retrieved from the Commercial Business Daily (<http://cbd.cos.com> and www.fedbiz.org) in January 2008. It provides USPS's Contract Awards from 1995 up to 2008. This data source stopped providing data after 2008, thus the research has no way to include data after 2008. The data inquiry can show individual contract records with classification number, date of publication, synopsis, contractor awarded, date awarded, and contract amount.

The secondary source of data comes from additional interviews with contracting officers to see how new institutional developments affect or constrain their work in practice. The USPS purchasing rules and regulations, and strategy can be found online at www.usps.com.

4. Empirical evidence

Indeed, the simplified ITSA analysis in contracting data of the USPS shows strong evidence of regulatory changes in relation to Contracting. As seen in the data, though the overall trend was up, there were visible strong fluctuations in annual contracting levels that coincided with the introductions or revisions of postal regulations and laws. Data is divided into

four periods separated by turning events as explained in the previous section.

The table below presents C statistics and Z values of data for 4 individual periods (each period spans between two interventions), and the periods which combined portions before

and after each intervention. The number of observations for each period is at least 8, which satisfied the minimum number required by the C-Statistic model [25, 27] (Table 1).

Table 1. Quarterly total number of service contract awards

Quarters	1995	96	97	98	99	00	01	02	03	04	05	06	07
1	17	13	13	11	9	0	16	21	71	46	16	33	12
2	35	32	10	21	18	0	6	23	15	34	25	16	25
3	98	55	38	24	33	2	14	41	55	43	72	81	42
4	12	4	5	4	1	0	4	18	86	28	33	22	39

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Source: Retrieved from CBD

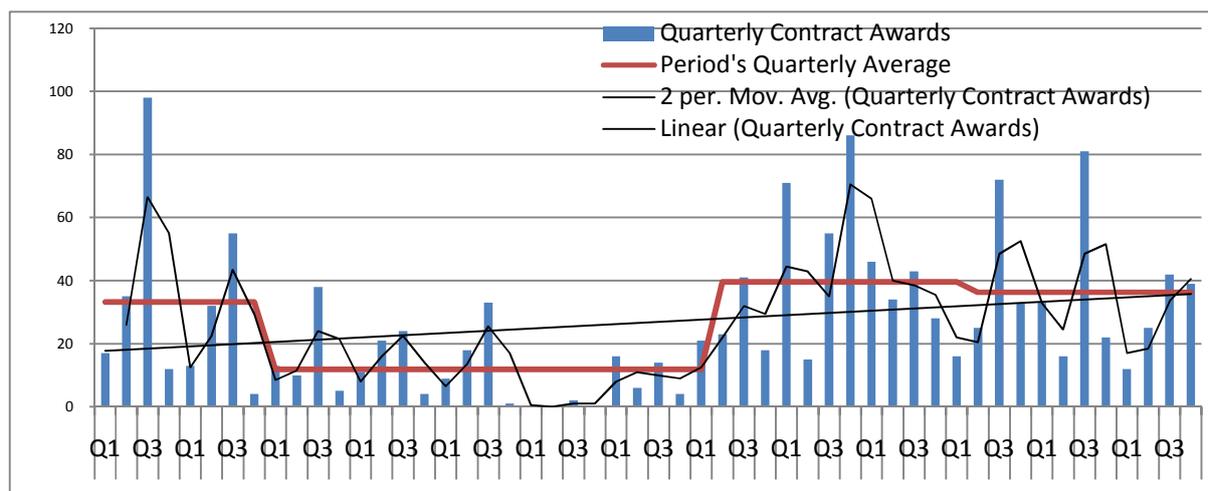


Figure 2. Trend of quarterly contract awards from 1995 to 2007.

Table 2. Calculation of C statistic: Z values of time series of contract awards for different periods of time

Series	Phase 1 1995Q1- 1996Q4	Phase 2 1997Q1- 2001Q4	Phase 3 2002Q1- 2005Q2	Phase 4 2005Q3- present	Phase 1+ 2	Phase 2+ 3	Phase 3+ 4
Number of observations	8	20	14	8	28	34	22
C statistic	(0.141)	0.052	(0.284)	(0.057)	0.159	0.410	0.565
Z	(0.457)	0.243	(1.143)	(0.186)	0.874	2.462*	2.779**

Note: (*) and (**) are statistically significant at $p < 0.01$.

The baseline is Phase 1, from 1995 Q1 to 1996 Q4. The Phase-1's Z value of -0.457 is not

statistically significant, indicating the absence of any substantial trend in the Phase 1 baseline,

which is good for statistical purposes. It is also the case with all other phases.

The second phase, from 1997 Q1 to 2001 Q4, involved data after first intervention: the introduction of new Purchasing regulations in 1997. The data for this phase of the intervention were appended to the baseline data (Phase 1 data) and tested for a trend. The resulting $Z = 0.874$ is not statistically significant at $p < 0.01$, meaning that there was no significant shift in the trend of the time series, which matches the visual inspection of the graph.

The third phase, from 2002 Q1 to 2005 Q2, contained data after the second intervention, which includes the complete restructuring of Supply Management together with the revised issue of purchasing regulations. The data for this phase were appended to the data of the second phase to test if the trend of line changed during the time span from 1997 Q1 to 2005 Q2. The Z score of 2.462 is statistically significant ($p < 0.01$), confirming the visual inspection of a shift in the trend of the time series, meaning that the intervention did have an impact on the contracting magnitude of the phase 3. In addition, the Phase 3 Z value of -1.143 is not statistically significant, suggesting that this portion of the series may be stable, which does not match the visual inspection however. This is consistent with the observation that data analysis based on visual inspection and time-series analysis can disagree substantially [25, 28].

The fourth phase, from 2005 Q3 to 2007 Q4, involved data after the third intervention: the replacement of Interim Purchasing Guidelines with the Purchasing Manual. The data of this period is appended to the data of Phase 3 to test if there was trend change. The calculated Z value of 2.779 is statistically significant ($p < 0.01$) meaning that there was a shift in the trend of the time series, or that the intervention did impact the result.

In conclusion, the statistical calculations in here have links with the data inspection in the prior section. It supplements analytical evidence that support our overall proposition that institutional interventions have directly

impacted the contracting magnitudes of the USPS in its efforts to control costs.

5. Discussion on the effects of institutional changes in the postal environment to the magnitudes of USPS outsourcing to control cost

The literature review shows evidence supporting the proposition “Changes in the regulation and organization governing contracting will alter the magnitude of contracting”.

Several legal, regulatory and organizational changes were made during the progressive course of commercializing the USPS’s service production and operations since 1970. This course can be divided into 4 periods of purchasing policy, separated by major turning institutional changes.

The first policy period is from 1970 to early 1990s. Adjusting from a postal policy with extensive political focus (of social equity) to one with growing economic considerations (of cost efficiency and effectiveness), Congress passed the Postal Reorganization Act of 1970, transforming the Post Office - a Government Agency, into the independent USPS - a government-owned corporation. In addition, the new institution allowed the USPS to develop its own purchasing rules and regulations, operating like a private business when it is advantageous to do so. Congress afforded the USPS substantial flexibility in conducting its procurement by exempting USPS from many federal purchasing laws, regulations, and executive orders pertaining to procurement that applied to other executive branch entities. Only until 1988 that the USPS first introduced its own self-designed purchasing regulations which was designed to take advantage of the best public and private purchasing practices. Compared to the prior issue and the Federal Acquisition Regulation (FAR), this new procurement manual provided contracting officers with more discretion in matching its capacity and operating styles with those of

operating customers. For example, while the federal policy required “full and open competition” for all federal contracts, the USPS policy accepted “adequate competition” and “simplified purchasing”. The USPS started multiple-year efforts to reorganize purchasing structure, consolidating purchasing under a single authority and establishing new oversight [29, p. 5]. Two new buying organizations were established in Purchasing, one dedicated to the purchases of major facilities, and the other to the purchases of mail transportation. Uniform procedures were created to promote greater consistency in purchasing (USPS CSPO 1994).

The second period starts in 1997, when the USPS introduced a completely new set of purchasing rules - the Purchasing Manual 1997 (PM 1997). This move was to address the reports that its purchasing system tended to be more costly than private sector equivalents because it was subject to several statutes that affect contracting and public sector practices [30, p. 30], and reports of several failures of its procurement policy which were not due to causes that should be addressed through legislation [29, pp. 3-11]. The PM 1997 rewrote purchasing policies and procedures and repositioned Purchasing and Materials within overall USPS business objectives.

PM 1997 required purchasing goods and services primarily from commercial suppliers, using commercial methods in the same manner as its commercial counterparts and competitors. The single Purchasing Process which contains rules and procedures common to all purchases is introduced to promote uniformity and consistency throughout USPS’s purchasing and to avoid cross-authority (GAO/GGD-98-11). Cross-functional and commodity-focused Purchasing Teams were established to ensure corporate cohesion in the purchasing efforts. The reforming efforts led to a complete redesign of the contractual documentation used for Postal Service solicitations and contracts in 2000.

In the third period, 2002- mid 2005, the USPS faced challenges so considerable (i.e., a difficult economy, a high debt, a mail volume

decline). The USPS implemented major overhauls of its internal regulatory and organizational structures [31, pp. 1, 5]. Major part of its reform was to find more efficient ways to procure goods and services, as well as to outsource more functions that could be provided less costly by suppliers [8, 32]. For this, rules and organizational structure were adjusted. Commodity-based purchasing and national contracts were two critical initiatives to reduce costs and improve efficiency in its acquisition. The new Supply Management division established five commodity-based portfolios that purchase the goods and services required by the USPS, including transportation, supplies, services, facilities, and mail equipment (USPS, CSPO, 2002; p 30). National Contract is intended to consolidate the USPS’s spending on certain commodities. Previously, USPS employees had typically purchased supplies in a highly decentralized manner using cash or purchase cards or through contracts or agreements. In turning to national contracts for certain items, the USPS save cost by (i) negotiating with selected suppliers based on volume discounts and then (ii) directing employees to use these contracts or make purchases from designated suppliers. The national contracts allowed the USPS to establish uniform processes, specifications, and standards for the work while reducing the amount of labor required (USPS CSPO, 2006, p26). Second, the USPS also started deregulating purchasing process in 2003, taking full advantage of the freedom provided to the USPS by the Postal Reorganization Act 1970. This was a critical step ahead for commercialization. The traditional purchasing regulations, which had the force and effect of law, were to be replaced by “simplified regulations” which are more business-like, streamlined, and focused on obtaining the best values. The new one would combine the USPS’s buying and supplying policies and practices in order to further institutionalize proven supply chain management business practices throughout the USPS. Purchasing

deregulation was to be fully implemented by the end of 2004 (USPS CSPO, 2003). Third, the Purchasing function was completely restructured in 2002, combining the policies and procedures of purchasing with those of material management operations. The *Purchasing and Materials* department was transformed into *Supply Management*, resulted in numerous changes in organization names and managerial titles and authorities. In addition, to help the financially struggling USPS, the Congress passed a legislation that substantially affected USPS's finances by enabling it to pay down its debt by more than one third, from \$11.1 billion at the close of 2002, to \$7.3 billion in 2003. A better financial situation, plus relaxed and commercialized regulations were expected to lead to higher contracting levels.

The fourth period of mid-2005 to present sees a fundamental legislative change. In 2006, the Congress passed the "Postal Accountability and Enhancement Act". The Act shows the intent of Congress that the USPS should enhance its ability to operate in a more businesslike manner and foster growth and innovation in the mailing industry, while still continuing its traditional mission of providing reliable universal service at affordable prices. Consequently, the USPS took a number of actions to improve and further deregulate purchasing and institutionalize the Supply Chain Management philosophy throughout the USPS. The new *Interim Purchasing Guidelines* includes rule that mainly discusses canceling business relationships, debarring or suspending suppliers, and limiting suppliers' ability to seek redress when disputes or contract claims arise. The *Supplying Principles and Practices* (SPP) is the current effective purchasing rules. SPP includes non-binding regulations and will not have the force or effect of law, and intended for internal use only. SPP is intended to grant the most flexibility and discretion possible to contracting officers when applied to specific business situations. The USPS expects that with

more authority and discretion given, postal managers will have freedom to choose effective production methods in efforts to cut costs effectively [33].

In short, the review above indicates that the aggregate levels of contracting would see variations during the four periods of time in the last 12 years.

6. Conclusion and implications

This research shows that, at the macro level, contracting is a potential strategy to cut costs for the USPS, as well as for other public agencies and enterprises. However, the degrees the USPS can rely in outsourcing is largely framed by the institutions factors, and changes in institutions factors affect the magnitude of contracting.

This research covers a long development history of the USPS, with special focus on the period before 2008 when the US Government was struggling to reform institutions regulating the postal and delivery sector. The Vietnamese Government is in the same situation now, looking for a new viable model for the VNPost, thus can learn from the findings of this research. There are several implications relevant to the VNPost case.

First, if the VNPost leaders search for ways to battle severe annual deficits, the VNPost must turn to the contracting, and thus would see increased magnitudes in coming years. In addition, to successfully prepare technical environment for contracting, VNPost should introduce new purchasing policy which aims at providing contracting officers with much more authority and discretion on making decisions, further reduce any barrier to contracting. The most promising areas to explore the benefits of private participation are non-core tasks because the market conditions are favorable and the political resistance is virtually absent. Transportation activity could see higher levels of contracting, other core areas would see moderate contracting increases. Mail processing would see

uncertain developments due to its unique characteristics and strong union resistances.

Second, as long as the postmasters still believe in the inherent postal values of Mail Acceptance and Delivery, the growth of contract parts in these two functional areas would not be significant because it is the postmasters themselves who exercise the contracting practices at the local post offices. As a matter of strategic leadership, VNPost may need to promote or place more new contracting-favoring individuals on postmaster positions, so as to consolidate and strengthen overall management determination on expanding contracting policy and programs.

Third, it is necessary for the VNPost leaders to communicate clearly with postal unions and their Assembly supporters on how the new policy would be implemented in ways that rationally and fairly consider the pros and cons of a contracting decision, safeguard agreed upon social values of postal programs, not incur undue lay-offs or sacrifice public security. The concerns of those opponents need to be addressed in order for the contracting programs to go smoothly with minimal political oppositions. Lesson from the USPS case found that a tendency of increasing private participations in the core areas of the USPS gives rise to a growing fear that this tendency may eventually end up with the full privatization of the USPS, a consequence that most households strongly opposed.

Finally, the VNPost must fundamentally improve its management information systems. Lessons from the USPS case shows that stakeholders criticize the USPS for not tracking and thus not quantifying the results of its outsourcing activities, making many proposals run without firm foundations.

In summary, the findings of this research can help target contracting more efficiently. Knowing factors that most inhibit the postal contracting would help contracting officers to overcome existing challenges to make use of an important instrument to deliver high performance.

A limit is that this research does not yet show an in-depth analysis regarding market and value factors. This is because of the space constraint. A second paper following this one would provide that investigation.

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