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**A Study of Outsourcing in Human Services in Pennsylvania Counties  
Adoption – Selection – Performance Measurement**

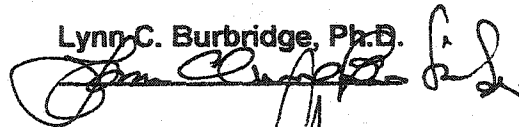
**By Sharon McCrone**

**A dissertation submitted to  
The Graduate School - Newark  
Rutgers – The State University of New Jersey**

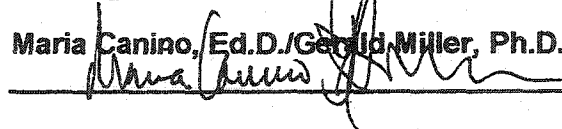
**In partial fulfillment of the requirements  
For the degree  
Doctor of Philosophy  
Graduate Program in Public Administration**

**Written under the direction of  
Lynn Claire Burbridge, Ph.D., Committee Chairperson  
and approved by**

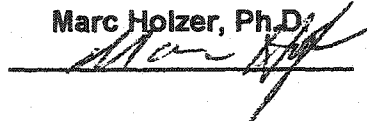
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**Jon Van Til, Ph.D.**



**Newark, New Jersey  
October 2003**

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## Abstract

### A Study of Outsourcing Human Services in Pennsylvania Counties: Adoption – Selection – Performance Measurement

By Sharon McCrone

Dissertation director: Lynn C. Burbridge, Ph.D.

This research investigates privatization, specifically outsourcing as a public/private partnership, from the ground up as it has been adopted, implemented and evaluated at the level of county government in Pennsylvania. This study goes directly to the source, recording, analyzing and presenting the experiences of public administrators in the Commonwealth who have been the decision makers, the implementors and the evaluators of outsourcing arrangements with the private sector. In doing so, the study draws on a resource that is often missing in such discussions --- voices of those whose first-hand accounts are lived experiences of public service.

The study posed four questions:

- What factors influence a local government's decision to outsource public services?
- What criteria does a local government use to select an outsourcing provider?
- How do local governments measure the performance of outsourcing providers?
- How does the performance of public/for-profit partnerships compare with the performance of public/non-profit partnerships in the delivery of human services programs?

A particular area of interest for this research was distinguishing within the private sector between the levels of performance of for-profit vs. nonprofit corporations as public-sector outsourcing partners.

The study primarily employed qualitative research methods supported with basic quantitative data. In addition to the in-depth telephone and in-person interviews, a case study was conducted with one of the counties whose experience with outsourcing stood out during the interviewing stage.

Analysis of data collected from the Pennsylvania counties, in the main, supports the original assumptions. Cost of providing service, internal attempts to decrease service delivery costs, limited county staffing and positive past experience with outsourcing influence the decision to outsource public services. That said, counties still rely on competition to choose contractors. The contract, with its provisions and work statements, is clearly the mainstay of outsourcing arrangements in Pennsylvania counties. Data from the case study reflects the same findings as those of the overall study.

## Acknowledgements

This study concludes a challenging and satisfying research project that allowed me to explore a long-standing interest in privatization, particularly public/private partnerships forged in public sector outsourcing agreements with the private sector. Specifically, I had the opportunity to delve into a question to which I nor others seemed to have a clear answer --- is there any difference in performance of for-profit corporations and nonprofit corporations with whom the public sector holds outsourcing contracts?

Credit for the completion of this project must go to a cast of thousands. Top billing belongs to Lynn C. Burbridge, Ph.D., my dissertation director, who gets rave reviews as a mentor, guide, and teacher. Throughout this production, Dr. Burbridge's wisdom, insight, expertise, thoughtfulness and patience were unbounded. She deserves a standing ovation, as I'm sure any student who has even been in her classes or under her tutelage will attest. Dr. Burbridge's departure from the public administration department is an irreplaceable loss its students. I am honored to join her in the final curtain call.

My thanks go, too, to my committee members: Marc Holzer, Ph.D.; Maria Canino, Ed.D., Jon Van Til, Ph.D. and Gerald Miller, Ph.D. Dr. Holzer worked with me throughout my years in the department and generously offered the endorsement of the Center for Public Productivity for my research project. A major piece of my research fell into place because of Dr. Canino's precise analysis of a problem with its initial design and her recommended solution. Dr. Van Til has been a steadfast supporter of a process that, at times, seemed to have no end. He never failed to offer feedback, encouragement and understanding. Dr. Miller, true gentleman that he is, stepped into this process to serve as Dr. Canino's proxy at the defense. His offer to assist was immediately accepted and followed in short order by his unplanned task of reading yet another dissertation. To Dr. Miller and each of my committee members I owe a huge debt of gratitude.

As I thought through the design of this proposal, John Nalevanko, executive director of human services in Lackawanna County, pointed me in the direction of the County Commissioners Association of Pennsylvania (CCAP) and Pennsylvania Association of Human Services Administrators (PACHSA), whose members, ultimately, comprised the

sample for my study. To John, to Doug Hill of CCAP and to the members of CCAP and PACHSA who contributed their valuable time and expertise I am ever thankful. I must also thank the administrators, staff, advisory board and providers who are the subject of my case study. Since the case study county is anonymously profiled, I cannot identify these generous souls but without them I would not have been able to complete a major piece of my research.

Completing the public administration doctoral program while working full time would not have been possible without the unwavering support of the EOTC Board of Directors and staff. From the outset, the board encouraged this endeavor. Board members and staff (past and present) have made numerous accommodations to my erratic, hectic schedule --- and have done so amicably (as far as I know) and with great understanding. Special thanks go to Marge Pietrowski, EOTC's computer expert, who offered able assistance at every turn, including a New Year's Day crash of my hard drive and in-flight instruction in Power Point.

They say that every production needs an angel. If that's true, and I suspect it is, Dr. Ann Pipinski merits a luminous halo and dazzling wings. For more Sunday evenings that either of us would care to count we sat at her kitchen table --- charts, graphs and text spread before us --- intent on completing that night's ambitious assignment. Ann's impeccable sense of organization, lightening-fast grasp of the research and precisely timed humor were immense gifts to me.

Among the many others to whom I must express my thanks are Gail Daniels in the public administration department who simplified my life as an over-extended student commuting from Pennsylvania; Sandy Currie who generously offered time to schedule interviews; and Gloria Frederick who was able pinpoint her exact motivation for pursuing a doctoral degree and with whom I have formed what I hope is a lasting friendship. Barbara Thomas Parkman, director of the Nonprofit Resource Center at the University of Scranton, consistently sent me relevant articles and Galen Baril, Ph.D., also at the University of Scranton, spent hours patiently helping me make sense of my SPSS data.

No dissertation has ever been completed without the essential assistance of librarians and mine is no exception. Staff members of Rutgers' Dana Library, Scranton Public

Library, Marywood University and University of Scranton libraries, among others, have been tremendous assets.

Among the many tests of closest friends is the challenge of listening to one discuss, plan, conduct, fuss and fret about a major undertaking. I have been blessed with a rare and treasured collection who have done just that for me, at all hours of the day and night, for lo' these many years. I will never be able to sufficiently repay them, although I suspect they have some interesting restitutions in mind. As well, it never hurts to have a few highly credentialed intercessors in one's corner, so for all their prayers I must acknowledge the Sisters of the IHM Congregation, particularly the Madonna Del Strata house. Mary McCrone Kirby, Dorothy Merrick, Mary Ellen Merrick, IHM, and Mary Baker O'Brien also have offered their share of divine intercessions. Anna McCrone McDonough has safely guided me through Newark.

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## I. Introduction and Statement of the Problem

### Introduction

The advantages and disadvantages of privatization have been bandied about since this option for delivery of public programs and services by private entities was re-introduced more 30 years ago. In the mid-nineteenth century, municipal services such as police protection, fire fighting, and garbage collection were provided by private concerns.

Over the course of the following century, as government at all levels sought to cut costs and meet the growing demand for public services, privatization gained renewed attention.

Since the 1970s, the practice has been touted by some as the most cost-effective method of delivering public services (Katz, 1991; Savas, 1992, 1987). Others have challenged the idea, claiming that government was handing off to others the responsibilities it alone was obliged and capable to meet (Holzer, Callahan, 1998; Osborne, Gaebler, 1992).

In all of the debate, the pros and cons of private vs. public provision of services has gained the attention of legislators, appointed officials, public sector employees, collective bargaining units, businesses, human service providers, consumers, academicians, researchers and the media. Throughout this discussion, contentious at times, some general tendencies have emerged:

1. Considerable emphasis has been placed on the *outcomes* of private service delivery; less attention has been given to the public sector's policies, procedures and processes (or lack thereof) of selecting and monitoring private providers;

2. In most cases, the analysis of privatization has categorized for-profit and nonprofit organizations as the *private* sector, making no distinction between the nature and performance of the two corporate structures.

Although trends and tendencies are informative, the lengthy and differing arguments have yet to cement either position. More than 30 years later, questions are still posed and answers still unclear about the verifiable effectiveness of privatization ventures.

This research explores outsourcing, one specific method of privatization, where there is a shift from public to private provision of goods or services while maintaining public financing (Barnekov, Raffel, 1992, 100). In particular, the study focuses on outsourcing of human services as it has been implemented by county-level government in Pennsylvania. Counties in the Commonwealth have a long history of contracting with the private sector to deliver programs for children and youth, mental health/mental retardation, drug and alcohol treatment and prevention and the elderly. Even though contracting is common, upon inquiries to state and county officials, no studies or reports on the development or practice of outsourcing were available. Hence, the impetus for this research.

Constructing the framework for this study was interesting in itself. Review of economic theory suggested that the provision of public services is subject to many, but not all, of the prevailing market forces. Clearly, improved efficiency is an aim of county officials who adopt privatization as a means of service provision, but how competitive is the market to which they turn for providers of human services? Do counties find the best providers, period? Or do they end up with the best of what is available among those willing to take on programs and services that, notoriously, deal with the hardest to serve and do so with budgets insufficient for the task?

Composition and identification of market sectors had to be considered in framing this study. In most cases, the market is divided into two broad sectors --- public and private, each with commonly understood, although murky, descriptors. *Public* refers to government, to bureaucracy, and to all its many variations; *private* encompasses the world and work of business, industry and corporations. Until recently, clear distinctions were not made within the private sector between for-profit and nonprofit organizations.

This lack of distinction is found in privatization literature and discussion where public/private partnerships are cited, explained and exemplified often without identifying whether the private partner is a for-profit or a nonprofit entity. As the public sector and its constituents evaluate the effectiveness of work with private partners, is corporate status a factor? Do public officials distinguish? Are such differences a consideration? Do for-profit and nonprofit institutions perform differently in their work with the public sector? Does the public sector evaluate such differences? And what are they? I wondered.

I wondered, too, about the origins of privatization? If, as the saying goes, "There is nothing new under the sun," what is the relationship between privatization and public administration? Where are the connections? How do public administrators relate to privatization as a resource of government? County officials in Pennsylvania could address my questions, I believed. As could the Public Administration literature. Each had a voice refining these many questions into a doable project and in the design and implementation of this study.

### **Statement of the Problem**

As noted, a main catalyst for the study was the lack of any formalized body of information that could answer four basic questions about outsourcing in Pennsylvania counties:

- What factors influence a local government's decision to outsource public services?
- What criteria does a local government use to select an outsourcing provider?
- How do local governments measure the performance of outsourcing providers?
- How does the performance of public/for-profit partnerships compare with the performance of public/non-profit partnerships in the delivery of human services programs?

Answers to these four questions, in general, also remain unclear in the volumes of existing literature about privatization. In an attempt to gather the missing information, this study examines three specific areas related to just this one form of privatization --- adoption of outsourcing as a means of providing public services, selection of outsourcing providers to deliver public services, and performance measurement of outsourcing providers.

The goals of the study are to:

- Identify factors relating to a county's decision-making process when it considers adopting outsourcing as a means of program delivery, particularly for human services programs
- Assess the methods counties use when they select outsourcing providers for human services programs
- Identify the factors counties use in monitoring and evaluating outsourcing providers of human services
- Identify the performance distinctions, if any, between for-profit and nonprofit corporations as outsourcing providers for human services programs

In the course of studying this problem, the research will shed light on best practices in outsourcing as a means of privatization. This information will advance knowledge, inform public policy and improve public and private sector relationships as they pursue the goal of maximum productivity in and from government services.

### **Presentation of the Research**

The study is presented in seven chapters, including this one. The conceptual framework, in Chapter II, discusses the public administration themes reflected in privatization, the concept and practice of productivity as it has evolved during the twentieth and into the twenty-first centuries, the economic theories of privatization, the need for the public sector, the role of the nonprofit sector, and economic theories of

nonprofit organizations. The literature review in Chapter III presents an overview of privatization, including a discussion of public/private partnerships and the pros and cons of privatization. The issue of competition is introduced, followed by a discussion of the emergence of the nonprofit sector as an economic partner with the public sector. This chapter includes accounts of three studies of the nonprofit sector.

The methodology used for the research is contained in Chapter IV. A two-page overview succinctly captures the focus areas of the study, the research questions, the hypotheses and the related survey questions. Descriptions of the research design, sampling, and data collection are included in this chapter along with details of the case study and rationale for the choice of subject of the case study. The data analysis is presented in Chapter V. Part A of Chapter V contains the qualitative and quantitative analyses; discussion of whether the results support the hypotheses, as they are set out in Chapter IV, is in Chapter V, Part B.

A full section, Chapter VI, is devoted to the case study of one county, chosen during the course of the interviews. The county, depicted anonymously, exemplifies a monitoring and performance measurement process that could prove valuable to others embarking on or already engaged in outsourcing public human services. A summary of the research findings is found in Chapter VII along with conclusions drawn from the study, an explanation of the study's limitations and recommendations for further research.

## II. CONCEPTUAL FRAMEWORK

*What can government properly and successfully do?*

*How can government do these things with the utmost possible efficiency and at the least possible cost either of money or energy?*

The queries are not new.

For theorists, policy makers, practitioners and students of Public administration, these two questions are found at the heart of Woodrow Wilson's 1887 essay "The Study of Public administration." For more than a century, government officials, public administrators, tax payers and concerned citizens in general have been debating the answers. When the subject is privatization, the concerns are sure to be raised. But when? And how? And by whom?

### **The Daily, Dichotomous Grind**

The ever-demanding, ever-complex and always changing lives of public administration practitioners are full of contradictions. Important action often is taken quickly — or it is long in coming and well overdue. Decisions that should be made with the input of others are sometimes made by one person; those that could or should be made by a single individual or by a smaller group, often fall prey to a cumbersome and prolonged committee process — or action gets weighed down in an inevitable political wrangle or bureaucratic snarl. When these situations occur — and they do, somewhere, every day in the public sector — can any of the basic tenets of Public Administration even be recognized? Does someone cite a profound and abiding economic truth? Does anyone have the time, the temperament or the inclination to reflect upon some guiding theoretical principle or deeper significance evident in the matter at hand? When the going gets tough, who is standing at on the front lines, calling the shots? What is driving the decision-making process?



Experience of this researcher, along with co-workers and colleagues, has shown that the daily practice of public administration can be a hectic, haphazard, albeit genuinely heartfelt effort to serve the public interest. Given the nature of the beast, personality and politics inevitably affect, sometimes drive – or deter, the process. When these situations occur, theoretical bases for decision making can be as obscure and hidden as paragraphs in dated textbooks tucked away on dusty bookshelves. Or not. Practices employed can be on-target, informed by state-of-the-art thinking, sound research and reasoned judgment. Or not. When speculations such as these present themselves, the obvious next step, in this researcher's mind, is to ask the questions. A doctoral dissertation presents an ideal opportunity to conduct such an inquiry *then* study the answers in a focused, theoretical construct. Herein lies the inspiration for this study of privatization of public services as reflected in county-level outsourcing arrangements in the Commonwealth of Pennsylvania. The research is framed within the literature of public administration, economic theory and privatization; it is focused on the first-hand, real-time experience of public administration practitioners whose roles and responsibilities reflect the challenges, complexities and outcomes of governance in an era of growing privatization.

### **Public Administration Themes Reflected in Privatization**

Nigro and Nigro define Public Administration as a cooperative group effort in a public setting; it deals with executive, legislative and judicial branches of government and their interrelationships; it has an important role in the formulation of public policy, therefore, is part of a political process; it differs in significant ways from private administration; and it is closely associated with numerous private groups and individuals in providing services to the community (Nigro, Nigro, 1984, 11).

Contained in this definition are major themes in the field of Public Administration --- the politics-administration dichotomy, the public-private dichotomy, and the quest for a science of administration; these very same elements are intricately woven through the complex and controversial fabric of privatization. In "The Study of Administration," Woodrow Wilson maintained that Public Administration should be based on a science of management and that the field should be separate from traditional politics. As did other reformers of his time, Wilson wanted the study of Public Administration to focus not only on personnel problems, but also on organization and management in general (Shafritz, Hyde, 1992, 2). Intent upon advancing the reform movement's concerns about public administration, Wilson urged the investigation of the organization and methods of government offices. His goal was to determine "first what government can properly and successfully do and secondly, how it can do these things with the utmost possible efficiency and at the least possible cost either of money or energy" (1887). In short, Wilson was concerned with two bedrock issues of privatization, organizational efficiency and economy.

A second major issue in the field of Public Administration, the public-private dichotomy, is closely related to the politics-administration division. Those who accept the politics-administration dichotomy see administration restricted to the choice of the most efficient means to carry out policies chosen by others. This argument first appeared in the classical period when, influenced by scientific management theorists, attention turned to the private sector as a source of techniques to improve the rationality and efficiency of public sector activities. For those who argue that separating politics from administration is neither possible nor desirable, there is a tendency to accept the public-private dichotomy on the grounds that public administration is distinguished from private administration by the political environment in which the public administrator must operate

(Fry, 1989, 1039). Including, excluding or circumventing that political environment becomes a contentious issue in the privatization debate about the ability of the private sector to deliver public services in a more cost efficient manner than the public sector itself.

Guidelines for operating within the political environment prompted debate about the possibility of developing a science of administration. Wilson advocated "the detailed and systematic execution of public law" as a principal function of public administrators. The private sector, then, became a marketplace for general administrative techniques that could be used to enhance efficiency in the operation of American government (Fry, 1989, 47). To this end, Wilson had called for an American science of administration and Frederick Taylor was offering just that in the first decade of the twentieth century.

Taylor, a pioneer in time and motion studies, deliberately separated the performance of labor from the planning of work. Generally considered the father of scientific management, he sought to maximize the productivity of tools and workers. Based on the notion that there is "one best way" of accomplishing any task, scientific management sought to increase output by discovering the fastest, most efficient, least fatiguing production methods. Taylor charged management with the basic responsibility of developing the required science and planning the work. The first job of management, he believed, was to make itself efficient before expecting efficiency from workers (Fry, 1989, 54). Using such an approach, Taylor maintained that scientific design and management of jobs could revolutionize industry and government alike.

Identification of a linchpin in this revolution, hierarchical control, would be found in the posthumously published work of German sociologist Max Weber. In *Bureaucracy* (1922), Weber maintained that only a structure based on law and a rational arrangement

of competence and power could function in and regulate a capitalist industrial economy. His classic effort to bring order to the complexity of public management identified common elements of bureaucracy such as hierarchy, formalization and specialization (Kiel, 1994, 98). Weber saw power, authority and legitimacy, efficiency and effectiveness as hallmarks of bureaucracy, which, in his mind, was the most rational and efficient form of organization. This "ideal approach" offered key elements of hierarchical control — expertise, discipline, structure and efficiency — that he believed were essential to the administrative process.

As Wilson, Weber and others were attempting to construct a field of Public Administration along systematic and somewhat mechanical lines, along comes Mary Parker Follett, a major voice for what would later be called participatory management. In *Dynamic Administration*, a collection of her papers edited by Metcalf and Urwick and published in 1940, Follett called for participant observation as a companion to empirical studies in the analysis of human relations and social situations. Her *Law of the Situation*, stating that authority is exercised increasingly on the basis of the objective demands of the situation, rather than on personal and arbitrary mandates, was contingency management in its humble origins (Fry, 1989). While Follett's idealism may be a bit much for public administrators, her belief in "what is possible" vs. "what should be" may be of some consolation. She valued worker participation and the group process and no doubt would have been supportive of the work of Charles Lindblom who, 50 years later, introduced "The Science of Muddling Through." Lindblom, endorsing a participatory process, believed that incremental and interactive decision-making processes are an inevitable norm.

Attention to the social and psychological factors of human behavior in organizations was emphasized by Elton Mayo as a result of his work at Western Electric's Hawthorne plant in Cicero, Illinois during the 1930s. Mayo's work, seen as a major turning point in the history of administrative theory and practice, lead directly to the Human Relations movement and the behavioral approach to administration. He identified three dimensions of management: (1) application of scientific and technical skills, (2) a systematic ordering of operations, and (3) organization of teamwork and cooperation. This search for a science of administration, along with the politics-administration dichotomy and the public-private dichotomy are recognizable and influential factors in all aspects of the privatization debate. Should government act like a business? Is there a difference between public and private administration? Are scientific management principles valid in determining who delivers public services? Although few would deny that efficiency and economy are principle goals in the delivery and/or provision of public goods and services, many would -- and do -- differ on the most efficient and most economic methods to achieve these goals. Productivity and the means of achieving it have been subject to deliberation throughout the historical development of Public Administration. The debate has been going on for more than a century and shows no signs of abatement and few of resolution.

### **The Evolution of Productivity**

As the concept and practice of productivity have evolved, so has its definition. From a singular focus on *output* to a broader, more sophisticated interest in *outcomes*, productivity has made its way through ages and stages of understanding and development. See Exhibit II-1, next page. Early in the twentieth century, economists used *productivity* to describe the link between resources and products, even though

terms such as *efficiency* and *economy* were more popular. Between 1900 and 1940, the search for better government meant a search for more efficient government. Classical theorists were committed to strict principles of scientific management and looked to private industry experts for the guidance and methodology they believed were necessary to improve government. During the 1940s, serious discussion arose concerning the applicability of a science of administration. Toward the end of the decade, Public Administration researchers began to question mechanistic assumptions about behavior (Robert Dahl, 1947), advocate for empirically based principles (Herbert Simon 1946, 1947), and urge public administration be recognized within the context of the democratic governmental process (Dwight Waldo, 1948).

Between 1940 and 1970, the shift from Taylor's scientific management to a more general management approach saw emphases on administration, with initiative, imagination and energy replacing the singular focus on efficiency. The 10-year span of the 1970s was marked by a renewed interest in and eagerness to implement private

Exhibit II - 1

<b>EVOLUTION OF CONCEPTS OF PRODUCTIVITY</b>		
<b>PERIOD</b>	<b>FOCUS</b>	<b>MOTIVE</b>
1900-1940	Efficiency	Better government
1940 - 1970	Administration	Expense control
1970 -1980	Management	Higher yield from tax dollar
1980 - 1990	Privatization	Cut government expense
1990 - present	Public choice	Accountability, innovation

sector management techniques; productivity was a high priority. Public Administration moved toward public management and elected officials at all levels of government were charged to initiate productivity measures that would increase the yield of taxpayers' dollars. By 1980, the economy was rapidly changing from industrial to informational-based technologies. The overriding emphasis was on speed, efficiency and reduction of government expenses. The era was one of less regulation and less government; government that remained was government that involved the private sector through privatization or implementation of private sector techniques. During the 1990s and beyond, the quest for increased productivity saw greater efforts to contain the cost, size and role of government. By the mid-1990s, privatization of state and local services in the United States was universal, having penetrated even large cities with strong public employee unions, and it had become a policy of federal government. Moreover, it was not a partisan or factional issue; it was being adopted by Democrats and Republicans, liberals and conservatives, blacks and whites (Savas, 2000, 17). The decade was ripe for advocates of Public Choice and privatization and that is still the case. The twentieth century ended and the twenty-first began on a note similar to that struck 100 years earlier; the search for better government *still* means a search for more efficient government.

### **Economic Theory and Privatization**

Analysis of the economic foundations of privatization is essential to any consideration or implementation of privatization as a means to more efficient government. Writing in the late 1940s, May Wood-Simons, Ph.D., defined economics as a social science that studies the wants or desires of human beings, the processes of producing commodities and services to satisfy these desires, and the way in which these

goods are divided or distributed among people (1949,55). Although her text preceded by at least a decade a renewal of interest in and increased use of private enterprise in the provision of public sector goods and services, Wood-Simons' definition incorporates basic terminology of privatization: production and distribution of commodities and services to satisfy the wants or desires of human beings. Like economics, privatization focuses on the fundamentals of efficiency, equity, stability and growth.

### Efficiency

Efficiency is the ability to make the best use of what is available to attain a desired result (Spencer, 1977, 16). In an economic system, both technical and allocative efficiency are important factors. Technical efficiency is measured by achieving maximum output by making the fullest utilization of all available inputs. When a production system has attained technical efficiency its resources are fully utilized in such a manner that no change in the combination of inputs can be made that will increase the output of one product without decreasing the output of another. An economic system is deemed technically efficient if every firm in the system has attained optimal technical capacity, i.e., the greatest ratio of physical output to available physical inputs. No change in the combination of society's resources can then be made which will increase the output of one commodity without decreasing the output of another (Spencer, 1977, 17).

Economics is also concerned with the way a society allocates its scarce resources to meet social goals. Because this is so, a standard is needed to determine success; this standard is called economic or allocative efficiency. An economy is said to have achieved economic, or allocative, efficiency when it is producing that combination of goods that people prefer, given their incomes. This means that no change can be made



in the combination of resources or the output that will make someone better off without making someone else worse off, each in her/his own estimation (Spencer, 1977, 17).

As an aside, the concept of economic efficiency is taken from the work of Vilfredo Pareto, an Italian-Swiss scholar who made major contributions to economics (he was among the proponents of neoclassical economics) and sociology where his Pareto optimality, synonymous with economic efficiency, is applied to social organizations. Pareto also is credited with the eponymous principle which holds that 80% of effort results in 20% of the outcome and 20% of the effort results in 80% of the outcome. *(Nary a public administrator exists who could not attest to such an instance.)*

### Equity

Economic efficiency, as noted, is concerned with the way a society can make the best of scarce resources to fulfill customers' preferences. The question of how society's goods are shared among its members is addressed by income distribution — the division of society's output (the income society earns) among people. Because income distribution concerns the matter of who gets how much, basic issues of equity or justice come into play and must be resolved by society. Equity, then, presents itself not only as a philosophical concept but also as an economic goal — one could say an ambitious economic goal because there is no scientific way of concluding that one distribution of income is fair and therefore "good" while another is unfair and therefore "bad." The reality is that significant differences in income exist in the economy yet a major goal of society is to achieve equitable (meaning fair or just; not equal) distribution of income. Attaining such equity requires seeking reasonable methods of altering controllable factors that cause undesirable disparities of income (Spencer, 1977, 18). Economics, then, can help to evaluate consequences of a standard that a society adopts.

### Stability and Growth

Each fundamental to economic systems, stability and growth are closely interrelated. By maintaining stability, an economy avoids substantial price fluctuations and is better able to encourage continuous full employment of all resources. Continuous full employment, then, leads to a robust volume of economic activity and to steady economic growth. By maintaining stability, both efficiency and continuous economic growth are encouraged, making it possible for everyone to share in the benefits of expansion regardless of a society's pattern of income distribution (Spencer, 1977, 18).

As justified by these fundamental elements of economics — efficiency, equity, stability and growth — privatization is an approach to production, consumption, cost and distribution of scarce resources. Inevitably, both economics and privatization are about property resources and human resources, the basic agents of production that a market system allocates. Privatization, as does economics, involves human choice and the competitive market system inherent in capitalism.

Heilbroner and Thurow maintain that economics is mainly “about” capitalism — that it is an effort to explain how a society knit together by the market rather than by tradition or command, powered by a restive technology rather than by inertia, could hang together, how it could work (1982,17). As a system of economic organization, capitalism is characterized by private ownership of the means of production and distribution and their operation for profit under predominantly competitive conditions (Spencer, 1977, 29). A capitalist thinker views competition as essential in a free market where the contest between producers will result in consumers getting the highest quality product at the lowest possible price. Privatization advocates hold firmly to this belief; opponents disagree that the practice accomplishes this end.

Both pro and anti-privatization camps rely on efficiency, a persistent theme in public administration, as a benchmark of effective administration. Efficiency, however, is conceptualized in two fundamentally different ways (Ostrom, 1989, 42). On one hand, efficiency is expressed through principles of hierarchical organization. The greater the degree of specialization, professionalization, and linear organization in a unitary chain of command, the greater the efficiency. On the other, efficiency is related directly to cost. The accomplishment of a specific objective at least cost or a higher level of performance at a given cost is a measure of efficiency. The use of efficiency to assess market performance in the provision of goods and services is at the center of the privatization debate.

#### Market-Based Theories

A market economy is one in which the questions of *what* to produce, *how much* to produce and *for whom* to produce are decided in an open market through free operation of supply and demand. Perhaps the most pervasive and uncompromising attempt to apply the market image to the political economy of contemporary America is found in the work of Milton Friedman. Friedman, credited by Savas with laying the intellectual foundation for privatization in *Capitalism and Freedom*, led the attack against those who contended that the *Great Depression* demonstrated the need for massive state intervention into the economy. Friedman assumes preconditions in the American system that provide the foundation for a viable market system. Five assumptions of neoclassical economics underlie Friedman's thought.

1. In each product area there are enough privately owned firms to ensure that no single firm can set prices or otherwise subvert impersonal market controls. As a result, prices reflect the pressures of market competition.

2. Barriers to entry, such as capital requirements, economies of scale, one firm's monopoly over key natural resources or distribution channels, are not so great as to prohibit the entry of new firms into the market. Prospective price rises induced by

barriers to entry into any specific product line are limited by competition from substitute products.

3. While each producer seeks to maximize profits within the limits of market constraints, each consumer seeks to maximize private satisfaction through market purchases.

4. Consumers have sufficient knowledge about the quality and durability of available products, the authority of competing advertising claims, price differentials among comparable products, and the relative dependability of firms with respect to servicing products to enable them to make rational consumption choices within the marketplace.

5. Owners, workers, and consumers sufficiently support market principles and outcomes (the structure of work, nature of products available, distribution of wealth and income) to allow market mechanisms to function with a minimum of resistance and subversion. Mutual consent to most market transactions lubricates the system and minimizes the necessary support role of the state in enforcing contracts and maintaining law and order (Best, Connolly, 1976, 4,5).

According to market theory, when the preconditions of private property and market competition are met, several benefits emerge. The parties to commodity and employment contracts are "effectively free to enter or not to enter into any particular exchange, so that every transaction is strictly voluntary" (Friedman, 1962, 14).

Consumers are free to choose among products and sellers; sellers are free to choose which product markets to enter; and the potential "employee is protected from coercion by the employer because of other employers for whom he can work" (Friedman, 1962, 14, 15). The market thus coordinates transactions while it protects individuals against undue coercion by other individuals or organizations (Best, Connolly, 1976, 4, 5).

The market economy, which promotes freedom in economic transactions, also provides the necessary condition for political freedom in the modern state. The market, first, removes the need for direct government intervention into economic arrangements; second, it provides the base from which many autonomous and distinct interest groups can emerge to ensure the "dispersal and distribution" of government power; third, it

provides relatively secure places of employment beyond the reach of government authority for political dissidents; and fourth, it enables "patrons" with market resources to finance unpopular political programs and ideas. Indeed, the market system helps to ensure that diverse political and economic ideas will be disseminated, for if the demand for radical ideas is high, competitive publishers will strive to produce a supply (Friedman, 1962, 18)

Friedman concedes that coercive pressures exist in contemporary American capitalism, however, these threats do not come from within the market system itself. Rather, they flow out of government intervention into the self-balancing market. The government typically seeks to implement economic "reforms" through public policy, but its intervention invariably undermines individual freedoms while creating economic effects quite at odds with those intended (Best, Connolly, 1976, 6). According to Friedman there is an inner logic that unites these conditions. "The central defect of these measures is that they seek through government to force people to act against their own immediate interest. These measures are therefore countered by one of the strongest and most creative forces known to man --- the attempt by millions of individuals to promote their own interest, to live lives by their own values" (Friedman, 1962, 200). Friedman's conclusion indicates his belief that government must increasingly withdraw from economic life so that the self-balancing market system can reassert itself. A reduction of its economic activities would allow government to return to its proper functions: defense of the nation, maintenance of law and order, enforcement of contracts and provision of a stable monetary framework for market transactions (Friedman, 1962, 27).

### The Mixed Economy in the Welfare State

A mixed economy is one in which the questions of *what* to produce, *how much* to produce and *for whom* to produce are decided for some goods by the free market and for other goods by a central government authority. The main body of contemporary economic thought, neoclassical theory, treats the economy as a mixed system in which, as Paul Samuelson says, “both public and private institutions exercise economic control” (Samuelson, 1970, 37). In this theory, government plays a crucial role in the economy. If the system is to work equitably, government must often intervene for particular disadvantaged groups (e.g., members of economically depressed areas or groups, victims of discrimination) and collective interests not adequately protected by the private economy (e.g., environmental pollution control, education, defense). It is, therefore, absolutely essential that the government itself be responsive to democratic controls. The mixed economy, in short, requires the politics of democratic pluralism, where public elections keep the state accountable to the people and strong lobbying by private interests shortchanged by the market generates the needed government response (Best, Connolly, 1976, 12).

Neoclassical economists are generally optimistic about the extent to which the state can meet these conditions. Thus Samuelson, in the first reference to government intervention found in his classic text, *Economics*, says that “the citizenry, through their government, step in with expenditures to supplement the real or money income of some individuals...” (Samuelson, 1970, 44) providing, for instance, services for children or for senior citizens. To emphasize that there are proper limits to government intervention, Samuelson, like Friedman, states that “public benefits through taxes are more coercive than private purchases in the market (Samuelson, 1970, 45). In short, where possible, the market should be left to itself.

### Public Choice Theory

Among those staunchly committed to efficiency as a measure of good government were Public Choice theorists who emerged full force during the 1960s and 1970s. The Public Choice School was made up of "a rather loose community of economists and political scientists who...adopted theoretical variants of classical political economy as a means of studying how scarce public goods and services might best be allocated in society" (Baker, 1976, 42). Public choice theory is primarily deductive, draws its analytical tools from formal logic and probability theory as well as economics (Abrams, 1980, 1) and focuses on the decision rules and nonmarket decision-making arrangements for public economies as distinguished from market economies (Ostrom, 1977, 19).

Like public administrators, Public Choice theorists are interested (perhaps to a greater degree than public administrators are) in promoting citizen participation. Although they would not use the same outcome measurements, both Public Choice theorists and public administrators are focused on efficiency; where public administrators might lean more toward the *means* employed to achieve efficiency, Public Choice theorists would be more concerned with the cost-effectiveness of the *end* result. Public Choice economists, administrators and others in this school are concerned with public decision-making (Ostrom, 1989, 42) and with the application of economic principles and tools to public sector choices (Arnold, 1996, 416). Public Choice theorists recognize and respect the link between politics and economics, and they concentrate on the resulting relationships.

Simply put, Public Choice theory asserts that the behavior of politicians and bureaucrats can be explained by the same principles that govern behavior in private economic

affairs. In the latter, persons generally act so as to enhance their self-interest. According to Public Choice theorists, public officials also act in this way: They act either to get re-elected or to enhance their pay, perquisites, and status. These motivations, not an abstract devotion to public interest, are said to dominate political as well as economic activity (Downs, 1957; Buchanan, Tullock, 1962; Niskanen, 1971). This view of public affairs is consistent with the disenchantment of many with political leaders and public services. It also helps to explain the persistent interest in using market systems to deliver public services that are funded by government.

The Public Choice framework has its critics, but it is also recognized as an important perspective from which to analyze the conduct of public officials. The perspective does not assume that a calculus of self-interest determines all decision making by public officials. Nevertheless, it does offer a rational explanation of the prolonged inability to solve longstanding social problems by means of government services (Lieberman, 1989, 12). (To put this in the context of this study, Public Choice Theory suggests that obstacles to public sector reform may be inherent in government delivery of services.)

Public Choice theory begins with the individual citizen, viewed as a consumer of public goods and services rather than as a participant in politics; society is regarded as a collection of consumers who are rational and egotistical. The aim of consumers, Public Choice theorists maintain, is to increase their satisfactions at minimum cost; the public interest is defined in a Utilitarian manner as the maximizations of individual satisfactions (Birch, 1993, 218).

As a unit of analysis, Public Choice theorists look to the provision system of the service in question; the service provider system could be national, regional or local government



bodies, or private suppliers. The institutional arrangements are regarded not as a given but as variables. It may be that a provision system could be made more efficient, in the sense of increasing consumer satisfactions or maintaining them at lower cost, by changing the institutional arrangements. A common conclusion of Public Choice studies is that services are better provided on a local than on a regional basis, because consumers tend to favor neighborhood police forces, school boards, and so forth. (Birch, 1993, 218).

Ostrom has suggested that public administration professionals have held to governmental form and structure as to a "revealed truth." For economists and Public Choice theorists, truth is found in recognizing that structure is not neutral. If efficiency is to be raised and citizen preferences respected, alternative arrangements for the production and provision of public goods and services must be considered. The form and scale of the arrangements are dictated by the nature of a good or service (Gargan, 1989, 1003). By separating production and provision decisions (Ostrom et al., 1961), political decision-makers have options in responding to constituency demands. Among these options — all alternatives endorsed by privatization proponents and questioned by opponents — are intergovernmental agreements, contracts with private firms, franchises, grants and vouchers. One potential consequence of these options is a diverse, fragmented, and overlapping delivery system (Gargan, 1989, 1003). Not a bad idea, a Public Choice theorist would say. A public sector characterized by diversity, fragmentation and overlap can be quite efficient (Ostrom et al., 1973) and capable of optimizing citizen preferences. Such departures from conventional thinking link both Public Choice and privatization advocates in two closely related endeavors: (1) identification and implementation of alternative means of service production and delivery

of scarce public resources and (2) development, implementation and evaluation of effective strategies for improving public sector productivity.

Although perspectives, policies and philosophies related to market-based, mixed economy and public choice constructs may differ according to their respective positions, the theories described use identical concepts and tools to define, explain, defend or defile economics: *scarcity, opportunity cost, efficiency, inefficiency, supply and demand, pricing, competition*. Both adversaries and proponents of privatization use the same terms. Adversaries maintain that the opportunity cost of privatization (the value of the benefit that is relinquished by choosing private enterprise over public provision) exceeds the efficiency achieved (Barnekov, Raffel, 1992; Ogilvy, 1986-87, Stahl, 1988). Supporters maintain that privatization lowers costs and improves quality, allows economies of scale and bypasses inert bureaucracies (Savas, 1992; Katz, 1991). This controversial act of reducing the role of government, or increasing the role of the private sector, in an activity or in the ownership of assets (Savas, 1987) is the direct link to economic theory, principles, choices. If economics is defined as "the science of scarcity: the science of how individuals and societies deal with the fact that wants are greater than the limited resources available to satisfy those wants" (Arnold, 1996, 6), then privatization is a response to this science's concerns about how the *public sector*, in growing numbers of cases, deals with the fact that *public wants* are greater than the limited *public resources* available to satisfy those wants. Economics, then, informs the discussion of how the public sector responds to public wants.

### **Need for the Public Sector**

Any discussion, consideration or practice of privatization forces a close examination of a basic concern of economists, historians, elected officials, bureaucrats and voters alike — what role should government play in the marketplace? While it would be impossible to compile a thorough list of the public sector's economic activities, six major areas can be identified.

1. Government provides a stable environment in which firms and households can engage in an orderly exchange. Government performs this basic function by defining property rights, upholding contracts, adjudicating disputes, setting standards for weights and measures, enforcing law and order and maintaining a monetary system.
2. Government performs public welfare measures, in part for humanitarian reasons. It establishes health and safety standards in industry, regulates minimum wages for certain classes of workers, and provides elderly, disability, sickness and unemployment benefits for those who qualify.
3. Government grants economic privileges to specific groups. Through selective subsidies, tariffs, quotas, credit programs, price supports, legal provisions and taxes, government shows favor to particular consumers, industries, unions, and other segments of the economy. Some would argue that these privileges can cause higher prices, reduced efficiencies and misallocations for society's resources.
4. Government is empowered to maintain competition within the economy. Specific laws forbid unregulated monopolies and unfair trade and labor practices.
5. Government seeks to maintain high employment through appropriate tax, expenditure and monetary policies. At the same time, government seeks to encourage a steady rate of economic growth while curbing inflation and minimizing environmental decay.
6. Government redistributes income and wealth among firms and households through income taxes, inheritance taxes, property taxes, zoning ordinances, and other types of controls. Through taxation and regulation, all major levels of government reallocate within the private sector some of the income and wealth that is generated there.

(Spencer, 1977, 101)

Clearly, the promotional and regulatory activities are complex and widespread. On the face of them, some of these actions are designed to correct for market failure, i.e., the

inability of the private sector, if left to itself, to achieve the goals of efficiency, equity, stability and growth that society seeks. However, the extent to which government activities contribute to the realization of these economic goals is often questioned (Spencer, 1977, 102).

What is not disputable is government's fiscal impact. In the United States economy of today, federal, state and local government expenditures account for more than 30% of the Gross Domestic Product (GDP) (Savas, 2000, 19) and one-third of total income is collected in taxes. The modern "capitalist" economy is thus a thoroughly mixed system in which public and private sector forces interact in an integral fashion. The economic system can be viewed as neither public nor private, but involves a mix of both sectors (Musgrave and Musgrave, 1984, 3,4).

Since the public sector operates in interaction with the private, both sectors enter the economic analysis of the public sector. Not only do the effects of expenditure and tax policies depend upon the reaction of the private sector, but the need for fiscal measures is determined by how the private sector would perform in their absence (Musgrave and Musgrave, 1984, 4).

From the normative view, Musgrave and Musgrave ask, why is it that a public sector is required? If one starts with the generally accepted premises that (1) the composition of output should be in line with the preferences of individual consumers and that (2) there is a preference for decentralized decision making, why may not the entire economy be left to the private sector? Or, stated differently, why is it that in a supposedly private enterprise economy, a substantial part of the economy is subject to some form of

government direction, rather than left to the "invisible hand" of market forces (Musgrave and Musgrave, 1984, 5)?

In part, the prevalence of government may reflect the presence of political and social ideologies that depart from the premises of consumer choice and decentralized decision making. But this is only a minor part of the story. More important, there is the fact that the market mechanism alone cannot perform all economic functions. Public policy is needed to guide, correct and supplement it in certain respects. It is important to realize this fact since it implies that the proper size of the public sector is, to a significant degree, a technical rather than an ideological issue. A variety of reasons explain why this is the case, including the following:

1. The claim that the market mechanism leads to efficient resource use (i.e., produces what consumers want most and does so in the cheapest way) is based on the condition of competitive factor and product markets. This means that there must be no obstacles to free entry and that consumers and producers must have full market knowledge. Government regulation or other measures are needed to secure these conditions (Musgrave and Musgrave, 1984, 5).
2. They are needed also where, due to decreasing cost, competition is inefficient.
3. More generally, the contractual arrangements and exchanges needed for market operation cannot exist without the protection and enforcement of a governmentally provided legal structure.
4. Even if the legal structure was provided, and all barriers to competition were removed, the production or consumption characteristics of certain goods are such that these goods cannot be provided through the market. Problems of "externalities" arise which lead to "market failure" and require solution through the public sector.
5. Social values may require adjustments in the distribution of income and wealth that results from the market system and from the transmission of property rights through inheritance.
6. The market system, especially in a highly developed financial economy, does not necessarily bring high employment, price level stability, and the socially desired rate of economic growth. Public policy is needed to secure these objectives.
7. Public and private points of view on the rate of discount used in the valuation of future (relative to present) consumption may differ (Musgrave and Musgrave, 1984, 6).

To argue that these limitations of the market mechanism call for corrective or compensating measures of public policy does not prove, of course, that any policy measure that is undertaken will in fact improve the performance of the economic system. Public policy, no less than private policy, can err and be inefficient, and the basic purpose of studying public finance is precisely that of exploring how the effectiveness of policy formulation and application can be improved (Musgrave and Musgrave, 1984, 6).

Although particular tax or expenditure measures affect the economy in many ways and may be designed to serve a variety of purposes, several more or less distinct policy objectives may be set forth. They include:

1. The provision for social goods or the process by which total resource use is divided between private goods and social goods and by which the mix of social goods is chosen.
2. Adjustment of the distribution of income and wealth to assure conformance with what society considers a "fair" or "just" state of distribution.
3. The use of budget policy as a means of maintaining high employment, a reasonable degree of price level stability, and an appropriate rate of economic growth, with allowances for effects on trade and on the balance of payments. (Musgrave and Musgrave, 1984, 6).

#### Social goods and market failure

The basic reason for market failure in the provision of social goods is that benefits to which social goods give rise are not limited to one particular consumer who purchases the good, as is the case for private goods; the benefits become available to others as well. Consumption of such products by various individuals is "nonrival" in the sense that one person's partaking of the benefits does not reduce the benefits available to others (Musgrave and Musgrave, 1984, 7). A good is *rivalrous in consumption* if its consumption by one person reduces its consumption by others. Goods of this sort include cars, clothing, medical services, garden tools, sports equipment. A good is

*nonexcludable* if it is impossible, or prohibitively costly, to exclude someone from obtaining the benefits of the good once it has been produced. A dam built for flood control, for example, is a nonexcludable good because it is impossible to exclude persons from benefiting from it. Conversely, a good is excludable if it is possible, or not prohibitively costly, to exclude someone from obtaining the benefits of the good once it has been produced. A movie shown in a movie complex is an example of an excludable good; persons who do not pay to see the movie can be excluded from the theater. Contrary to the belief of some, a good that is excludable in consumption is not necessarily rivalrous. A good can be both nonrivalrous and excludable. The same example illustrates the point. A person who does not purchase a ticket can be denied admittance to the theater — he or she will be excluded (Arnold, 1996, 403, 404) but the enjoyment by one person does not reduce the enjoyment of another (nonrivalry).

The benefits derived by anyone's consuming a social good are "externalized" in that they are available to all others. With private goods, the benefits of consumption are "internalized" with a particular consumer whose consumption excludes consumption by others (Musgrave and Musgrave, 1984, 7). The market mechanism is well suited for the provision of private goods. It is based on exchange, and exchange can occur only where there is an exclusive title to the property that is to be exchanged. In fact, the market system may be viewed as a giant auction where consumers bid for the products and producers sell to the highest bidders. Thus, the market furnishes a signaling system whereby producers are guided by consumer demands. For goods such as hamburgers or pairs of shoes, this is an efficient mechanism. Nothing is lost and much is gained when consumers are excluded unless they pay. Application of the exclusion principle tends to be an efficient solution (Musgrave and Musgrave, 1984, 7).

This is not the case with social goods. For one thing, it would be inefficient to exclude any one consumer from partaking in the benefits, when such participation would not reduce consumption by anyone else. The application of exclusion would thus be undesirable, even if it were readily feasible. Furthermore, the application of exclusion is frequently impossible or prohibitively expensive. Gains from air-cleaning measures cannot readily be withheld from particular consumers. Given these conditions, the benefits from social goods are not vested in the property rights of certain individuals, and the market cannot function (Musgrave and Musgrave, 1984, 8).

Because of their characteristics, all public goods share a common difficulty. Their provision cannot be entrusted to the decision-making process of the market (Heilbroner, Thurow, 1994, 188). When the benefits are available to all, consumers will not voluntarily offer payments to suppliers of social goods. Markets fail for pure public goods; the linkage between producer and consumer is broken and public intervention is needed; the government must step in to provide such goods (Laffont, Martimort, 2002, 8; Musgrave and Musgrave, 1984, 8). The level of provision of the goods often involves voting, another means of decision-making (Heilbroner, Thurow, 1994, 188.) Arnold (1996, 404) differentiates here between a *public good* and a *government-provided good* which, very often, is a public good, e.g., national defense. More and more, when government intervenes, it does so not by directly delivering a service but by seeing that the service is delivered, i.e., by outsourcing the service — contracting with a third party to deliver the necessary public services. When government opts to outsource, it becomes, in the terms of another theory, the *principal* that delegates certain responsibilities to an *agent*.



### Principal/Agent Theory

Today, for many economists, economics is to a large extent a matter of incentives: incentives to work hard, to produce good quality products, to study, to invest, to save. How to design institutions that provide good incentives for economic agents has become a central question of economics (Laffont, Martimort, 2002).

Jean-Jacques Laffont and David Martimort make this statement in the Introduction to their book, *The Theory of Incentives – The Principal-Agent Model*. One could argue that their words about economists also hold true for public administrators for whom governance is, to a large extent, a matter of incentives to work hard, to produce quality services, to study, to invest and to save public resources. Just as designing institutions that provide good incentives for economic agents has become a central question of economics, designing systems of governance that provide good incentives for governmental agents has become a central question of public administration. Hence, an exploration of incentives is appropriate to this study.

The starting point of incentive theory, Laffont and Martimort maintain, corresponds to the problem of a principal delegating a task to an agent with private information. The authors discuss the firm and the necessity, for various reasons, for the owner of the firm to delegate several tasks to members, or agents, of the firm (2002, 2). This dynamic has direct application to privatization and, as it relates to this study, can be applied to the decision of the county (the firm) to outsource (delegate) provision of public services (tasks) to for-profit and nonprofit corporations (agents). In discussing the actions of the firm, Laffont and Martimort state that auctions are mechanisms used by principals to benefit from the competition among several agents (2002, 8). When governments decide to outsource services they, too, engage in auctions, of sorts, when they issue bid specifications or requests for proposals to which potential service providers respond.

Writing in the fall 1997 issue of *Nonprofit Management and Leadership*, Catherine McDonald draws upon an explanation of the principal/agent theory which holds that many activities are too costly or too complex to be provided by one principal. Because of this, a principal hires an agent with the knowledge and skills needed to undertake particular tasks (Sappington, 1991). Applying this theoretical framework, McDonald cites some examples:

1. Voters are principals; elected representatives are agents
2. Elected representatives are principals; public officials and their organizations are agents

For the purposes of her article, "Government, Funded Nonprofits, and Accountability," and within the context of principal/agent theory, McDonald uses the state as the principal and nonprofit organizations as their agents (1997, 52). Although this theory can be applied to lower levels of government, McDonald's focus in this article was nonprofit-state relationships in Australia. Her perspective also provides an effective tool for examining privatization and has application to this study.

McDonald first positions voters as principals and the representatives they elect as agents. As elected representatives, those chosen by voters become principals and public officials and their respective organizations serve as agents. Applying this progression to privatization, a third example can be added. As public officials --- call them public administrators --- these individuals become principals; their agents are outsourcing providers chosen from the private for-profit and private nonprofit sectors. Agents could also be other government entities or governmental departments who bid on and receive outsourcing contracts. See Exhibit II -2, next page.

Savas points out that contracting presents the classic principal/agent problem that emerged after the Industrial Revolution when sole proprietors gave way to owners and hired managers. The objectives of company owners, the principals, may diverge from the objectives of the managers, the agents. The latter may be willing to forgo profits for owners in favor of more money and better perquisites for themselves. This presents a control problem, made worse because the agent generally has more information than

#### Exhibit II-2

#### Principal/Agent Theory

**Theoretical basis:** Many activities are too costly or too complex to be provided by one principal, therefore, a principal hires an agent with the knowledge and skills needed to undertake particular tasks.

#### Theoretical applications to outsourcing:

Principal	Agent	Example *
Voters	Elected officials	Voters elect county commissioners
Elected officials	Public administrators	County commissioners work with directors of county human services departments
Public administrators	County staff members, service providers from for-profit and nonprofit sectors	Human services director supervises department heads, other county staff members and/or works with service providers with whom the county contracts to provide human services to consumers

\* Examples relate to Pennsylvania counties included in this study

the principals. The principal, therefore, must bear (1) the cost of incentives to encourage the agent to pursue the goals of the principal; (2) the cost of obtaining information and monitoring the agent to reduce opportunistic behavior; and (3) the cost of any residual opportunistic behavior by the agent (Savas, 2000, 176, citing Porter and Dewey, 1998 and Hughes, 1998).

According to Savas, the principal/agent problem in government arises at three levels. The public, as the principal, has to control its agents, the elected officials, but the public has no common objective, does not speak with one voice, and is unable to communicate its diverse wishes effectively. Second, public officials, acting as principals, must exercise control over their agent, the bureaucracy, a task more difficult than in the private sector because of the civil service protection in the public sector. Finally, the government, as principal, must control its agent, the contractor, to pursue the organization's goals at minimum cost, to reduce risk, and to encourage innovation and efficiency (Savas, 2002, 176).

These cautions expressed, the Principal/Agent Theory is reflected in Savas' discussion of providing, arranging and producing services (2002, 64). Savas distinguishes among three basic participants in the delivery of a service: the service consumer, the service producer, and the service arranger or provider. The consumer obtains or receives the service directly, e.g., an individual, a government agency, a private organization, or a class of individuals with common characteristics. The service producer directly performs the work or delivers the service to the consumer. A producer can be a government unit, a special district, a voluntary association of citizens, a private firm, a nonprofit agency, or, in some cases, consumers themselves. The service arranger (also called the service provider) assigns the producer to the consumer, or vice versa, or selects the producer

who will serve the consumer (Savas, 2002, 65). See Exhibit II-3, below. Savas' definitions of producer and provider/arranger can be directly connected to concepts of principal and agent and the variations prompted by consideration of McDonald's work. Savas notes that the producer can in some cases be the provider/arranger and vice versa; in the same manner, the principal, as noted in Exhibit II-2, can be the agent and vice versa.

Exhibit II-3

PRODUCER	ARRANGER	
	Public	Private
Public	<ul style="list-style-type: none"> <li>▪ Government service</li> <li>▪ Intergovernmental agreements</li> </ul>	<ul style="list-style-type: none"> <li>▪ Government vending</li> </ul>
Private	<ul style="list-style-type: none"> <li>▪ Contracts</li> <li>▪ Franchises</li> <li>▪ Grants</li> </ul>	<ul style="list-style-type: none"> <li>▪ Free market</li> <li>▪ Voluntary service</li> <li>▪ Self-service</li> <li>▪ Vouchers</li> </ul>

Arrangements for providing "public" services  
Savas, 2002, 66

The distinction between providing or arranging a service and producing it is profound, Savas states. It is at the heart of the entire concept of privatization and puts the role of government in perspective. With respect to many collective goods, government is essentially an arranger or provider — an instrument of society for deciding what shall be done collectively, for whom, to what degree, at what level of supply and how to pay for it (Savas, 2002, 65).

A government that decides to provide a service at collective expense does not have to produce the service using government employees and equipment, Savas states.

Opposition to privatization often comes from those who do not appreciate the difference between providing and producing and mistakenly assume that if government divests itself of the producer function, it must automatically abandon its role of provider as well, he points out. Such misunderstanding, he says, raises "false alarms about privatizing services that are said to be 'inherently governmental'; the responsibility for providing the service can be retained by government, and government can pay for it, but government does not have to continue producing it directly" (Savas, 2002, 66).

Savas goes on to say that when the arranger and the producer are one and the same, a bureaucratic cost is incurred, the cost of maintaining and operating a hierarchical system. When the arranger is different from the producer, there is a transaction cost, the cost of hiring and dealing with an independent producer. The relative magnitude of these two costs determines whether it is worth separating the arranging and producing functions (Savas, 2002, 66).

Many of the government-provided services that prompt discussions of advantages and disadvantages of arranging vs. producing or the merits principal vs. agent are, by their very nature, human services, the delivery of which nonprofit organizations are advantageously positioned to provide.

### **Role of Nonprofit Corporations**

Historically, nonprofit corporations have been predominant private providers of social or public goods. Roots of nonprofit corporations can be traced back centuries to

the "charities" that tended to the needs of those less fortunate. As they have evolved, nonprofits have come to perform public tasks that have been delegated to them by the state; to perform public tasks for which there is a demand that neither the state nor for-profit organizations are willing to fulfill; or to influence the direction of policy in the state, the for-profit sector, or other nonprofit organizations (Dobkin Hall, 1987, 3). In the context of this study, nonprofit organizations are organizations engaged by Pennsylvania counties to provide human services that fall within the counties' areas of responsibility but that the counties have chosen to outsource.

Weisbrod (1988) argues that democratic governments are constrained to provide public goods at the level that satisfies the median voter because preferences for and willingness to pay taxes in support of public goods varies. This being the case, the demand for some public goods goes unmet unless or until nonprofit organizations respond and become involved. Salamon and Anheier site changing social and economic realities coupled with declining confidence in the capabilities of government as contributing to the new demands placed on private social service agencies, health clinics, day care centers and others that comprise the private nonprofit, or voluntary, sector (Salamon, Anheier, 1996, xvii). Salamon relates existence of nonprofits to the satisfaction of unmet needs, government failure, failure in the market place and the expression of sentiments of solidarity, freedom and pluralism (1992, 7-9).

By legislative, philosophical and organizational design, nonprofit organizations address the societal needs that, by their very nature, are not attractive (for social, financial or other reasons) to the for-profit sector and cannot be ignored by the public sector. In some ways, nonprofits are different from for-profit corporations and government entities; in other ways, nonprofits are similar to the private and public sectors.

Nonprofit organizations, like businesses, rely on voluntary exchanges to obtain revenues and other resources. In business, customers supply the resources for the services they receive. Unlike businesses, nonprofit organizations often depend on donors or funders for resources necessary to provide a different group (clients or beneficiaries) with services. Indeed, one reason nonprofits exist is that the services they offer would go wanting. Thus the justification for tax and other public policy preferences nonprofit organizations receive — nonprofits provide public goods that would otherwise not be provided, either by business or government (Herman, 1994, xiii). By so doing, nonprofits take their place in the market economy, assuming a crucial role not only as a means of exchanging goods but as a mechanism for sustaining and maintaining society.

The role of nonprofit corporations within the market economy is a focus of this study because, as providers of human services programs, nonprofits are often involved in contractual agreements with local government to deliver programs and services. In Pennsylvania, where counties have a long history of outsourcing human services, those with whom counties contract are frequently nonprofit corporations. In spite of the number and the longevity of these public/ private nonprofit relationships, substantive quantitative and qualitative information about the partnerships was not available at the state or local government levels. The role of nonprofits in the economy of the Commonwealth was ripe for exploration.

### **Economic Theories of Nonprofit Organizations**

Serious work on the economics of the nonprofit sector began in the 1970s. This timing probably reflects, in part, notable growth in the size and scope of the nonprofit



sector. The economic theories of nonprofit organizations can be divided into two types: theories of the role of nonprofit institutions and theories of their behavior, although realistically the two cannot be separated (Hansmann/Powell, ed., 1987, 28).

Theories of nonprofits begin with the (mostly implicit) assumption that the for-profit sector is the dominant sector in the economy, the government is the main corrective to failures of the for-profit sector, and the nonprofit sector represents the residual corrective to both market and government failures (Ben-Ner, Gui, 1993, 6).

### Public Goods Theory

To date, several other economic theories have been developed to explain the role of nonprofit organizations. The Public Goods Theory was the first such theory to emerge (Weisbrod 1974, 1977). This theory suggests that nonprofits serve as private producers of public goods. Governmental entities, Weisbrod said, will tend to provide public goods only at the level that satisfies the median voter; consequently, there will be some residual unsatisfied demand for public goods among those individuals whose taste for such goods is greater than the median. Nonprofit organizations arise to meet this residual demand by providing public goods in amounts supplemental to those provided by government (Hansmann, 1987, 29).

Weisbrod's theory highlights the fact that many nonprofit firms provide services that can be characterized as public goods, at least for a limited segment of the public. As originally presented, however, the public goods theory left two questions unanswered. First, the services provided by many nonprofits do not seem to be public goods but rather appear to be private ones, e.g., services of a nonprofit hospital, a child care center, private schools, or orchestras). Second, Weisbrod's theory stops short of

explaining why nonprofit, rather than for-profit, firms arise to fill an unsatisfied demand for public goods. What is it about nonprofit firms that permits them to serve as private suppliers of public goods when proprietary firms cannot or will not? (Hansmann, 1987, 29). The Contract Failure Theory contributes to this discussion.

### Contract Failure Theory

The Contract Failure Theory was presented by Nelson and Krashinsky (1973; Nelson, 1977) in an essay on day care; the authors posited that the quality of service offered by a day care center can be difficult for a parent to judge. Consequently, they suggested, parents might wish to patronize a service provider in which they can place more trust than they can in a proprietary firm, which they might fear could take advantage of them by providing services of lesser quality. Nelson and Krashinsky contended that the strong presence of nonprofit firms in the day care industry could perhaps be explained as a response to this demand.

Hansmann (1980) further developed the Nelson-Krashinsky work, arguing that nonprofits of all types typically arise in situations in which, owing either to the circumstances under which a service is purchased or consumed or to the nature of the service itself, consumers feel unable to evaluate accurately the quantity or quality of a service a (for-profit) firm produces for them. In such circumstances, a for-profit firm has both the incentive and the opportunity to take advantage of customers by providing less service to them than was promised or for which the firm was paid. In contrast, a nonprofit firm's nondistribution constraint may be in its favor because those who control the organization are not permitted to benefit personally from profits (which could be generated by providing low-quality services). Consequently, nonprofits appear attractive to consumers because of the "nondistribution constraint" that provides managers of

nonprofits with fewer incentives to take advantage of their customers (Hansmann, 1987, 29).

Nonprofits have a comparative advantage, Hansmann (1980) suggests, when the value of protection from what could be lesser quality services outweighs the inefficiencies that evidently accompany the nonprofit form. In essence, nonprofits arise where ordinary contractual mechanisms do not provide consumers with adequate means to monitor producers.

### Summary

In privatization, as in art or science or life, the whole is much more, much greater than the sum of its parts. Theories that ground privatization, its supporters and critics, governments that implement it, public agencies that contract for service delivery, providers who deliver the services and consumers who use or benefit from the services, individually and together, contribute to a vast body of knowledge, opinion and experience. This body, in a constant state of change, of development and evolution, cannot be viewed accurately from just one vantage point nor can it be thoroughly and definitely documented. This study explores one specific area, privatization at the county-level in the Commonwealth of Pennsylvania where public officials, public administrators, citizens and consumers struggle to decide ... *What can government properly and successfully do and how can government do these things with the utmost possible efficiency and at the least possible cost either of money or energy?*

### III. Review of the Literature

#### Privatization – An Overview

Privatization is a defining characteristic of New Public Management but privatization itself is nothing new. The practice of private sector delivery of public services can be traced to the first Bank of the United States which served as the federal government's fiscal agent and principal depository of the Treasury and was owned by private shareholders. When the federal government wanted to deliver mail to citizens west of the Mississippi, it contracted with 80 horseback riders, the first Pony Express. The Homestead Act gave settlers government-owned land for a small fee if they would cultivate soil for a fixed period (Miller, Tufts, 1992, 236).

Savas goes farther back. He calls the family, the clan or the tribe, the most basic units of society --- "the original department of housing, health, education, welfare, and human services". He cites voluntary groups of all descriptions; the market, and the varied array of organizations operating therein; and the government as other institutions human societies have developed to satisfy their needs (Savas, 2000, 3). Privatization, Savas says, can be broadly defined as relying more on the private institutions of society and less on government to satisfy people's needs (Savas, 1987, 3).

Today, examples of privatization are found at all levels of government, federal, state and local. From defense contracts with the Federal government to health care management at the state level to local school district take overs, citizens and public officials alike are affected every day by decisions to put public services into the hands of private-sector entities. These decisions are made for any number of reasons, but at the root are underlying philosophical, political and economic principles as well as basic motivations of performance, productivity, and practicality.

According to Savas, several major influences have propelled the privatization movement: pragmatic, economic, philosophical, commercial and populist.

The goal of the pragmatists is better government, in the sense of a more cost-effective one. Economic affluence reduces people's dependence on government and increases their acceptance of privatized approaches. The goal of those who approach the matter of philosophically (some would say ideologically) is less government, one that plays a smaller role vis-à-vis private institutions... The goal of commercial interests is to get more business by having more of government's spending directed toward them. And the goal of the populists is to achieve a better society by empowering people so they can satisfy their common needs, while diminishing the power of large public and private bureaucracies (Savas, 2000, 5)

#### Exhibit III-1

<b>THE INFLUENCES PROMOTING PRIVATIZATION</b>		
<b>Influence</b>	<b>Effect</b>	<b>Reasoning</b>
Pragmatic	Better government	Prudent privatization leads to more cost-effective public services.
Economic	Less dependence on government	Growing affluence allows more people to provide for their own needs, making them more receptive to privatization.
Ideological	Less government	Government is too big, too powerful, too intrusive in people's lives and therefore is a danger to democracy. Government's political decisions are inherently less trustworthy than free-market decisions. Privatization reduces government's role.
Commercial	More business opportunities	Government spending is a large part of the economy; more of it can and should be directed toward private firms. State-owned enterprises and assets can be put to better use by the private sector.
Populist	Better society	People should have more choice in public services. They should be empowered to define and address common needs and to establish a sense of community by relying less on distant bureaucratic structures and more on family, neighborhood, church and ethnic and voluntary associations.

*Source: Savas, E.S. Privatization and Public-Private Partnerships. 2000. Page 6.*

In practical terms, privatization is a process by which government engages the private sector to provide capital or otherwise finance government programs, purchase government assets, and/or operate government programs through various types of contractual arrangements. On a broader philosophical plane, a more relevant meaning of privatization must refer to nothing more or less than greater reliance on market forces to generate production of particular goods and services (Miller, Tufts, 1992, 236).

Privatization has been defined broadly as relying more on the private institutions of society and less on government to satisfy people's needs; more specifically, it is said to be the act of reducing the role of government, or increasing the role of the private sector, in an activity or in ownership of assets (Savas, 1987, 3; 1992, 81). Included in the privatization definition are the sale of public enterprises and assets, contracting out, franchises, vouchers, and deregulation. Another definition of privatization is a choice between public and private financing and performance (Donahue, 1989, 7-8). Services can be financed in two ways: (1) Collectively through taxes and be delivered either by a private firm (e.g., contracting out) or by a government agency (e.g., Social Security), or (2) Paid individually and delivered either by a public authority (e.g., the US Postal Service) or a private firm as a function of private market transactions.

Although the definitions of privatization can vary according to author (Barnekov, Raffel, 1992; Holzer, 1992; Osborne, Gaebler, 1992; Sheht, 1993; Holzer, Callahan, 1998; Savas, 1987, 2000) the basic elements are similar:

- a reduction in the role of government
- an increase in the role of the private sector in the delivery of public goods and services.

Savas points out that governments should have specific objectives for privatization

(2000, 119), as illustrated in Exhibit III-2, next page. Miller and Tufts (1992) cite five objectives of privatization. They are (1) to improve the use of scarce resources by reducing the costs of providing public services, particularly where private enterprise is strong and government is assured of more effective services at lower costs; (2) to modify the role of government from that of a primary producer of goods and services to that of governing; (3) to enable government to meet responsibilities that might otherwise be too costly; (4) to reduce the tax burden; (5) to limit taxes (Miller, Tufts, 1992, 236).

#### Exhibit III-2

##### Objectives of Privatization

Governments should have specific objectives for privatization.

- Reduce the cost of government
- Generate revenues, both by selling assets and then by collecting taxes from them
- Reduce government debt
- Supply infrastructure or other facilities that government cannot otherwise provide
- Bring in specialized skills needed for technologically advanced activities
- Initiate or expand a service quickly
- Lessen government interference and direct presence in the economy
- Reduce the role of government in society
- Accelerate economic development
- Decentralize the economy and broaden ownership of economic assets
- Show commitment to economic liberalization and increase business confidence
- Gain popular support (by getting rid of malfunctioning bureaucracies)
- Reward political allies
- Weaken political opponents (e.g., labor unions)

Savas, 2000, 119-120

Savas (2000) contends that there are indicators of poor public sector performance that

lead to the demand for privatization or other far-reaching structural reforms. He cites:

- Inefficiency, overstaffing, and low productivity
- Poor quality of good and services
- Continuing losses and rising debts
- Lack of managerial skills or sufficient managerial authority
- Unresponsiveness to the public
- Undermaintenance of facilities and equipment
- Insufficient funds for capital investments
- Obsolete practices or products, and little marketing capability
- Multiple and conflicting goals
- Misguided or irrelevant missions
- Underutilized and underperforming assets
- Illegal practices
- Theft and corruption

Agencies, activities, enterprises, and assets that exhibit any of the above are potential candidates for privatization, Savas says (2000, 111). As clear as the issues facing government may be, privatization is not always the answer. As privatization is considered, certain conditions should be examined, certain questions posed, such as: Are the government's operations unrelated to the central function of governance? Is the government service in direct competition with the private sector? Does the cost of an existing government-provided service exceed the available or projected resources? Are current government operations inefficient and/or is the service of poor quality? Have all remedial actions failed? (Miller, Tufts, 1992, 237).

Given diverse circumstances, the practice of contracting out services varies from government to government, industry to industry, and region to region. Variations of contracting out have been placed on a continuum (Halachmi, Holzer, 1993) as follows:

1. None.
2. Contracting supplementary services unrelated to the mission of the organization.
3. Contracting support services related to the mission.
4. Contracting parts of mission implementation.
5. Contracting core components of mission implementation.



## 6. Contracting certain aspects of mission implementation.

Other than contracting, different forms of privatization are not as popular in the United States. Lesser-used methods include: loan guarantees, vouchers and special enterprises. On the federal level, the latter are mainly financial institutions that serve some public purpose but are increasingly independent in their regulations. Deregulation is often considered another form of privatization. Basically, this method sometimes consists of breaking up a government monopoly in a particular area, permitting alternative service providers to enter the field (Gabrielian, Holzer, 1994, 3).

Some authors consider all privatization as activities that deal either with spending or regulatory activities of the government. Along these lines, privatization is "any reduction in the spending or regulatory activity of the government" (Barenkov, Raffel, 1992, 100). This definition reflects the ideology that often stands behind privatization efforts.

As a concept and a practice, privatization --- so clearly illustrating the complex and overlapping relationship of the public and private sectors --- relates directly to the politics-administration debate put forth by Woodrow Wilson in "The Study of Administration" (1887). Wilson's essay has been interpreted by some scholars to express a clear separation between policy and administration. Veering from this position, Fesler (1980, 16) notes, that Wilson also said that the "lines of demarcation, setting apart administrative and nonadministrative functions ... run up hill and down dale, over dizzy heights of distinction and through dense jungles of statutory enactment, hither and thither around 'ifs' and 'buts,' 'whens' and 'however,' until they become altogether lost to the human eye." A strict dichotomy between administration and policy is fictional, and Wilson knew it to be so. His goal was to call attention to the need for efficient

administration and to keep it out of partisan politics (Nigro, Nigro, 1984, 7).

Indeed, efficient administration and protection from partisan politics have been and still are central issues for those on both sides of the privatization debate. During the classical period of public administration theory, proponents of scientific management looked to the private sector for techniques to improve efficiency and productivity in the public sector. Later, the behaviorists sought input from the private sector in their design for public administration. Over the years, what has emerged is a distillation of theory and a need for practical solutions that has prompted developments such as innovative and distinctive relationships among public, for-profit and nonprofit entities. Many of these relationships are found when a government elects to contract out a program or service. These contracts, in their varied and diverse compositions, often involve public/private partnerships. The main purpose of this research project is the exploration of outsourcing, one specific type of public/private partnership where government contracts out all or part of a service. Outsourcing separates the party obligated to provide for a particular public service from the party that delivers the service. Specifically, this study focuses on the adoption, selection and performance measurement of outsourcing providers by local governments.

#### **Public/Private Partnerships: One Dimension of Privatization**

Methods other than delivery of public services solely by public employees --- yet another expression of privatization --- are sometimes identified as alternative service delivery approaches, or ASDAs. Harry P. Hatry, in his Introduction to *The Private Sector in State Service Delivery: Examples of Innovative Practices* (1989), identified 12 Alternative Service Delivery Approaches:

- |                            |   |
|----------------------------|---|
| 1. Contracting for service | 7. Use of regulatory and taxing authority |
| 2. Franchises              | 8. User fees and charges to adjust demand |
| 3. Grants and subsidies    | 9. Divestiture                            |
| 4. Vouchers                | 10. Reducing demand for service           |
| 5. Volunteers              | 11. Temporary help from private firms     |
| 6. Self-help               | 12. Joint public-private ventures         |

Hatry describes an ASDA as a government contract with a private firm (profit or nonprofit) to provide goods or deliver services. The government may contract to have all or a portion of a service provided by the private firm (1989). In addition to private firms, governments may also enter into intra or intergovernmental agreements with other government bodies or departments.

Simply stated, a public/private partnership is a cooperative venture or relationship between or among public and private (for-profit and/or nonprofit) sector entities working together to achieve a goal or complete a project. An agreement is struck in which each partner accepts responsibility for a designated share of the work and the outcomes and can expect an equitable share of the proceeds. The nature of public/private partnerships has evolved over the years from predominately single-focus projects to multidimensional ventures that can be national or inter-national in scope.

In the 1970s, public/private partnerships aimed at economic development often were formed with banks, developers and urban governments. Projects included real estate ventures and financing high-risk projects. During the 1980s, "target marketing" became the trend and the public sector joined with the corporate community to promote industrial recruitment and business development and expansion. As service jobs increased, public/private partnerships uncovered new ways to market communities, improve education, and carry out strategic planning for the future (Morfessis, 1991).

As the 1990s unfolded, public/private partnerships emerged in energetic and innovative ways. Now, early in the 21<sup>st</sup> Century, both the public and private sectors are making greater demands on more limited resources and the barriers --- which often times are defined as "blurred" --- between the two sectors have become even more permeable. Many see public/private partnerships as the only way to create a coherent economic vision for communities and to make that vision a reality. Changing social, population and economic trends will compel these partnerships to create new alliances with nontraditional partners (Morfessis, 1991).

As more and different partnerships have developed, major trends in format and structure have been identified, such as:

- the majority of participatory groups are equally aligned with the private sector; some are completely funded by the private sector, but join with public entities to ensure a balanced approach to their mission and to maximize their effectiveness.

- many organizations operate within a broad scope, with responsibilities that cross municipal, county or state boundaries. Objectives can encompass industrial marketing, image enhancement, job attraction and infrastructure development.

- some organizations are establishing unique strategic alliances, thus setting new standards for these partnerships (Morfessis, 1991).

Information compiled by the Research and Policy Committee of the Committee for Economic Development (CED), Washington, D.C., clarifies public/private partnerships. (As is often the case, CED makes no distinction between for-profit and nonprofit corporations. Investigating what, if any, differences exist, is one of the goals of this research project.) According to CED, public/private partnerships are relationships that range from formal, contractual agreements to loosely constructed, informal arrangements between or among parties of various sizes and constituencies. Cooperation for mutual benefit, a key component, has two distinct dimensions: the policy dimension that states the goals and the operational dimension that pursues the goals. The purpose of public-

private partnerships is to link these dimensions in such a way that participants contribute to the benefit of the broader community while promoting their own individual or organizational interests (CED, 1982).

The policy dimension involves a process that produces consensus on goals, agreement on roles and sustained support for action. Foundations required for building the policy dimension include:

- a sense of common purpose and commitment to participation rooted in practical concern;
- a commonly accepted vision that recognizes its strengths and weaknesses and involves key groups in the process of identifying the vision;
- an anchor for participants that blends self-interest with broader interests and translates those mutually held goals into effective action;
- a network among key players that encourages communication and facilitates the mediation of differences;
- a leadership imperative and the ability to nurture entrepreneurial leaders whose knowledge, imagination and energy are directed toward mutually beneficial enterprises;
- a continuity in policy, including the ability to adapt to changing circumstances, that fosters confidence in sustained enterprise (CED, 1982).

In the operational dimension, cooperation can take several forms:

Private initiative for public benefit - private organizations can act on their own to address public needs.

Government initiative to facilitate or encourage private activity in the public interest - governments can facilitate private action by removing impediments to it and they can encourage private action by providing leadership, incentives and supporting services.

Joint ventures by government and private organizations - government and private sector organizations can consciously work together through informal understandings, mutually adopted plans, cooperative working relationships or legally binding agreements. Either side may initiate a joint venture, but both (or all) must voluntarily participate (CED, 1982).

Often, participation, voluntary or otherwise, in public/private partnerships has come as a result of a crisis. Communities facing major economic decline, governments facing major funding decreases and both facing significant increases in needs for programs and services have brought to the table public and private sector representatives with a major stake in the solutions to these problems. Whether driven by shrinking public tax bases, declining private profit margins, or reduced funding sources, the public, for-profit and nonprofit sectors have much to gain in combining financial, programmatic and human resources in addressing problems that affect them individually and collectively.

Once the course is charted, negotiation and cooperation are essential to the successful development of public/private partnerships. Collaborative approaches move through several stages including: goal setting, project formulation, establishment of resource commitments and responsibilities, and implementation. In some cases, cooperation extends only through the establishment of resource commitments and responsibilities, with implementation proceeding through coordinated but independent actions. In other cases, implementation is jointly undertaken (CED 1982).

At no time in the establishment of public/private partnerships should the mission or mandates of those involved be compromised. Ideally, the collaborative and cooperative relationships should allow the entities involved to add a new dimension to carrying out their respective missions and achieving their goals and objectives. This course is not undertaken without risk --- and this, too, must be recognized and equitably shared.

Changing the way they do business is one of the major risks facing those involved in public/private partnerships. In order to accomplish their mutual goals, each sector is called upon to learn and practice new skills and exercise new levels of flexibility,

adaptation and accountability.

- Local governments need to provide expertise necessary for evaluating potential joint projects and for negotiating contractual arrangements;
- Private for-profit organizations are challenged to develop skills necessary for negotiating with local governments, recognizing that they cannot dictate the terms of cooperation.
- Nonprofits are called upon to focus squarely on outcomes and accountability.

As they work together, each sector must recognize that the others also have important stakes and legitimate interests in what, for a long time, was viewed as independent spheres of activity and influence. Each needs to understand the other's mission, goals, resources, decision-making processes and operational procedures (CED 1982).

Differences between and among all of these factors surface in arguments for and against any form of privatization.

### **Pros and Cons of Privatization**

Arguments for and against privatization are either ideological or practical. The ideological arguments emanate from some commonly held beliefs. Among them:

- that privatization reduces the size of government and that smaller government is preferred;
  - that privatization can help stimulate the economy and lower taxes;
  - that private sector managers perform better;
  - that government agencies, because of their monopolistic position, lack incentives to cut costs;
  - that government should not deliver services that the private sector can provide.
- (Johnson, 1990; Henig, 1989-90)

Arguments against privatization are directed both against theoretical and practical

underpinnings of privatization. Ideological critics claim that limited government is an old idea that is incompatible with the welfare state, with its extensive social security system and health and safety regulations that no proponent of privatization wants to forgo (Gabrielian, Holzer, 1994, 4). Another objection is that the private sector does not automatically mean competition and efficiency, that only arrangements of market and regulation can bring desirable behavior of enterprises or agencies. Critics argue that private monopolies are no better than public agencies that monopolize service delivery. The real difference, critics maintain, is not cost savings but the underpayment and under-employment of public employees doing the same work (Gabrielian, Holzer, 1994, 4). When cost savings is touted, opponents of privatization contend that lower wages, the use of part-time employees, and the resulting reduction of fringe benefits are the undesirable reason.

Those opposed to privatization maintain that while privatization emphasizes the value of efficiency and cost savings, it overlooks the values of accountability, equity, service quality and governmental capacity. They assert that privatization studies do not provide data about the impact of privatization on the quality of services, therefore it is difficult to determine whether the cost savings come from increased efficiency or lower quality of services (Starr, 1987). Again, existing research does not do much to clarify this question.

Opposition to privatization sprouts from other plots as well. Some cite the practice of *creaming* --- when the private sector focuses on the most-likely-to-succeed and neglects the more high-risk customers. Examples of the latter are the economically and educationally disadvantaged, or those who live further from service centers. These critics believe that privatization results in a lack of service or low quality service --- or services that cost more for these marginalized consumers.



Two of the many arguments for privatization include:

1. the necessity to adjust for limited resources and
2. the pressure to lower the cost of services while increasing their quality, and improving the operations of government.

Enthusiasts claim that privatization studies usually control for variables including different sizes and levels of municipalities, wages, amount of work performed and quality levels.

They also maintain that ordinary comparisons overlook certain problems and deflate the real costs of services provided by government agencies. Neglected factors include the cost of buildings in which the service agencies operate and opportunity costs for the assets the government uses (Savas, 1992, 93-95). The argument continues that some government agencies use general municipal services not factored into the costs.

Research conducted for this project reveals another factor overlooked in privatization studies involving public/private partnerships --- although many variables are considered, differentiation is rarely made within the private sector between for-profit and nonprofit corporations.

Advocates of privatization contend that outsourcing can deliver a much greater portion of services that are now public. This camp claims privatization is a solution that will accomplish several ends, among them:

- lower costs, while improving quality
- allow for economies of scale
- allow public vs. private comparisons of cost and performance
- avoid large start-up costs
- provide access to specialized skill and training
- promote flexibility in size and mix of services
- make it possible to hire and fire as necessary
- allow for experimentation in different modes of service provision
- reduce dependence on a single supplier

- bypass inert bureaucracies
- allow quicker response to new service areas  
(Holzer, Callahan, 1998, 90; Savas, 1987)

Countering these advantages, skeptics maintain that many services are necessarily government's responsibility, and that a public-to-private shift will not automatically enhance productivity in jurisdiction or department (Barnekov and Raffel, 1992).

Barnekov and Raffel, along with other critics (Ogilvy, 1986-87, 15; Stahl, 1988, 42) pose questions to public managers who are considering privatization as productivity improvement measure. To what extent, managers are asked, is privatization likely to:

- interfere with accountability?
- degrade responsiveness?
- reduce services?
- lower employee morale?
- result in incomplete contracts?
- produce cost overruns?
- lower quality at the expense of quantity?
- place short-term profits over long-term planning?
- negate the service ideal inherent in public service?
- provide opportunities for graft and corruption?
- duplicate services?

(Holzer, Callahan, 1998, 90)

An anti-privatization stance appears to have guided the formation of these questions. Managers utilizing these questions as part of a decision making exercise may end up dwelling on the negative aspects of privatization. A more dispassionate analysis may be achieved with queries about effect of privatization on the components listed. Due diligence could also draw upon Savas' (1992) three Ds: displacement, divestment and delegation. See Exhibit III-3, next page. Managers could be asked to consider

questions such as "What, if any, would be the effect on staff size and/or location of programs and services?" "What authority would be transferred and how would the transfer be accomplished?" "What responsibilities would be delegated?" "How would execution of those responsibilities be monitored and by whom?"

**Exhibit III-3**

<b>Forms of Privatization</b>		
<b>Delegation</b>	<b>Contract</b>	for part of the service for total management
	<b>Franchise</b>	by concession by lease
	<b>Grant</b>	
	<b>Voucher</b> <b>Mandate</b>	
<b>Divestment</b>	<b>Sale</b>	to joint venture
		to private buyer
		to the public
		to employees to users or customers
	<b>Free transfer</b>	to a joint venture to the public to employees to users or customers to original owner (restitution) to selected recipients
<b>Liquidation</b>		
<b>Displacement</b>	<b>Default</b>	
	<b>Withdrawal (loan shedding)</b>	
	<b>Deregulation</b>	
<b>Savas, 2000, 127</b>		

Savas' concept of delegation was the focus of a study by Barnekov and Raffel (1992) who looked at the service contracting aspect of privatization. The authors found privatization pros and cons that mirror many of those already cited. Among the pros, they listed:

- the belief that anything the public sector can do, the private sector can and has done better;
- the profit maximization position in the private sector that assures services will be more cost effective;
- the establishment of specific criteria for privatization contracts because the government is forced to set measurable, quantifiable goals.

Among the cons, Barnekov and Raffel list:

- private sector “creaming”; the poorest of the poor and other marginal populations are overlooked
- government gets off the hook and does not have to do the work that, as the government, it should be doing;
- the public sector loses control over services.

In *Privatization and Public Private Partnerships*, Savas (2000) presents a comprehensive summary of arguments for and against privatization. He also cites the considerable academic attention that has been devoted to the theoretical differences in motivation and performance of public and private organizations. Distilling the work of William Niskanen, Jr., Graham Allison, Thomas Borcharding, Charles Wolf, Jr., Lawrence Bailis, Anthony Downs, Hal Rainey, Marshall Meyer, Lyle Fitch, Peter Drucker, James Bennett, and Manual Johnson, Savas summarizes the literature as follows:

1. In the public sector, there is little incentive to perform efficiently, and management lacks effective control over human and capital resources; in the private sector generally there are both carrots, in the form of raises and promotions, and sticks, in the form of demotions and firings.

2. Because capital budgets and operating budgets are generally arrived at through separate processes in the public sector, the opportunity to make tradeoffs between the two is limited. For example, it is more difficult to coordinate an investment in labor-saving equipment with a reduction in the size of the labor force.

3. Whereas a private firm generally prospers by satisfying paying customers, a monopolistic public agency can prosper even if the customers remain unsatisfied. When a private company performs poorly, it tends to go out of business; when a public agency performs poorly, it often gets a bigger budget. Paradoxically, the budget can grow even as customer dissatisfaction grows; in this respect, a rising crime rate is good for a police department, a housing shortage is good for a housing agency, and an epidemic is good

for a health department (Savas, 2000, 78-79).

For all these reasons, Savas writes, one would expect the private sector to be a more efficient producer of services, and therefore "contracting out" would be superior to "in-house" work. He stresses, however, that the difference does not arise because the people in the public sector are somehow inferior to those in the private sector; they are not. The issue is not public vs. private, he says. The issue is monopoly vs. competition (Savas, 2000, 79).

### **The Competition - Productivity Connection**

Whatever their perspectives or preferences regarding privatization, concerned and determined practitioners have ventured forth to maximize their resources to accomplish broader, more universal goals. Whether begun willingly or under duress, those involved have set out to bridge gaps in services or systems that may not have otherwise have been closed. Creating these partnerships has meant addressing forthright the differences and building on the similarities between the public and private sectors. The double-edged sword of competition --- vital to productivity, mostly all agree --- has public and private sectors alike taking a close look at the other as a potential partner or opponent in matters relating to productivity.

For Savas, competition is the essential ingredient common to successful privatizations. The primary goal of any privatization effort is, or should be, to introduce competition and market forces in the delivery of public services, in the operation of public enterprises, and in the use of public assets (Savas, 2000, 146, 123). The tenets of privatization and competition are at the heart of contemporary productivity/ performance improvement

strategies. At federal, state and local levels, the public sector is living out the definition of competition: striving or vying for prize, profit, position or necessity. In some cases, the public sector rival is the private for-profit sector; in others the nonprofit sector; and, in others, public sector employees are competing with other public sector employees for contracts that mean job security (at least for the contract term).

As a result of their study, Barnekov and Raffel (1992) conclude that privatization is no panacea for public managers looking to increase productivity. While contracts with the private sector might save money, productivity is problematic, Barnekov and Raffel say. They do note that privatization works best if the project can be measured and monitored.

The intent of this research project is to contribute in a substantive and practical manner by identifying for and within the public sector certain best practices for choosing, monitoring and evaluating public/private partnerships and by adding to the sparse analysis of the performance of for-profit corporations vs. nonprofit corporations as public sector partners.

For Savas (1992), "prudent privatization" is the answer to increased productivity --- and competition is the key strategic approach that is needed. Competition, Savas says, must be introduced and institutionalized --- and, he adds, unless there are definite consequences, competition doesn't work. (Loss of one's gainful employment, one might surmise, qualifies as a "definite consequence.")

One of the ways the public sector can introduce and institutionalize competition, Savas maintains, is to contract out parts of services. Whether divided among private vendors, nonprofit vendors or public vendors, or combinations thereof, contracting out can work for productivity improvement. Each vendor can serve as a productivity measurement for

the other (a form of competition in itself) and the government can adjust its contracts to keep the best performers. The service providers may change, but the service consumers --- the public --- always win, Savas states.

Regardless of their sector identification --- public, private or nonprofit --- those involved in competitive bidding may find some useful direction in a short work on project management by Lienge and Rea (1993). Among the steps they include in building a business plan or project is one directly related to the competition. The authors suggest that those planning a project get to know several particulars about the competition. They include:

1. Status of their technology
2. Organizational structure
3. Management and organizational processes
4. Product or service
5. Delivery system(s)

With this information, the authors contend, the project planners can get to a competitive advantage.

From among all the topics they cover in *Reinventing Government* (1992), Osborne and Gaebler say competition has the greatest effect on productivity. Competition is at the top of their list of descriptors of entrepreneurial government (although its governance they call for in this work). Among the advantages of competition, the authors list:

1. Cost efficiency
2. Focus on the customer, which monopolies (public or private) tend to overlook
3. Encouragement of innovation. Monopolies, they say, stifle it.
4. Improved employee morale

Although government cannot run like a business, Osborne and Gaebler note, it can be

more entrepreneurial (1992). The work of Osborne and Gaebler, along with the principles of total quality management, were influential in the preparation of "The Gore Report" (National Performance Review, 1993). Although Kettl (1994) maintains that the authors of the report focused more on action than on ideas, the ideas do have merit.

They include public sector prescriptions to:

1. Cut red tape
2. Focus on the customer
3. Empower employees
4. Go back to basics

Time and experience have shown that public/private partnerships are not a miracle cure for the crises facing communities, governments and businesses at all levels and in all locales. The collaborative arrangements are, however, an opportunity to release untapped energy, enthusiasm and ideas. Nationally and internationally, public-private partnerships have achieved significant results in addressing civic, political and private challenges (McDonald, 1997; Salamon, Anheier, 1996). Marshaling collective and diverse resources has been and will continue to be necessary to the preservation, stabilization and growth of communities, economies and polities. Whether as a catalyst or a driving force, public/private partnerships — born of the privatization movement — provide concerned and committed leaders and constituencies with a powerful tool for productive change. Information generated from this research project will add to the resources by identifying specific policies and procedures used by counties in the Commonwealth of Pennsylvania that have implemented public/private partnerships through outsourcing of public services.



### **Emergence of the Nonprofit Corporation as an Economic Partner**

Forty years ago, nonprofit institutions were generally seen as marginal to an American society dominated by government and big business respectively. Today, the nonprofit institutions are recognized as central to American society and are indeed its most distinguishing feature (Drucker, 1990, xiii).

Peter Dobkin Hall, himself a noted historian of the nonprofit sector, says historians have tended to ignore the nonprofit sector. He notes that existing scholarship examines only particular fields (education, health care, social welfare, the professions, philanthropy), the development of specific institutions, and the lives of individuals prominent in nonprofit areas. But little of the literature deals meaningfully with nonprofit institutions as a distinctive sector of activity (Hall, 1987, 3). While considerably more attention has been given to the nonprofit sector over the past 15 years, the work and impact of nonprofits still remain fertile ground for research into their ever-evolving nature and scope.

Hall defines a nonprofit organization as a body of individuals who associate for any of three purposes: (1) to perform public tasks that have been delegated to them by the state; (2) to perform public tasks for which there is a demand that neither the state nor for-profit organizations are willing to fill; or (3) to influence the direction of policy in the state, the for-profit sector, or other nonprofit organizations (Hall, 1987, 3).

According to Hall, nonprofit organizations exist under a particular combination of ideological, political, social and economic conditions that are, in turn, the products of a unique set of historical experiences. Ideologically, Hall says, the nonprofit organization and its supporters see the will of the state as the collective will of the individuals who compose it. Politically, he writes, this view that sovereignty resides in the people is

expressed institutionally in such legislative forms as grants of corporation, tax exemptions and tax regulations providing incentives to individuals to make donations to nonprofit organizations. It is expressed through such juridical devices as creation of equity jurisdiction, which facilitates private collective action by permitting the allocation and administration of property for future purposes (Hall, 1987, 3).

These ideological and political conditions, Hall states, can exist only in a social context in which individuals are socialized to responsible autonomy and the modes of authority are geared toward compliance rather than coercion. Paralleling all three sets of conditions is an economic system in which individuals' financial resources and productive energies are subject to their discretionary disposal. The nonprofit sector is, then, a distinctive product of democracy and capitalism. With the exception of England, on whose legal precedents and institutional experience Americans have drawn extensively in creating their own institutions, no other nation has depended so heavily as has the United States on private nonprofit organizations for performing so many public activities. Compelling testimony to this fact is that, as developing nations in [the Twentieth Century] have looked to developed countries for institutional models, their embryonic nonprofit sectors have been based on American rather than British examples (Hall, 1987, 3).

America's unique nonprofit structure captured the attention of Alexis deTocqueville, a French historian and social commentator. After a visit to the United States in 1831, he wrote a two-volume study of American politics and national character. *Democracy in America* is seen by some as one of the most probing analyses of the distinctive American contribution to democratic culture. The most important prerequisite, deTocqueville concluded, was a functioning set of private associations, what we would now term a private, nonprofit sector (Salamon, 1995, 268).

Although the term *nonprofit* usually refers to organizations falling into the IRS 501 (c) (3) classification, there are, in reality, various forms of nonprofit firms, each facing somewhat different constraints, just as there are different organizational types in the for-profit sector. (See Appendix A. Description of tax exempt status.) For purposes of clarity and comparison, henceforth, references to nonprofits will include those classified as 501 (c) (3) and 501 (c) (4).

The concept of the charitable tax-exempt organization as a unified and coherent sector dates back little more than 20 years. More than 90% of nonprofit organizations currently in existence were established since World War II (Herman, 1994, 3). Since that time, the growth of nonprofit organizations has been rapid and diverse. Some, such as health care facilities, educational institutions and nationwide charitable organizations maintain high profiles, large staffs and impressively flush budgets. The majority of nonprofit organizations, however, are lower profile, sparsely staffed and operate on modest, if not restrictive, budgets. Regardless of their size, nonprofits are a relatively new institutional form. Their emergence as a central figure of the polity represents a new configuration of public and private power (Herman, 1994, 4).

Nonprofits are captured in a broader category often referred to as “the third sector.” Osborne and Gaebler define the third sector as organizations that are privately owned and controlled, but that exist to meet public or social needs, not to accumulate private wealth. By this definition, large, nonprofit firms that exist primarily to accumulate wealth would not qualify. But for-profit institutions that exist to meet public needs (e.g., development banks) would qualify (Osborne, Gaebler, 1993, 44). In *Reinventing Government*, the authors quote Lester Salamon, who led a multiyear research project on nonprofit organizations at the Urban Institute, as calling the third sector the “preferred

mechanism for providing collective goods.” The third sector, they explain, existed long before most government services existed and coped with social problems long before governments took on that role. Governments stepped in only when the third sector proved incapable of dealing with particular problems. As others before and since have acknowledged, Osborne and Gaebler maintain that the third sector tends to be best at performing tasks that generate little or no profit; demand compassion and commitment to individuals; require extensive trust on the part of customers or clients; need hands-on, personal attention; and involve the enforcement of moral codes and individual responsibility for behavior (Osborne, Gaebler, 1993, 44, 46).

Currently, there are more than 1.2 million nonprofit organizations in the United States. Large, mid-size and small, nonprofits cover an enormous array of institutions including, among others: hospitals, colleges and universities, foundations, symphonies, museums and other cultural organizations, trade associations, consumer “watch dog” and advocacy groups, human and social service agencies, and sports leagues. As a provider of services, an employer, itself a consumer of services, and the recipient of charitable contributions as well as public and private funds, the nonprofit sector has carved out a healthy portion of the local, regional, national and global economy. Salamon and Anheier make this point in their 1996 overview of *The Emerging Nonprofit Sector*. According to the authors, whatever its social, moral, or political importance, the nonprofit sector is also important in purely economic terms. In fact, the nonprofit sector is a massive industry whose employment and expenditures exceed some of the world’s largest businesses by several orders of magnitude. (Salamon, Anheier, 1996, 30). Even though the growth of the nonprofit sector has been significant over the past 20 years, these organizations have not been adequately evaluated for many of the roles they have assumed. Salamon and Anheier (1996, 30) say the nonprofit sector “deserves far more

attention than it has so far been able to attract.”

According to data published in 1998 by Independent Sector (IS), a national leadership forum in Washington, D.C., the number of independent sector organizations in the United States ( those classified by the Internal Revenue Service (IRS) as 501 (c) (3)s, 501 (c) (4)s and religious organizations) has grown from 739,000 in 1977 (the first year IS collected data) to 1.23 million in 1998 (IS's most recent data). Paid employment by the independent sector rose from 5.5 million (5.3% of total U.S. employment) in 1977 to 10.9 million (7.1% of total U.S. employment) in 1998. (See Appendix B.)

Of the total independent sector organizations reported in 1996, 501 (c) (3) organizations accounted for 654,000 and 501 (c) (4) organizations accounted for 140,000. Religious institutions numbered 341,000 and other tax exempt organizations amounted to 395,000 (Union Institute, 1997) (See Appendix B). As of 1998, the Center for Nonprofit Boards, Washington, D.C., estimates the number of nonprofit organizations in the United States at 1.2 million. According to information compiled by the Independent Sector, in 1997, government payments in the form of grants or contracts accounted for 31% of the total annual revenue of \$665 billion, second only to private payments in the form of dues, fees and charges amounting to 38% (Independent Sector, 2002, 92).

Even though the growth of small and mid-size nonprofits has been significant, these organizations have not been widely recognized for the roles they play, or may potentially play, in privatization of public sector programs and services. In the last 30 years, a major restructuring of the provisions of public service has occurred; increasingly, public services are provided by nonprofit agencies through government contracts (Herman, 1994, 325). On one hand, public attention to contracting has often focused on the lack of

accountability that exists for the expenditure of government funds by nonprofit agencies (Herman, 1994, 328). On the other, advocates for nonprofit involvement in the public sector point to quality of service, cost efficiency and quick response time provided by the nonprofit sector. Definitive evidence (quantitative or qualitative) is lacking to support either position.

Recognizing the growth and inadequately examined impact of the nonprofit sector, Johns Hopkins University Institute for Policy Studies launched the *Johns Hopkins Comparative Nonprofit Sector Project* in May 1990. The project involved an international team of more than 200 people working in 13 countries throughout the world. Lester Salamon and Helmut Anheier, editors of the series of monographs resulting from the project, characterize the effort as a major inquiry into the scope, structure, history, legal position, and role of the nonprofit sector in a cross-section of nations (1996, xi).

The Johns Hopkins project began two years after Weisbrod recommended that a comprehensive statistical program be developed to provide data about the nonprofit sector — its size, composition, outputs, fundraising activities, and interactions with the private market economy. “It’s startling how little is known about this large and growing segment of the economy,” he wrote (Weisbrod, 1988, 167).

#### Nonprofit sector studies

Rowan Miranda focused attention on the nonprofit sector in a study he conducted using 1982 data from the International City/ County Management Association (ICMA), Washington, D.C. With the exception of this study — based on data that was more than 10 years old when he used it and now aged even further — targeted survey research is scarce. Studies specifically describing measurable outcomes related to the effectiveness of the public/nonprofit relationships as an alternative to (a) public sector delivery of the

services or (b) provision by for-profits of public sector programs and services are not readily available. Either such data is not maintained, or the data that is collected does not differentiate between public/for-profit partnerships and public/nonprofit partnerships. In the case of the Miranda study, the information is far too outdated to have particular and current relevance. According to Independent Sector (IS), in 1982, when the ICMA data that Miranda used was collected, nonprofit organizations numbered 793,000 with total revenues of \$212 billion. In 1997, nonprofits (all those IRS-designated tax-exempt organizations) totaled 1.6 million with revenue of more than \$665 billion (See Appendix B).

More than 30 years of privatization measures have resulted in a variety of options available to government entities charged with the delivery of public services to citizens. Outcomes of these choices have collected mixed reviews. Results of these choices have engendered heated debate on their effectiveness and efficiency. Critics charge that government is handing off what, they believe, is public sector responsibility. Supporters point to cost efficiency and streamlining of service that are impossible to achieve within government bureaucracy. Specific research about just how and why and with what results the public sector uses the various forms of privatization does not match the amount of rhetoric, argument and speculation.

#### International City/County Management Association (ICMA) Studies

Since 1982, the International City/County Management Association (ICMA) has conducted surveys of what it terms alternative service delivery approaches (ASDAs). Studies conducted in 1982, 1988, 1992 and 1997 sought information from cities and counties throughout the United States about their uses of outsourcing providers. Although the results vary slightly among the 1982, 1988 and 1992 ICMA surveys, trends

do show consistently high use of contracting with private for-profit and private nonprofit organizations. While this information was helpful in tracking the use of contracting with private firms, the satisfaction measurement was inadequate. In constructing the survey, ICMA did not allow for separate ratings for for-profit and nonprofit firms. ICMA completely omitted the satisfaction measurement in the 1997 survey because, according to Evelina Moulder, ICMA's Director of Survey Research and Information Management, the survey would have had to include a separate rating for every possible combination of service delivery (privatization) options. A similar problem is found in Hatry's definition of outsourcing where he used "private" to encompass both for-profit corporations and nonprofit corporations.

Using data from ICMA's 1982 survey, Rowan Miranda approached the notion of comparison from another angle (Clark, 1994). Miranda's study does separate for-profits and nonprofits for reasons of comparative performance. However, as noted earlier, current relevance of this study is lessened because of the age of the data and the growth of the nonprofit sector between 1982, when the data was collected, and 1998, the year for which most recent data is available. In 1998, the number of nonprofit organizations had increased 27.5% from 1,180,000 in 1982 to 1,627,000 (Independent Sector, 2002, 8).

In "Contracting Out: A Solution with Limits," (Clark 1994, 197) Miranda cites the uncertainty that exists about the policy effects of contracting out. First, Miranda says, most studies comparing relative efficiencies of public bureaus and private organizations do not address whether contracting reduces the size (e.g., expenditures and/or employment) of government (Clark 1994, 197). With few exceptions (Deacon 1979; Ferris 1988; Miranda 1992), the studies at best find one arrangement can produce



services at a lower cost than another, but the studies do not link the superior private sector performance to reductions in aggregate spending or employment. (Miranda 1994, 198). Nor, in this as in other studies, is "the private" sector separated into for-profit and nonprofit categories. Second, Miranda notes, the literature classifies a broad range of alternative service delivery arrangements (outsourcing providers) under the headings "public" or "private." What the discipline of Public Administration characterizes as the "blurring of sectors" (Bozeman 1987) is mostly ignored in the empirical literature on contracting (Miranda 1994, 198).

Miranda's analysis of the 1982 ICMA data focused on measurable outcomes related to the effectiveness of public/nonprofit vs. public/for-profit partnerships. The information is reported in his chapter "Contracting Out: A Solution with Limits," (Clark, 1994, 197 - 212).

Based on his observations about contracting out, Miranda examined the question: *If there are expenditure and employment reductions from contracting out some services, are they linked with some sectors more than others (i.e., private, nonprofit, or governmental?)*

Data on the municipal service contracting used in Miranda's study was taken from approximately 3,310 municipalities that were surveyed in 1982 on the types of services they are responsible for providing and on the service delivery arrangements used to produce those services. The study examines all cities greater than 10,000 in population in the survey, with a sample size of approximately 1,330 cities (Clark, 1994, 202).

The key measure used to examine the effects of contracting on aggregate expenditures and employment was the percentage of services for which a city is responsible that is contracted out. Variables representing percentage of services contracted out by sector

(e.g., percent of highway functions contracted to nonprofit organizations) were constructed by grouping individual services into specific agencies through an approach developed by Robert Stein (1990). For example, individual services listed in the ICMA questionnaire, such as programs for child welfare, the elderly, and day care were categorized under the "welfare" agency (Clark, 1994, 202).

Miranda used three hypotheses in his study.

*Hypothesis I. Property rights*

Private for-profit organizations produce services at lower costs in comparison with either government or nonprofit organizations. Nonprofit organizations and governments do not enable divisibility of ownership rights into the organization, which motivates inefficiency.

*Hypothesis II. Public choice*

Private for-profit organizations produce services at lower costs in comparison with either the nonprofit or governmental sector because of scale economies and greater competition in the private sector. However, nonprofits are comparably more efficient than the governmental sector, because contracting with the latter amounts to transferring production from one "monopoly government" to another.

*Hypothesis III. Hybrid contract failure/subsidy*

Nonprofits perform services at lower costs than either governmental or for-profit enterprises. Nonprofits are less motivated to take advantage of informational asymmetries facing consumers. Moreover, subsidies provided by other governments and private sources allow them to operate as if there is a reduction in either their fixed or variable costs, enabling them to charge municipalities less. (Clark, 1994, 202-203)

According to Miranda (1994, 198), "Two main theoretical frameworks --- public choice and property rights --- have guided empirical inquiry in studies comparing public and private production. Yet both theory and empirical research in these traditions have generally remained silent on the role of the "third sector" (private nonprofits) in service delivery."

About the outcome of his study, Miranda stated: "The findings are striking." He wrote (1994, 204):

*In contrast to the expectations of either the property rights or public choice approaches, contracting with nonprofits promises the greatest potential for retrenchment — other factors constant — followed by contracting with the private for-profit sector. Contracting with government fares the worst.*

Miranda's findings support Hypothesis III, the contract failure/subsidy hypothesis. He cautions: "However, sorting out the specific reasons why nonprofits achieve comparably greater cost efficiencies in several functional areas is more difficult to assess with our data, and thus merits further empirical study" (1994,209). Miranda goes on to cite several possible reasons for greater cost savings associated with nonprofit contracting.

They include:

1. Nonprofits may be less likely to take advantage of information asymmetries and raise contract prices during "ex post" contracting than for-profits. According to Hansmann (1980), one of the main reasons for the existence of nonprofit organizations is that they are less likely than for-profits to take advantage of customer ignorance in cases of asymmetrical information because of the nondistribution constraint removes the incentive to cheat customers.
2. Nonprofits have a more diverse revenue mix. When nonprofits bid to produce a service where municipalities have a role, nonprofits may receive "piggyback" funding from states, the federal government and private sector foundations that allows them to charge municipalities less (Bacon 1989).
3. Nonprofits can charge municipalities less because of their volunteer labor that is used in their output mix. Also other in kind services may reduce cash expenditures. (Drucker, 1989).
4. Nonprofits have a more competitive market structure. When municipalities keep some of the services in house and contract the rest to nonprofits, benchmarks may be introduced that improve efficiency of both nonprofits and government agencies (Miranda, 1993).
5. Transaction costs. Municipalities contracting with nonprofits may incur fewer expenditures in monitoring nonprofits on service quality specifications. It may not be the more efficient performance of nonprofits, per se, but the possibility that municipalities expend fewer resources on contract monitoring and implementation (Ferris and Graddy, 1991).

The works of Graber (1992) and Morfessis (1991) concerning the differences between the public and private sectors are perfect examples of the lack of distinction made

between private for-profit organizations and private nonprofits. True, there are differences between the public and private sectors; however, there are also substantive differences *within the private sector* between for-profits and nonprofits. Among them:

- Profit distribution
- Compensation
- Market position
- Mission

### Pennsylvania and New York Studies

The centrality and impact of the mission and market share of nonprofit organizations was a prevailing theme in the results of a 1998 study sponsored by Pennsylvania Association of Nonprofit Organizations (PANO) and conducted by Eastern College. *Impacts of the Pennsylvania Nonprofit Sector*, published in 2000, highlights effects on operating expenditures, capital and government revenues, volunteerism, visitors to the Commonwealth and society overall. The study, described by the authors as a “snapshot of Pennsylvania” rather than a longitudinal view, drew on 1997 IRS data, supplemented by two statewide surveys and several focus groups. The study is limited because it excluded organizations with annual incomes less than \$25,000 since they are not required to file with the IRS. The study also omitted churches and other religious organizations exempted from reporting an IRS form 990. Researchers did survey a sample of these organizations as part of understanding the nonsectarian activities and impacts of churches benefiting Commonwealth citizens and its society. In addition, the study includes only nonprofit input; input from the public and for-profit sectors is not part of the report. In its findings, however, the authors did cite the greater role that the for-profit sector was beginning to play in the provision of services historically performed by either government or nonprofit agencies.

Selected impacts of the nonprofit sector cited by those surveyed included the following:

- Service to people who have no other support from their families or government
- Advocacy with society's neediest and for those who do not have a voice
- Tendency to have longer commitments to certain constituency groups rather than being buffeted by political winds
- Ripple effect of service to one client on whole families and communities
- A vehicle for communities to build understanding among racial and ethnic groups
- Society's great strides in creation and enforcement of child labor laws, improvements in health and race relations

In a more quantifiable way, the PANO study illustrates the impact of nonprofits (all nonprofits and charities only) in terms of output, wages and employment. According to the researchers, for the time period studied (1997), the total impacts were:

	Output	Wages	Employment
All nonprofits	\$100 billion	\$36.75 billion	1,458,655
Only charities	\$70.3 billion	\$27.34 billion	992,094

A report of the PANO study, including the complete impact chart, is included in Appendix C.

In summarizing their findings, authors of the PANO study state:

*One could propose that charities create the quality of life that makes it attractive to for-profit businesses to establish residency in certain communities. What goes unrecognized or forgotten is the fact that charities contribute significantly to economic influences such as payroll, construction, the food and beverage industry, tourism, office supply companies, telephone systems, computers and taxes.*

As indicated by the PANO authors and others who study and practice in nonprofit organizations, this sector is challenged for many reasons --- accountability, viability, public awareness and economic survival, among them --- to do a better job of tracking and publicizing among its many constituencies the diverse and substantive contributions they make as they continue to grow and to serve the needs of society.

Susan R. Bernstein's 1987 study of nonprofit agencies in New York City is reported in *Managing Contracted Services in the Nonprofit Agency* (1991). Her qualitative research involved 18 managers from 17 agencies (16 human services agencies and one hospital) in the New York City metropolitan area. According to Bernstein, she conducted her study because, "Although contracting is the primary method for financing and delivery of social services in the United States and the professional literature stresses the importance of effective management of issues, amazingly little is known about managing contracted services" (1991, 9). Using in-depth interviews with nonprofit agency managers, the study attempted to capture what she described as "the intense, complex reality" of the work lives of the nonprofit managers. She targeted the results of her study to the broad nonprofit sector as well as to federal, state and local government policy makers, contract and other public administrators, foundation program officers, educators, students and those concerned about the privatization trend (1991,9).

Exploring what she calls "the game of contracted services," Bernstein includes detailed accounts of relationships between nonprofit agencies and government funding organizations as reported by managers, executive directors, program directors and compliance officers. Although the research was conducted in New York City where, one could argue, circumstances would be far more complex and conditions radically different than in other areas, descriptions of the contracting process are alarmingly familiar to anyone in the nonprofit sector who has successfully maneuvered the course with a public sector contract. Bernstein's interviewees describe a familiar pattern of formal vs. informal procedures, effective vs. doomed-from-the-start strategies for contract negotiation, conflict resolution and managing the inevitable changes that often occur during a contracting period. Throughout the study, Bernstein and those with whom she conducted interviews, focus on universal concerns of all parties to the contracting

process, viz., service delivery, compliance, ethics and accountability. A beneficial feature of the work is its lengthy, first-person accounts that underscore the daily challenges and creative solutions inherent in successful public-private partnerships.

### The Evolving Role of Nonprofits

Writing about the start of his work with nonprofit institutions in the 1950s, Peter Drucker (1990, xiii) states,

*Forty years ago ... [nonprofits] were generally seen as marginal to an American society dominated by government and big business respectively. In fact, the nonprofits themselves by and large shared this view. We then believed that government could and should discharge all major social tasks, and that the role of the nonprofits, if any, was to supplement or to add flourishes to them.*

*Today, we know better. Today, we know that the nonprofit institutions are central to American society and are indeed its most distinguishing feature.*

As recognized by Drucker, until later in the twentieth century, most of society's caring functions were the work of government and charities. Government provided some services and philanthropists filled in the gaps. With the introduction of Lyndon Johnson's Great Society plan in the late 1960s, nonprofit corporations and government began to work together in a deliberate partnership. Public sector agencies awarded contracts to nonprofit providers because of what they were: reputable, committed, like-minded community institutions.

Until fairly recently, many public agencies effectively prohibited for-profits from competing for public contracts precisely because of what they were: profit-seeking, socially suspect, self-centered businesses (Ryan, 1999, 128-129). Not until the 1990s did this trend change to any notable extent. Now, public agencies are beginning to reverse these practices. Government entities are outsourcing a greater portion of work and they are

awarding contracts to providers not because of what they are but because of what they can do. Many government officials are becoming purposely neutral about the role of for-profits and nonprofits are no longer considered automatically entitled, or even best qualified, to provide social services.

On September 15, 1996, just months after President Clinton made good on his 1992 promise to reform welfare "as we know it," the *New York Times* ran a front-page article that highlighted what, to that point, had been a little publicized development in government contracting. Lockheed Martin IMS, a division of the defense giant Lockheed Martin-Electronic Data Systems, and Anderson Consulting were each preparing to bid for management of more than \$5 million in welfare operations in Texas. Most nonprofit leaders were already familiar with profit-seeking hospitals, proprietary day-care centers, and for-profit trade and technical schools, but the Lockheed Martin and Anderson Consulting moves into the new welfare-to-work arena signaled an advancing competitor. The already blurring lines separating nonprofit, for-profit and public sectors became even more difficult to distinguish (Ryan, 1999, 127).

#### The Era of Welfare Reform

In "The Changing Relationship Between Nonprofit Organizations and Public Social Service Agencies in the Era of Welfare Reform" Michael J. Austin attempts to identify the major forces affecting county social services agencies as they implement welfare reform and how these forces can affect the public agencies relationship with community-based nonprofit service providers (2003, 97). Welfare reform in the United States, as reflected in the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (U.S. Congress, 1996) and the various state legislative acts passed in the wake of the federal legislation have had a profound impact on the mission and structure



of social service agencies at the state and local levels. The legislation focuses on moving former recipients from welfare to work with policies to address barriers to work as well as opportunities to sustain employability. Former *recipients* of the income maintenance program AFDC (Aid to Families with Dependent Children) became participants in the program of Temporary Assistance to Needy Families (TANF) that promotes workforce development services often contracted out to community-based nonprofits. All of this change was implemented in a policy environment of time-limited benefits and sanctions for noncompliance (Austin, 2003, 100).

Changes related to welfare reform unfolded, the public sector began --- and in some cases, was required --- to actively promote more community outreach and collaboration. In the context of devolving the implementation of welfare reform policy down to the lowest level of government, the effects reflected less of principal/agent dimensions of privatization (Austin, 2003, 103 citing Fleischer, 1991; Oliver, 1988; Powell and DiMaggio, 1991; Reitan, 1998) and more of the community-building and networking dynamics of partnership development (Austin, 2003, 103 citing Alter & Hage, 1993; Bardach, 1998; Fleischer, 1991; Gray & Wood, 1991; Provan & Milward, 1995). These efforts led to changes and innovations in service delivery, partnerships and working relations between public sector agencies and the private for profit and non-profit sectors.

In a more visible and proactive way, for-profit corporations entered an arena that, previously, had been dominated by the nonprofit sector. As this occurred, nonprofits began to pay more attention to marketing, changing political environments, program assessment and internal operations (Austin, 2003, 102). Faced with competition for contracts that heretofore may have been taken as "givens," nonprofits became painfully aware that, in a changing market for public service contracts, "doing good" was no longer "good enough."

### **Comparing Performance Among the Sectors**

Blurred though the dividing lines among the three sectors may be, those within and outside of each sector have a high stake in clarifying their respective roles as service providers and measuring, if not comparing, performance.

Nonprofit organizations have traditionally filled the gaps in social services unmet by government, but now they face competition from for-profit firms in areas such as health and education. In turn, nonprofit organizations have resorted to entrepreneurial strategies and have adopted marketing techniques to compete more effectively.

Nonprofits face the challenge of competing with for-profit entities in the delivery of public services without losing sight of their primary reason for existence, that is, the public good (Independent Sector, 2002, xix).

For-profit corporations, typically more focused on the general public's dollar than the public good, have taken full advantage of accessing a share of public dollars from contracts with the government. For years, these public/for-profit deals were more prevalent at the federal government level, especially in the area of defense contracting. Over the past 20 years, state and local governments have entered into contracts with for-profit corporations to deliver health services, education and an array of municipal services.

In the midst of the competition between for-profit and nonprofit corporations for the public-sector contracts, public-sector employees themselves have thrown their hats into the ring. As public-sector employees saw their jobs lost or threatened by privatization ventures, they have re-grouped and responded with their own proposals, bidding as it were, on jobs that traditionally were theirs without question. In doing so, public employee

groups often have out-bid their private-sector competitors, offering proposals that improved service and/or reduced cost.

Regardless of the corporate status of the provider, cost effectiveness of service delivery remains a principal area of interest in the study of privatization. Cost is not the only issue, however. As public officials decide when, where and how to distribute scarce resources, government remains subject to close scrutiny and constant change in all its affairs. Responsiveness, performance and accountability are high on the list of taxpayers' rights, demands and expectations. Those who govern in the 21<sup>st</sup> Century must take constant stock of themselves, their constituents and their work.

### **Reinventing Government**

Over the past two decades, government officials have taken to heart the central tenet of "reinventing government" --- the principal motivation of a five-year study of governments conducted by Osborne and Gaebler (1993). The two studied the influence of the entrepreneurial spirit on the transformation of the public sector and its relationships with producers and consumers of services. Citing obvious and ubiquitous social, political and economic changes, Osborne and Gaebler emphasize the necessity for institutions that are flexible and adaptable, that deliver high quality goods and services; institutions that respond to their customers, offering choices of non-standardized services; that lead by persuasion and incentives rather than commands; that give employees a sense of meaning and control, even ownership (1993, 15).

As Osborne and Gaebler sought to identify those factors in government that would make entrepreneurship the norm and bureaucracy the exception, they compiled a list of ten

common threads. Competition between service providers topped the list, followed by empowerment of citizens by pushing control out of bureaucracy and into the community; and performance measurement based on outcomes, not inputs. Entrepreneurial governments are driven by their goals, their missions, not by rules and regulations; they redefine their clients as customers and offer them choices; they prevent problems before they emerge, rather than simply offering services afterward. These governments put their energies into earning money, not simply spending it; they decentralize authority, embracing participatory management and prefer market mechanisms to bureaucratic mechanisms. Finally, they focus not only on providing public services, but on catalyzing all sectors --- public, private and volunteer --- into action to solve their community's problems (Osborne, Gaebler, 1993, 19-29).

As this research will indicate, governments pursuing entrepreneurial endeavors have exhibited characteristics of both Public Choice theory and privatization preference. Among other methods, governments have partnered with the private sector, both for-profit and nonprofit corporations, to provide public programs and services. Whether this particular form of privatization has proven to be a viable delivery system for human service programs and services remains open for debate. Lack of definitive conclusions is due, in part, to lack of outcome measurement. Often governments enter into outsourcing arrangements without well-constructed accountability measures; plans for monitoring and evaluation are unclear, unattended or unenforced.

In order to answer some of these questions, not yet fully explored or clarified, this study targets the Commonwealth of Pennsylvania's 67 counties, focusing on the counties' approaches to privatization, particularly outsourcing (or contracting out) of public services. The study looks at the processes and practices involved when counties decide

to outsource public services, when they select outsourcing providers and when they monitor the providers of public services. The research examines counties' outsourcing of human services programs, specifically what types of human services programs are outsourced, to whom the programs are outsourced, how long have the programs been outsourced, how many and what types of outsourcing providers are used, how outsourcing providers are monitored and evaluated and levels of satisfaction with human service programs delivered by private for-profit vs. private nonprofit corporations. The latter is a point of interest because, most often, when referring to the private sector, no distinction is made between private *for profit* and private *nonprofit* status.

To probe further into the adoption, selection and monitoring of outsourcing providers, one county is the subject of a case study. Through in-person discussions, in-depth interviews, first-hand observation and group participation, the researcher was able to interact with the decision-makers, study the real-life process and observe the painstaking procedures as they unfold in one county, as administrators, managers, citizens and service providers attempt to answer the questions Woodrow Wilson posed more than a century ago ...

*What can government properly and successfully do?*

*How can government do these things with the utmost possible efficiency and at the least possible cost either of money or energy?*

#### IV. METHODOLOGY

##### Outsourcing in Pennsylvania Counties

In Pennsylvania, the past ten years have seen an ever-expanding call by state government for collaboration among local service providers bidding on public contracts. The Department of Labor and Industry responded to the 1998 Workforce Investment Act with a call for a comprehensive, collaborative, community-based program bringing together the public, private for-profit and nonprofit sectors. The Department requires its own regional offices throughout the Commonwealth to enter into partnerships with business, industry, education, community-based organizations and child care providers. Called *Career Link*, the initiative is designed to deliver customer-focused services in centralized, "one-stop" locations where public and private sectors join forces to more expeditiously serve the needs of dislocated workers and other job seekers.

In a similar move, the Pennsylvania Department of Public Welfare created its Community Solutions program to address the issues of welfare reform required in the federal TANF (Transitional Assistance for Needy Families) legislation. This law encouraged public/private partnerships among human service providers, local government agencies and business and industry. Collaborative partnerships are, in from the federal and state perspective, the most effective method of assisting welfare recipients to more successfully transition from public assistance to employment. In Pennsylvania, the partnerships span a diverse range of services, as well as formal and informal support systems that, together, can address the many and varied barriers facing those entering the workforce for the first time or after long period of periods of unemployment or sporadic employment.

The requests for proposals (RFPs) issued by both Pennsylvania Departments of Welfare and Labor and Industry departments weighted respondents' plans to collaborate. Upon award of contracts, it was apparent that applicants who proposed partnerships were successful in their funding bids. What was not apparent at the time was how the performance of these partnerships would be monitored and evaluated. In addition, information has not been collected at the state level about how these regional partnerships were established. Since, in most cases, the counties were the coordinating entities, this level of government seemed the likely candidate for research efforts. Hence the selection of the 67 counties in the Commonwealth for this study.

## **Questions and Hypotheses**

### **Questions**

In an effort to identify processes used in adoption of outsourcing, selection of outsourcing providers and performance measurement of outsourcing arrangements involved in public/private partnerships, this study poses several questions relating to the processes and procedures utilized by counties in Pennsylvania that opt to use outsourcing as a means of delivering public services. The research poses questions that are important in the real world (King, Keohane and Verba 1994, 15) --- in this case the real world of the public sector where decisions about privatization, or selection of outsourcing providers, are made regularly, often without sufficient or substantive data about the decision-making process, selection criteria for partners, monitoring and evaluation practices, and/or outcome measurement. Focusing on counties in Pennsylvania, where state officials contacted had no such information at hand, the study looks at how the decision to outsource is made, who is involved in making the decision

and, once the decision is made, how counties select, monitor and evaluate service delivery partners. The four research questions are:

- Q-I What factors influence a county's decision to adopt outsourcing?
- Q-II What criteria do counties use to select outsourcing providers?
- Q-III What criteria do counties use in measuring performance outcomes of outsourcing providers that deliver human service programs?
- Q-IV How does the performance of public/for-profit partnerships compare with the performance of public/nonprofit partnerships in the delivery of human service programs?

### Hypotheses

Based on a review of pertinent literature, and in an attempt to address the research questions posed in this study, hypotheses (H) were developed, as follows:

- H-A** Counties that use outsourcing providers have had past cooperative experiences with program providers from the for-profit and nonprofit sectors.

Given the varied nature of human services that counties provide, it is likely that counties will have encountered program providers in the community in settings other than contractual situations, e.g., on committees, in meetings or at community events. County officials may have previous experience working for a for-profit or nonprofit corporation that deals with the county or serving on the board or advisory group for the for-profit or nonprofit. These relationships may result in the county official(s) being familiar with or knowledgeable about the work of the program provider(s).

- H-B** Counties that use outsourcing providers do so to comply with state requirements to collaborate with the private sector in state-funded initiatives.

Counties that might not otherwise have considered outsourcing public services may do so because state-level agencies mandate partnerships, cooperative relationships or collaborative endeavors with other service providers in the community. The 1998 Workforce Investment Act and the new TANF (Transitional Assistance for Needy Families) guidelines, both of which are pieces of federal legislation, require community collaboration. In cases such as these two, states must comply and, in order to do so, must see that those to whom they allocate funds also comply.



- H-C** Counties use outsourcing providers in order to deliver specific services that the county is not adequately staffed to provide.

In this era of cost containment, government entities can hold the line on personnel costs by outsourcing staff-intensive services. In doing so, governments avoid (1) increasing the public payroll, (2) dealing with collective bargaining units, (3) handling personnel issues and (4) adding specialists to the government payroll whose high-priced services are not regularly used.

- H-D** Counties that use outsourcing providers to deliver human services programs more often choose program providers based on established working relationships with private sector entities rather than on formal competitive bidding procedures.

Given the highly specialized nature of some human services, the time-consuming process of contract bidding and a lack of human services providers from which to choose, counties may rely on "known quantities" in the private for-profit and nonprofit sector to deliver needed services.

- H-E** When cost of service is the main consideration, counties will use an outsourcing provider's adherence to the contract budget as a primary measure of performance outcomes.

If decisions to outsource public services are made purely for cost-related reasons, counties may take a "bottom line" approach to performance measurement. Tight fiscal circumstances may limit a county's involvement in technical assistance, ongoing monitoring and attention to quality assurance. In the end, dollars and cents may be the most important factor; adherence to contract budget would be the principal concern.

- H-F** When customer service is the main consideration, counties will use levels of customer satisfaction as a primary measure of performance outcomes.

If quality of service is a main concern for a county, attention to customer satisfaction will weigh heavily in performance measurement. Efforts to assure high levels of customer service will be considered in addition to the cost of providing the service.

- H-G** Counties that contract with both for-profit and nonprofit corporations to provide human services programs will report higher levels of satisfaction with nonprofit corporations than for-profit corporations.

Given the long history of nonprofits providing services to and for people with multiple and special needs, counties may find nonprofits have both philosophical approaches and professionally-trained staff that are more in line with the needs of certain populations.

- H-H** Counties that contract with both for-profit and nonprofit corporations to provide human services programs will report that, overall, nonprofit

corporations are more cost effective outsourcing providers than for-profit corporations.

Given the fact that nonprofit corporations cannot distribute profits to shareholders; do not have board members who receive financial remuneration; in most cases, have salary ranges far lower than for-profit corporations; and have what could be characterized as an ability to do "more with less," a nonprofit may be more likely to stretch the public dollar further than would a for-profit corporation.

Each of the hypotheses relates directly to one of the three focus areas of this study — adoption, selection and performance measurement of outsourcing providers. An overview of the specific focus, the related hypotheses and supporting survey questions appears in Exhibit IV-1 on the next two pages.

**A Study of Outsourcing in Pennsylvania Counties**

FOCUS AREA	RESEARCH QUESTION	HYPOTHESIS	RELATED SURVEY QUESTIONS
<u>ADOPTION OF OUTSOURCING</u>	I What factors influence a County's decision to adopt Outsourcing?	<p>A Counties that use Outsourcing have had past cooperative experiences with program providers from the for-profit and nonprofit sectors</p> <p>B Counties that use Outsourcing arrangements do so to comply with state requirements to collaborate with the private sector in state-funded initiatives?</p> <p>C Counties use Outsourcing arrangements in order to deliver specific services that the County is not adequately staffed to provide.</p>	<p>III-1 How long has your County used OS'ing to deliver human services programs?</p> <p>III-2 What are the top three factors your County considers when deciding to use OS'ing?</p> <p>III-3 Which human services programs are delivered through OS'ing arrangements?</p> <p>III-4 What is your County's longest standing OS'ing arrangement?</p> <p>III-5 Did your County have working relationships with program providers prior to establishing Outsourcing arrangements with them?</p> <p>II-1 Indicate any/all of the Outsourcing Arrangements your County uses.</p> <p>II-3 Who was involved in studying the feasibility of Outsourcing?</p> <p>II-4 Who participates in determining the use of Outsourcing as a method of service delivery?</p> <p>II-5 Has your County encountered any obstacle in implementing outsourcing?</p> <p>II-8A If yes, which of the following obstacles have been encountered?</p> <p>III-6 Is your County required to develop private sector relationships as part of state-funded initiatives?</p> <p>6.a. If yes, for what programs?</p> <p>6.b. Is no, what was the motivating factor in deciding to form private sector partnerships for Outsourcing?</p> <p>II-2 What factors influenced your County's decision to OS services?</p> <p>III-7 Does your County have sufficient staffing to deliver human services programs that are needed in your County?</p> <p>7.a. If yes, What, then, are the advantages of Outsourcing?</p> <p>7.b. If no, is the lack of sufficient staffing a contributing factor in your County's decision to use Outsourcing?</p>
<u>SELECTION OF OUTSOURCING PROVIDERS</u>	II What criteria do Counties use to select Outsourcing providers?	D Counties that use Outsourcing to deliver human services programs more often choose program providers based on established working relationships with private sector entities rather than on formal, competitive bidding procedures.	III-8 How does your County select providers for Outsourcing human services programs?

**A Study of Outsourcing in Pennsylvania Counties**

FOCUS AREA	RESEARCH QUESTION	HYPOTHESIS	RELATED SURVEY QUESTIONS
<p><b>PERFORMANCE MEASUREMENT OF OUTSOURCING PROVIDERS</b></p>	<p>III What criteria do Counties use in measuring performance outcomes of Outsourcing providers that deliver human services programs?</p>	<p>E When cost of service is the main consideration, Counties will use an OS'ing provider's adherence to the contract budget as a primary measure of performance outcomes.</p>	<p>III-9 How does your County hold Outsourcing providers accountable for performance outcomes?</p> <p>III-10 What criteria does your county use to conduct or compile the factors identified in # III-9?</p> <p>III-11 What criteria does your County use to measure the following:                      a. Accountability of provider (punctuality of reports, accuracy, responsiveness)                      b. Cost of service                      c. Customer satisfaction                      d. Effectiveness of service (desired program outcomes)                      e. Efficiency of service (desired fiscal outcomes)                      f. Innovation (new/improved methods of program delivery; community collaboration established/strengthened)                      g. Others</p> <p>II-5 Does your County evaluate Outsourcing providers?                      5.a. If yes, what factors are used to measure performance of Outsourcing providers?</p> <p>II-6 Which factors (identified in # II-5) have been most effective in measuring performance?</p> <p>II-7 Which of the following activities has your County undertaken to ensure success in implementing Outsourcing?</p>
		<p>F When customer service is the main consideration, Counties will use levels of customer satisfaction as a primary measure of performance outcomes.</p>	<p>III-12 How many for-profit corporations does your County use as Outsourcing providers?</p> <p>III-13 How long has your County worked in partnership with for-profit corporations?</p> <p>III-14 What human services programs are delivered by for-profit providers?</p> <p>III-15 Of the County programs that are delivered by for-profit providers, please rate your level of satisfaction with 1=highly satisfied, 2=satisfied, 3=dissatisfied.</p> <p>III-16 How many nonprofit corporations does your County use as Outsourcing providers?</p> <p>III-17 How long has your County worked in partnership with nonprofit corporations?</p> <p>III-18 What human services programs are delivered by nonprofit providers?</p> <p>III-19 Of the County programs that are delivered by nonprofit providers, please rate your level of satisfaction with 1=highly satisfied, 2=satisfied, 3=dissatisfied.</p>
<p>IV How does the performance of public/ for-profit partnerships compare with the performance of public/nonprofit partnerships in the delivery of human services programs?</p>	<p>G</p>	<p>Counties that contract with both for-profit and nonprofit corporations to provide human services programs will report higher levels of satisfaction with nonprofit corporations than with for-profit corporations.</p>	<p>III-12 How many for-profit corporations does your County use as Outsourcing providers?</p> <p>III-13 How long has your County worked in partnership with for-profit corporations?</p> <p>III-14 What human services programs are delivered by for-profit providers?</p> <p>III-15 Of the County programs that are delivered by for-profit providers, please rate your level of satisfaction with 1=highly satisfied, 2=satisfied, 3=dissatisfied.</p> <p>III-16 How many nonprofit corporations does your County use as Outsourcing providers?</p> <p>III-17 How long has your County worked in partnership with nonprofit corporations?</p> <p>III-18 What human services programs are delivered by nonprofit providers?</p> <p>III-19 Of the County programs that are delivered by nonprofit providers, please rate your level of satisfaction with 1=highly satisfied, 2=satisfied, 3=dissatisfied.</p>
		<p>H Counties that contract with both for-profit and nonprofit corporations to provide human services programs will report that, overall, nonprofit corporations are more cost effective Outsourcing providers than for-profit corporations.</p>	

## Design

In order to add to existing information, or the lack of it, this study was designed to gather relevant data from the public sector, specifically from the vantage point of county-level government. Subjects of the study were taken from the membership of the County Commissioners Association of Pennsylvania (CCAP) and one of its affiliates, Pennsylvania Association of County Human Services Administrators (PACHSA), both headquartered in Harrisburg, PA. A survey instrument was adapted, in part, from "Profile of Alternative Service Delivery Approaches – 1992," a questionnaire issued by the International City/County Management Association (ICMA) to update its database on alternative approaches to local government service delivery. (See Appendix D for a copy of the ICMA questionnaire.) The survey of Pennsylvania counties was made up of three sections was used. The study was divided into three phases, described as follows:

*Phase I, Section I* was an initial mailing to all 67 counties in the Commonwealth; it included an introduction and description of the study and a one-page survey. The mailing was sent to the chairperson of the county's board of commissioners and to the county's chief clerk/county administrator. Section I was sent in postal mail with a self-addressed, stamped return envelope. An email reminder was sent to non-respondents followed by a second mailing. Section I served to establish correct contact information (names, titles, addresses, telephone numbers and email addresses). One screening question was posed — *Does your county use outsourcing arrangements to provide public services?* Section I respondents who reported that their counties did outsource were included in Phase II, which included Sections II and III.

*Phase II, Section II* was a two-page survey of eight questions sent to the chairpersons of the county commissioners and the chief clerks/county commissioners.

The intent was that one of the two county officials would reply and would agree to a telephone interview that would be scheduled at a convenient time for her or him. During the interviews, the officials provided information concerning the types of outsourcing arrangements the county used; the factors that influenced the county's decision to outsource services; those who were involved in studying the feasibility of outsourcing; and those who determined that outsourcing would be used as a method of service delivery. The respondents provided information about activities undertaken by the county to ensure success in implementing outsourcing arrangements; about evaluation of outsourcing providers, including factors used to measure performance and those factors that are most effective in measuring performance. The last question in Section II asked county officials if they had encountered obstacles in implementing outsourcing and if so, to identify them from among a list provided or others not shown on the list.

*Phase II, Section III* was a 20-question survey sent to administrators of county human services departments. The intended outcome was that the human services administrator would agree to an interview during which s/he would provide information concerning the county's history of outsourcing human services. The questions in Section III were designed to collect information specific to county practices of selection and performance measurement of outsourcing providers and comparative information about the county's partnerships with for-profit and nonprofit corporations that delivered human services programs. To test hypotheses G and H (regarding comparison of for-profit and nonprofit outsourcing providers), human services administrators were asked the same set of questions about for-profit and nonprofit providers. Section III concluded with an invitation for the respondent's comments or observations about her/his county's experience with outsourcing human services programs.

*Phase III* was a case study. Based on the results of Section III telephone interviews with the county human services administrators, one county was chosen for the case study. The case focuses on the methods of selection and performance evaluation used by one programmatic unit within the human services department. A rationale for the selection of this county is given later in this chapter. The case study itself appears in Chapter VI.

### The Interviews

For the most part, the telephone interviewing was structured, using the survey instrument designed for Sections II and III of Phase II. Fontana and Frey begin their article "Interviewing, The Art of Science," (1994, 361 –376) with a simple but cautionary statement: "Asking questions and getting answers is a much harder task than it may seem at first." Taking this counsel to heart, the researcher's approach to the interviews followed the set pattern of inquiry in the surveys. Using Fontana and Frey's definitions, the interviews in this study reflected characteristics of both structured and unstructured interviewing.

During the structured portion of the interviews, the researcher asked each respondent a series of pre-established questions with a limited set of response categories (Fontana, Frey, 1994, 363). Section I of this study (the questionnaire mailed first as a screening tool) used such questions to record information about the particular county (e.g., population classification). In Sections II and III, set questions were asked about the respondent (e.g., her/his name, position, length of time in position, professional experience) and about privatization basics, (e.g., use of outsourcing providers, numbers of programs or services that are outsourced, and types of programs outsourced).

Certain questions in Section III allowed for a more unstructured approach. (See Appendix E for Introductory materials and copies of Sections I, II and III.)

The unstructured interviews provided a greater breadth than the other types, given its qualitative nature (Fontana and Frey.1994, 365). Using this approach, the research posed open-ended questions concerning a county's experience with the formation, function and performance of outsourcing providers. Open-ended questions elicited more county-specific replies, which, in turn, provided a more complete account of a particular county's experience with outsourcing providers. At the conclusion of each interview, the researcher sent a hand-written thank you note to the interviewee.

Based on qualitative and quantitative analyses, this study provides data for use by the public, private for-profit and private nonprofit sectors concerning privatization decisions. The results are of special interest to the County Commissioners Association of Pennsylvania (CCAP). According to the CCAP director, the Commonwealth had not yet compiled comprehensive information about the use of outsourcing providers. During the time this research was under way, CCAP was considering exploration of this topic in order to document best practices in the Commonwealth. The findings of this research highlight best practices related to adoption, selection and performance measurement of outsourcing providers by local governments.

### **Sampling**

The survey strategy leaned in one of the two directions cited by Alreck and Settle who say survey research strategy usually goes toward obtaining a large amount of data from a small sample ---the direction of this study --- or a small amount of data from a large sample (1985, 57). In this case, the research strategy fits the former. The



researcher collected a substantial amount of data from a relatively small, but inclusive, sample. The latter option, for this study, would have involved sampling the 2570 municipalities in Pennsylvania. These would have had to be randomly selected but proportionate to size to assure representation of 1,548 townships, 966 boroughs and 56 cities; the sample also would have had to be stratified to insure demographic representation. Aside from the number and diversity of municipalities, the counties were a logical choice for this research project because most often it is the county, not the municipalities it includes, that is charged with the delivery of human services. Children and youth services, drug and alcohol programs, employment and training, mental health/mental retardation, child care, and aging are examples of services Pennsylvania counties typically provide or contract to provide.

#### **Data Collection**

Taking into consideration time, geographic distance and numbers of interviews, the researcher conducted telephone interviews with officials of counties using outsourcing providers. In order to bring attention and lend credibility to the study, the National Center for Public Productivity at Rutgers University, Newark, NJ, was listed as a sponsor of this research project, along with Employment Opportunity & Training Center – EOTC – of Northeastern Pennsylvania where the researcher serves as executive director. Prior to the telephone surveys, Marc Holzer, Director of The National Center for Public Productivity and the researcher sent letter of introduction and explanation to all 67 counties. Composed according to guidelines suggested by Alreck and Settle (1985, 209), the text and tone of the letter particularly respect the authors' admonition about groveling and grandiosity— “Do not beg the reader to respond or grossly overstate the importance of the information.”

At the outset, the telephone interview was structured. The researcher verified information about the interviewee, including her/his name, position, length of time in position, total amount of related experience. During the unstructured section of the interview, topics of inquiry will include discussion relating to: what, if any, evaluation measures are used; what specific performance measurements are applied; what aspects of service delivery are evaluated; what are most effective outsourcing providers used by the county; activities undertaken to ensure success in implementing outsourcing providers; specific activities; obstacles encountered in adopting outsourcing providers.

In preparation for the interviews, the researcher compiled a standard format that was followed for each telephone interview. This approach minimized interviewer error and ensured that the same questions were presented in the same order each time. The researcher developed and used a check list for human services provided; a satisfaction scale for the various outsourcing providers also was used. A total of two hours was allocated for each interview. One hour was dedicated to the actual telephone conference; the following hour was used by the interviewer to compile interview notes. In the interest of encouraging spontaneity and ensuring confidentiality, the researcher did not use audiotapes. Instead, the researcher used the prescribed format, a coded answer sheet for the structured questions, and detailed note taking for the unstructured, open-ended questions. In order to record the information in a timely fashion, a processing period followed each telephone interview. During this time, the researcher reviewed the notes, then transcribed them to create a manuscript of the telephone interview. Transcriptions were then studied and coded. Attention was paid to themes, explanation, descriptions — both common and divergent. Based on the results of the interviews, the researcher chose one county as the subject of the more in-depth case study.

Overview of County Response Rates to Sections I, II and III

Phase I, Section I - 57 of 67 counties responded	85.1%
Of the 57 counties that responded, 52 reported outsourcing of public services	91.0%
Phase II, Section II – of 52, 26 CCAPs responded	50.0%
Phase II, Section III – of 52, 30 PACHSAs responded	57.7%
Of the 52 counties that outsourced, a total of 16 counties responded to both Section II (CCAP) and Section III (PACHSA) of Phase II	30.8%
Overall, a total of 40 of the 52 counties are represented in this study	76.9%

At the outset of the study, response rate was a concern because of the elite nature of those to be surveyed and interviewed. The difficulty of introduction, access and time constraints (Marshall, Rossman, 1999, 113,114) applied to the county elected officials and administrators who would be asked, first, to take the time to review the survey that was mailed to them and then to agree to telephone interviews that would take between 30 minutes (for Phase II – Section II) to an hour (for Phase II – Section III). In actuality, most county officials expressed interest in the topic and were willing to complete and return the written surveys and conduct telephone interviews. Their responses reflected the advantages of elite interviewing (Marshall, Rossman, 1999, 113). The survey respondents and interviewees provided valuable information because of the positions they held. Many were able to give an overall view of a county's history and the implementation of outsourcing as a means of service provision. In most cases, they understood the policies, procedures and legal aspects involved in outsourcing public services.

Compared with Phase II, Section III, CCAP response rates were lower for Phase II – Section II which was directed to either the chairperson of the county board of commissioners or the chief clerk/county administrator. Initial telephone contact with these officials was more difficult due to their time schedules and commitments. Once telephone contact was made, those who declined to schedule the telephone interview did so, they said, because of limited time and tight schedules. Phase II – Section II telephone interviews were completed with 26 of the 52 responding Counties (50.0%).

PACHSA response rates for Phase II – Section III, directed toward human services administrators, were higher --- interviews were completed with 30 of the 52 responding counties (57.7%). The researcher's direct contact with PACHSA members was a positive contributing factor to the higher response rate. A member of PACHSA who was familiar with the researcher's work introduced her at a statewide PACHSA meeting at which the researcher was able to give a brief summary of the intent of her study. As a result, PACHSA members connected the materials they received in the mail and the telephone calls and telephone interviews with the researcher. The researcher's attendance at PACHSA meetings served to familiarize her with the members and the members with her. This resulted in easier access when contacting county human services administrators to schedule interviews and to the latter's willingness to be interviewed.

#### Response rate according to County classification

Pennsylvania counties are divided into nine categories, according to population. Response rates for Phase I, Section I, according to county classification, ranged from 100% to 66.7%. Response rates for Phase II, Section II (CCAP), according to county classification, ranged from 70.5% to 0.0%. For Phase II, Section III (PACHSA),

response rates according to county classification ranged from 100.0% to 0.0%.

Response rates of counties replying to both Section II and Section III of Phase II ranged from 50.0% to 0.00%. All county classifications, with the exception of the three Class 2A counties, are represented in the study. (See Table IV-1, next page).

**SUMMARY A** Pennsylvania Counties According to Classification  
**B** Those Counties that responded to Section I, to Section II and to Section III  
**C** Those Counties that responded to both Sections II and III

A		B				SECTION I			SECTION II			SECTION III			C		
County classification *	# of Ctys in classif	Ctys responding		Possible response	Response		Possible response	Response		Possible response	Response		Possible response	Response			
		#	%		#	%		#	%		#	%		#	%		
1	1	1	100%	1	0	0.0%	1	1	100%	1	0	0.0%	1	0	0.0%		
2	1	1	100%	1	0	0.0%	1	1	100%	1	0	0.0%	1	0	0.0%		
2A	3	2	66.7%	2	0	0.0%	2	0	0.0%	2	0	0.0%	2	0	0.0%		
3	11	10	90.9%	10	4	40.0%	10	7	70.0%	10	3	30.0%	10	3	30.0%		
4	7	6	85.7%	6	3	50.0%	6	5	83.3%	6	3	50.0%	6	3	50.0%		
5	9	6	66.7%	6	2	33.3%	6	5	83.3%	6	2	33.3%	6	2	33.3%		
6	22	21	95.5%	** 17	12	70.6%	** 17	8	47.1%	17	6	35.3%	17	6	35.3%		
7	7	6	85.7%	*** 5	3	60.0%	*** 5	1	20.0%	5	1	20.0%	5	1	20.0%		
8	6	4	66.7%	4	2	50.0%	4	2	50.0%	4	1	25.0%	4	1	25.0%		
<b>Total</b>	<b>67</b>	<b>57</b>	<b>85.1%</b>	<b>52</b>	<b>26</b>	<b>50.0%</b>	<b>52</b>	<b>30</b>	<b>57.7%</b>	<b>52</b>	<b>16</b>	<b>30.8%</b>					

\* Section 1, Section 210 of The County Code, as amended in February 1982, divides the counties into nine classes according to population.

- 1 1,500,000 & over
- 2 800,000 & more but < 1,500,000
- 2A 500,000 & more but < 800,000
- 3 225,000 & more but < 500,000
- 4 150,000 & more but < 225,000
- 5 95,000 & more but < 150,000
- 6 45,000 & more but < 95,000 & those having a pop. of 35,000 & more but < 45,000 which by ordinance or resolution of the Board of County Commissioners elect to be a 6th class county
- 7 20,000 or more but < 45,000 & those having a pop. of 35,000 & more but < 45,000 which have not elected to be a 6th class county
- 8 < 20,000

\*\* Class 6 of the 21 respondents, 17 outsourced

\*\*\* Class 7 of the 6 respondents, 5 outsourced

**Total of 40 counties, 76.9% of responding counties that outsourced are represented in this study.**

### **The Case Study**

The proposal for this research included plans for a case study, the subject of which would be chosen from among data supplied by responses to surveys and interviews with officials from Pennsylvania county governments. The case study was included as a way of closing the gap between the theory and the practice of public administration (Holzer, Rosen, 1981, ix). Furthermore, the case study has value in refining theory, suggesting complexities for further investigation and helping to establish the limits of generalizability (Stake, 1994, 245).

For the purposes of this research, the case study subject was chosen because of its potential to add dimension to data gathered in the overall study of outsourcing in Pennsylvania counties, expand the collection of case studies in Public Administration literature and provide a practical learning tool for public administrators interested in outsourcing arrangements for public services.

During the course of this research, a single county stood out for several reasons related to its human services department. The department had outsourcing arrangements with more than 325 nonprofit organizations; it had an active advisory board that included community professionals who serve as volunteers, representatives of provider agencies and consumers; a unified approach to contracting; and a defined process of performance measurement for outsourcing providers. More than any other county in the study, the case study county reflected characteristics of effective contracting of social services, as outlined by Peat and Costley (2001, 56-59). These include: sending out requests for proposals; reviewing proposals; negotiating and structuring contracts; monitoring or evaluating the delivery of services and decision making relevant to the renewal and discontinuation of contracts.

Like many other counties included in the study, the selected county conducts contract monitoring and site visits, requires program and fiscal audits and expects written reports from outsourcing providers. In addition, the PACHSA identified "compliance factors" for providers that the county has developed over its 25 years of outsourcing human services programs. These compliance factors include attendance at scheduled meetings; attendance at advisory meetings to deliver program reports; complaints or positive feedback regarding a provider; other funding that a provider can bring to the project; and providers' efforts at self-monitoring, including any reports providers independently compile.

From the information gathered, the researcher believes that the experience of this county exemplifies the link between Public Administration theory and practice. In further studying the county, the researcher accessed three groups highly invested in outsourcing public services: public administrators and public employees, program providers, and consumers of services. As Mary Timney Bailey writes, "... the laboratories of Public Administration are the offices of practitioners. The information that practitioners own is needed by scholars to develop and test theories which can then be applied by practitioners to improve the practice of Public Administration and by scholars both in further theory development and for teaching of public managers (Timney Bailey, 1994, 190).

In order to conduct this case study, the researcher traveled to the county seat for on-site, individual and group interviews. Over a four-month period, four site visits were made. Individual interviews were conducted with the director of the programmatic unit, with members of the unit's advisory council, with program providers with whom the department had outsourcing contracts and with the outgoing and incoming executive



directors of the county human services department. When the case study was completed, two follow-up interviews were conducted with county officials to clarify and verify certain pieces of information included in the account.

The case study allowed the researcher to investigate the compliance factors that appear to be unique to this county. In doing so, the researcher aimed to add to the research-based literature about outsourcing as a Public Administration issue of interest to scholars and practitioners. This case study passed the test of scientific rigor because it produced results that are generalizable, transferable and replicable.

According to the PACHSA interviewed, the additional compliance factors cited in his research interview are best exemplified by one of the county advisory boards. This board is comprised of department administrators, departmental administrative staff, community professionals who serve in a voluntary capacity, service providers and consumers. To learn more about the implementation of these monitoring practices, the researcher interviewed the board members, attended and observed meetings of the advisory board. The exercise permitted the researcher to gain first-hand information from perspectives of multiple stakeholders — county government administrators, managers and staff, community volunteers, service providers and, indirectly, from consumers. The interviews were scheduled immediately prior to or after monthly board meetings.

Before attending the board meeting and conducting the interviews, the researcher sent to each person a letter describing the nature of the research project, the reason for selecting the county for the case study and an assurance of confidentiality. Prior to the interview, the interviewee had the opportunity to ask questions related to the research

project as a whole and to the case study. The individual's signature on the above mentioned letter indicated her/his understanding of the project and willingness to participate. A copy of the letter is in Appendix F.

For purposes of uniformity and continuity, the researcher used a questionnaire to guide the interviews. The study was composed of three sections. Section I addressed the history and purpose of the group, its composition, decision-making methods, leadership styles and outcomes. Section II focused on the monitoring process and the additional compliance factors used by the group. Section III contained one question that will be posed to the group as a whole and to individual members.

## SECTION I

### History and Purpose

Why and when was the advisory board formed?  
 What was the original goal of the board?  
 Has it changed?

### Composition

Who is represented on the board?  
 Was the composition of the board strictly defined?  
 Is there a set term of service?

### Decision-making and Leadership

What is the leadership structure of the group?  
 Are leaders appointed or elected?  
 When presented with a problem or issue, how does the group come to a decision?

### Outcomes

To whom is the group accountable?  
 Does the group have defined outcomes?  
 How are outcomes measured?

## SECTION II

How did the monitoring process evolve?  
 How did the additional compliance factors come to be developed?  
 Did a particular incident spark their initiation?  
 Give an example of a situation where the monitoring process prevented a service delivery problem.  
 Give an example of a situation where the monitoring process revealed a hidden or existing problem.

Why is this monitoring process effective?  
What about this monitoring process would you change, add, delete or modify?

### SECTION III

How does the work of this advisory group illustrate the problems and the possibilities that such groups pose to county administration of outsourcing?

As noted, as practitioners and consumers, the information that the advisory board members own is needed by scholars to develop and test theories which can then be applied by practitioners to improve the practice of public administration and by academics both in further theory development and for the teaching of public managers (White, Adams, 1994, 190).

The case study report appears in Chapter VI. Names used in the case study are not those of the officials, staff members or board members interviewed.

## V. Data Analysis

This research explored outsourcing of public services, primarily human services, as a means of privatization from the perspective of the public sector, specifically from the vantage point of county-level government. The 67 counties in the Commonwealth of Pennsylvania comprised the population for this study. Membership of the County Commissioners Association of Pennsylvania (CCAP), headquartered in Harrisburg, PA, and one of CCAP's affiliates, Pennsylvania Association of County Human Services Administrators (PACHSA), also based in Harrisburg, constituted the sample. The study looked at factors relating to a county's decision to adopt outsourcing as a means of delivering public services, how counties selected outsourcing providers and the counties' approaches to performance measurement of the outsourcing providers. In order to further define an area of public services, the category of human services was chosen.

Results of the data analyses are presented in two parts. **PART A** uses the quantitative and qualitative data collected during observations, interviews and conversations with CCAP and PACHSA members to explore adoption of outsourcing, selection of outsourcing providers and performance measurement of outsourcing providers. Discussion of the results supporting the hypotheses is in **PART B**. Performance measuring and monitoring as practiced by one county is the subject of a case study in Chapter VI.

### Real life and research

Beyond the numbers, behind the statistics are the voices, the words, the expressions, opinions and observations of county elected officials and human services administrators from throughout the Commonwealth of Pennsylvania. Theirs is the substantive input that is subject of the qualitative aspects of this study. During months of

surveys and telephone interviews, in-person discussions, inspection of documents, informal conversations and follow-up calls, the researcher compiled information from more than 50 public administration practitioners representing 40 of the 52 responding counties that reported outsourcing as a means of delivery public services. Relating that information only in numbers, percentages and formulas tells just part of the story. The words of those participating in the study direct attention to what Miles and Huberman call "the naturally occurring, ordinary events in natural settings, so that we have a strong handle on what 'real life' is like" (Miles, Huberman, 1994,10).

In this study of outsourcing in Pennsylvania counties, "real life" is reflected in the daily routines, operations and challenges of county government as related by those responsible for governance in counties that vary in aspects economic, political and social. From Philadelphia county, the largest in the commonwealth with a population of more than 1.5 million (the only Class 1 county) to counties with populations ranging from 800,000 to 150,000 to counties with populations less than 20,000, elected officials and public administrators spoke at length about the challenges and rewards of governing. Their input, insight and information add what Miles and Huberman call "a local groundedness" (Miles, Huberman, 1994, 10) because the data were collected in close proximity to their specific situations as elected officials and county administrators attempting to meet the many and diverse needs of citizens at the same time that they are dealing with hard economic realities imposed by limited budgets, steadily growing demands for services, and ever tightening legal and fiscal directives. Public officials and administrators live the definition of economics everyday as they make tough choices about the distribution of scarce resources. In making those decisions about the distribution of those resources --- both time and money --- all of those in the study have opted, in one form or another, to partner with the private sector. Their experiences,

related in their own words, provide answers to the questions this study posed regarding adoption, selection and performance measurement of outsourcing in Pennsylvania counties.

## PART A

### Adoption of Outsourcing Providers

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*What factors influence a county's decision to adopt outsourcing?*

A 1997 study conducted by the Council of State Governments asked state officials why privatization was increasing. The answers, ranked in descending order, were (1) cost savings, (2) greater political support for privatization, (3) more flexibility and less red tape, (4) faster implementation, (5) lack of state personnel and expertise, (6) increased innovation and (7) higher quality service (Chi, Jasper, 1997. Cited in Savas, 2000, 118). The 1992 study conducted by ICMA (referenced in Chapter III) asked local officials throughout the United States why they considered privatization. Responses to that study indicated that an internal effort to reduce costs (cited by about 90% of the respondents) is the principal reason that governments privatize. The second strongest reason (cited by about 53% of the respondents) was external fiscal pressures (Miranda, Anderson, 1994, 26-35). In each study, *saving money* topped the charts. The same was true of Pennsylvania.

Analysis of data collected from PACHSA members suggests that three factors influence Pennsylvania counties' decisions to outsource public services:

- Cost of providing service
- Limited county staffing
- Positive past experience with outsourcing.

See Table V-1 (III-2), page 119.

PACHSA members reiterated their position concerning limited county staffing in a subsequent survey question. When asked if county staffing was sufficient to deliver human services programs that were needed in the county, the majority of PACHSAs said it was not. Of those who responded *No*, the majority indicated that this lack of sufficient staffing was a contributing factor in their counties' decision to use outsourcing. See Table V-2 (III-7), page 119.

#### Cost of providing service and limited county staffing

PACHSA members related cost of providing service to an interest in cost containment, i.e., costs borne directly by the county vs. transferring those concerns about cost containment to the outsourcing provider. More than 83% of the PACHSAs interviewed identified one of the principal reasons cited by privatization research for outsourcing --- they said that their respective counties did not have sufficient staffing to deliver the human services programs that were needed in their counties and for which funding was available. They identified the lack of sufficient staffing as a contributing factor in their counties' decisions to outsource services. In fact, limited county staffing showed up among the top three factors counties consider when deciding to use outsourcing providers for human services programs. See Table V-1 (III-2), page 119. PACHSA comments about limited county staffing also related to cost containment; although counties could have increased staffing capacity to deliver the programs, they decided against that option. PACHSA members reasoned that increasing staff numbers would, obviously, increase the county payroll, adding to administrative costs including human resources management. PACHSA members frequently expressed a preference for avoiding working with collective bargaining units which, in their opinion, put limitations on the county's ability to respond efficiently and effectively to current and emerging needs. Specifically, PACHSAs cited time delays and obstacles in hiring and firing.



When CCAP members were asked what factors influenced their counties' decision to outsource services, the same fiscal concerns were evident. Based on responses from county elected officials (the CCAP members), the most frequently cited factor (80%) influencing decisions to outsource was *internal* attempts to decrease service delivery costs. The next most frequently cited factor, but by far less (48%), was *external* fiscal pressures (e.g., pressure from tax payers). See Table V-3 (II-2), page 119. Given the prevailing motivation, Pennsylvania counties' utilization of outsourcing supports the beliefs of those who view privatization, mainly, as activities that deal with any reduction in the spending or regulatory activity of the government (Barenkov, Raffel, 1992, 100).

It should be noted that CCAP surveys and interviews related to outsourcing, *in general*, in a county. PACHSA surveys and interviews focused *specifically* on outsourcing of human services. When asked to indicate any/all of the outsourcing arrangements used by their respective counties, CCAP members most frequently identified private nonprofit corporations, volunteers and other governments/authorities. According to CCAPs, most often the arrangements are with private nonprofit corporations (frequency of 88.0%) vs. private for-profit corporations (frequency of 52.0%). Although the counties work with more nonprofit corporations than for-profits, the selection of nonprofits had more to do with selecting providers that could deliver the needed services, and less to do with the corporate status of the provider. In fact, when discussing outsourcing providers with whom they contracted, some respondents were unclear as to the corporate status of the provider.

Both CCAP and PACHSA members saw services provided by volunteers as viable examples of outsourcing. Volunteer arrangements were cited with a frequency of 88%, equal to the nonprofit partnerships. Among the services provided by volunteers,

respondents mentioned fire, ambulance, library and recycling services. In each of the examples they gave, CCAPs and PACHSAs saw volunteerism as a means of containing the costs of government as well as a way of providing a vast array of needed public services that improved the quality of life in their communities.

In addition to collaborations with the private for-profit and nonprofit sectors, governments also enter into intra- or intergovernmental agreements with other government bodies or departments. CCAPs reported partnering with another government or with an established authority (e.g., sewer, housing, airport) with a frequency of 76%. In cases where county jointers exist, defined partnership agreements are in place for specific services, (e.g., three counties in Northeastern Pennsylvania comprise a jointure for Mental Health/Mental Retardation services). See Table V-4 (II-1), page 120.

As chronicled in literature and the media, privatization does not go unnoticed by public sector employees. When faced with the possibility of losing jobs because services provided (or that could be provided) by government are to be outsourced, the employees themselves often enter the competition for contracts. Given just this most basic of motivations — job security — public employees have produced proposals that have exceeded the cost effectiveness and program efficiency of their private sector contenders. Such outcomes confirm what Hatry believes is a major advantage of the privatization movement, i.e., privatization encourages public officials and public employees to innovate and to break down obstacles to improving public employee efficiency (Hatry, 1992, 242).

### Positive past experience with outsourcing providers

PACHSA members reported long-standing relationships --- 25 years or more --- with outsourcing providers. See Table V- 5 (III-1), page 120. In some cases, these relationships pre-dated the outsourcing contractual relationship. PACHSA members noted that county administrators and staff often were familiar with the work of program providers because of working relationships formed around other collaborative projects or service on committees or advisory boards. In some cases, county officials had professional relationships (past or current) with staff members of the provider agencies or were otherwise familiar with the work of the agency. In a Class 3 county located in Southeastern Pennsylvania, to say past experience was a factor in outsourcing would be an understatement. Here, county officials initiated a privatization approach that transitioned county employees from the public sector payroll to a nonprofit corporation of the former's making. A county director explained the move.

### *Privatizing a Department of County Government*

On July 1, 1997, the county privatized its Mental Health/Mental Retardation (MH/MR) Department, the largest human services provider in the county with a budget of \$90 million. The county went from a MH/MR staff of 140 to 3, retaining only administrative functions; all other functions were privatized. Privatization, in this case, must be seen in light of the method chosen for the transition. Rather than issue a request for proposals that would have broadly solicited bids for the delivery of the county's MH/MR services, the county commissioners created a nonprofit corporation. County MH/MR employees engaged in direct service became employees of the nonprofit. The county's collective bargaining unit agreed with the transition, providing union positions were not cut. Union workers had the assurance that they would not lose one position. Positions were decreased through attrition and retirement. The move was

not without emotion, according to the county representative. "Employees were scared," he said. They lost some benefits, but gained some as well, including the ability to invest their own pensions, he noted.

While deciding to privatize MH/MR, the county considered the following factors:

- Ease of hiring – the county's civil service system was too cumbersome when trying to hire and fire; attracting qualified employees and getting rid of poor performers was too involved. With privatization, staff could be hired quicker vs. having to use the county civil service system.
- Reduction of liability and responsibility – with private sector providing the service, the county's liability was limited.
- Reduction of administrative overhead.
- Expedited payments – payment to providers could be much quicker if the services were not part of government.

Prior to accepting his current position, the county spokesperson worked in MH/MR. He knew those who were running the newly created nonprofit corporation. This helped because, he said, "there had to be a lot of trust." Prior to privatizing the MH/MR services, "Far too much was 'counted on' to do a good job because [those doing the work] were county employees," he said. Since privatizing, oversight mechanisms are now in place.

Commenting on the experience of MH/MR privatization, the county representative termed it "a positive experience, overall." The model needs "some fine tuning," he remarked. "It's still very young."

#### Studying feasibility of outsourcing/encountering obstacles

In Section II of the study (the general inquiry about outsourcing in the counties), CCAP members were asked about outsourcing feasibility studies and any obstacles that were encountered in the process. As Pennsylvania counties contemplated the

feasibility of outsourcing as a means of providing public services, the process involved (in various combinations) department heads (87.0%), managers and fiscal officers (52.2%). When feasibility studies were complete, those participating in the decision to adopt outsourcing as a method of service delivery included categorical department heads (80.0%), elected officials (72.0%), solicitors (68.0%) and managers and fiscal officers (60.0%). Others involved to a lesser extent, according to the data, were line staff, outside consultants/ professionals, and citizen advisory groups. Those with the least involvement in the feasibility studies were potential service providers, service recipients/consumers and representatives of state agencies or associations. See Table V-6 (II-3), page 120.

When counties got to the point of determining the actual use of outsourcing as a method of service delivery, CCAPs reported categorical department heads, elected officials, solicitors (a county's legal counsel), and managers/fiscal officers. Ultimately, the decision makers would be the county commissioners who, in Pennsylvania, hold final authority to contractually bind their counties. See Table V-7 (II-4), page 121.

Department heads and managers/fiscal officers, as noted above, also were involved in feasibility studies.

As years of privatization research indicates, resistance of public employees is often a barrier to establishing outsourcing. Such opposition has occurred in Pennsylvania, according to this study. CCAPs were asked if their respective counties had encountered any obstacles in implementing outsourcing. A total of 64% said yes. Opposition from government employees and restrictive labor contracts topped the list. The most frequently encountered obstacle (56.3%) was opposition of government employees, followed by restrictive labor contracts (50.0%). See Table V-8 (II-8), page 121.

This information from CCAPs relates to PACHSA members' stated preferences for outsourcing as a way of avoiding or limiting work with labor groups and unionized employees. Although the survey did not differentiate union vs. non-union government employees, many employees of Pennsylvania counties are members of collective bargaining units. At times, unionized employees can be vocal about their resistance to outsourcing, citing contract stipulations regarding hiring of new employees and job security of current union members. PACHSAs saw outsourcing as a way of circumventing these issues.

As the counties' wrestled with their respective decision-making processes, the questions they asked and the circumstances they considered reflect Miller and Tufts' (1992) four instances when privatization of government services should be considered. They are (1) when government's operations are unrelated to the central function of governance; (2) when current government service is in direct competition with services operated by the private sector; (3) when the cost of an existing government-provided service exceeds the available or projected resources; and (4) when current government operations are inefficient and/or service is of poor quality and all remedial actions have resulted in insufficient improvement (Miller, Tufts, 1992, 237).

*PACHSA members discuss outsourcing perspectives*

Overall, PACHSAs favored outsourcing. The support, however, was not universal and, in some cases, was not without reservation. What follows are observations from three PACHSAs --- one skeptical, one who would opt for more outsourcing in his county and one who is an enthusiastic advocate.

*A skeptic*

This PACHSA was less than enthusiastic about the outsourcing her county does. She recognized the practicality of outsourcing but admitted "There are days when I wish we could do all our services, that we [the county] would be the employer." One of the pluses of the county providing services would be the issue of loyalty, she said. From her perspective, in the public system, it is possible to make sure there is a sense of loyalty. This is harder to do when service provision is one step removed, she said.

Among the barriers to realizing her wish of having the county be the employer of more service providers, she said, are all the civil service restrictions. Counties do outsource because there are limitations, she said, also citing real estate taxes as one of the bases. "The decision gets back to how county government is funded. A county commissioner who takes the job seriously looks at that. The reality is that county is taxing a person's home. Every time the county hires someone, there is a need to generate money."

A veteran of 32 years in human services, she termed outsourcing "a game we play." She continued, "I don't always feel that a private provider is always the best." A private provider may be able to pay more, however, administrators get higher salaries and direct service staff get less money. With outsourcing, there are business issues that come into play. Providers are trying to keep their own doors open.

*A PACHSA who wants more*

Another PACHSA member wanted his county to do more outsourcing. This county does not outsource to the extent of other counties, however, "we would probably do it differently if we had it to do over again," the PACHSA member stated. He termed management of union and civil services issues as "time consuming and problematic..."

this would not be a problem if services were outsourced," he said. Reflecting on the efficiency of outsourcing, he observed, "If we were a corporation, we would owe it to our shareholders to manage more effectively." In his estimation, government focuses on the short term, on good election strategies --- an approach that collides with business strategy, he said.

*An enthusiast*

The outsourcing contracts that counties design have a distinct positive fiscal impact, according to this human services administrator. From his perspective, *outsourcing contracts bring more money to services.* This assistant director of human services said when services are delivered in-house, government pays the whole bill. When services are delivered externally, most of those external providers are funded by other sources as well. A county can cover more human services by outsourcing. There is an "exponential jump" if government is not the only program funder, he maintained.

In addition to bringing additional financial resources to programs, outsourcing allows the county to influence and/or link many more programs, he continued. When program providers are all around the table, there is a positive peer pressure, he said. The county, and by extension the consumers, gets a "rich mix" of services. Outsourcing allows the ability to pick and choose, to require collaboration, he noted. In short, "it's the only way to go."



**Tables – Adoption of Outsourcing Providers**

**Table V-1**

**III - 2 What are the top three factors that your county considers when deciding to use outsourcing providers for human services programs?**

Factors	Choice	N=27	Rank					
		Freq	1st	Freq	2nd	Freq	3rd	Freq
Limited county staffing	19	70.4%	6	31.6%	7	36.8%	6	31.6%
Cost of providing service	17	63.0%	8	47.1%	7	41.2%	0	0.0%
Positive past exper w/OS'ing	10	37.0%	2	20.0%	3	30.0%	3	30.0%

**Table V-2**

**III - 7 Does your county have sufficient staffing to deliver human services programs that are needed in your county and for which funding is available?**

Tot Ctys	Responds	Yes	No
30	29	4	25
	96.7%	13.8%	86.2%

If NO, is the lack of sufficient staffing a contributing factor in your county's decision to use outsourcing?

Tot Ctys	Responds	Yes	No
29	25	20	5
	86.2%	80.0%	20.0%

**Table V-3**

**II - 2 What factors influenced your county's decision to outsource services?**

Tot Ctys	Responds	Extrnl fiscal pressure	Internal-decrs cost	State/fed mandates	Chg in pol climate
26	25	12	20	11	7
	96.2%	48.0%	80.0%	44.0%	28.0%

Active citizn grp	Unsolicited proposals	Concns re: govt liabil	Other
5	8	10	9
20.0%	32.0%	40.0%	36.0%

Table V-4

II-1 Indicate any/all of the outsourcing arrangements your county uses.

Tot Ctys	Responds
26	25
	96.2%

N=

25	Another gov/ auth	Private FP corp	Private NP corp	Franchise/ concession	Subsidies	Volunteers	Others
19	13	22	3	8	22	1	
76%	52%	88%	12%	32%	88%	4%	

Table V-5

III - 1 How long has your county used outsourcing providers to deliver human services programs?

Tot Ctys	Responds	25 plus yrs	20 - 24 yrs	11-19 yrs
30	28	20	4	4
	93.3%	71.4%	14.3%	14.3%

5 - 10 yrs	1-4 yrs	< 1 yr
0	0	0
0.0%	0.0%	0.0%

Table V-6

II - 3 Who was involved in studying the feasibility of outsourcing?

Tot Ctys	Responds	Dept heds	Line stf	Poten serv provid	Outside profs/cons	Serv recp consumers
26	23	20	11	9	11	9
	88.5%	87.0%	47.8%	39.1%	47.8%	39.1%

citiz adv grps	mgrs/fiscal officers	state agen associations	other
10	12	8	5
43.5%	52.2%	34.8%	21.7%

Table V-7

II- 4 Who participates in determining the use of outsourcing as a method of service delivery (understanding that county commissioners hold the ultimate authority to enter contracts)?

Tot Ctys	Responds	Mgr/fiscal officer	Asst mgr/ fiscal officer	Line employees	Mgt/budg analysts
26	25	15	7	5	11
	96.2%	60.0%	28.0%	20.0%	44.0%

Solicitor	Procure/ purch officer	Categor'l dept head	Elected officials	Other
17	6	20	18	6
68.0%	24.0%	80.0%	72.0%	24.0%

Table V-8

II - 8 Has your county encountered any obstacles in implementing outsourcing?

Total Ctys	Responds	Yes	No
26	16	16	0
	61.5%	100%	0%

Total Ctys	Responds	Citizen opposition	Opposition elected offic	Opposition govt Ees	Opposition dept heads
26	16	7	7	9	6
	61.5%	43.8%	43.8%	56.3%	37.5%

Restrictive labor contrts	Legal constraints	Lack of competent OS providers	Lack of stf w/contr mgmt exper	Lack of empirical evidence	Lack of precedent, instit guides	Other
8	6	5	3	2	4	3
50.0%	37.5%	31.3%	18.8%	12.5%	25.0%	18.8%

## Selection of Outsourcing Providers

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*What criteria do counties use to select outsourcing providers?*

Analysis of data collected from PACHSA members suggests that Pennsylvania counties rely, primarily, on two familiar means of selecting providers for human services programs:

- Requests for Proposals (RFPs)
- Purchase of service (POS) agreements

See Table V-9 (III-8), page 126.

County officials and administrators reported using outsourcing for more than 25 years, long before interest in privatization re-surfaced during the 1980s. In many cases, counties have been contracting with the same providers, year after year, since the mid-1960s. Still, when contracts come up for renewal, most counties in the study reported issuing requests for proposals, a competitive process for choosing service providers. By design, the RFP process provides counties with a market mechanism for identifying and selecting qualified providers with whom they can partner for the delivery of human services programs. A bedrock of privatization, competition is viewed as an effective means of improving public sector productivity; lack of competition is seen as the ultimate cause of low productivity in government (Savas, 2000, 160). Until the mid-1990s, those responding to RFPs for human services were primarily nonprofit organizations whose missions and programs were closely aligned with the services counties were looking to outsource. This pattern changed when for-profit corporations, seeing an opportunity to share in substantial funding awarded to states as part of federal welfare reform, entered the competition for employment training and job placement contracts. During this same time, the belt-tightening realities of managed care brought for-profit health care providers

to the public bidding table. As competition heated up, nonprofit corporations accustomed to competing only with other nonprofits found themselves vying with for-profit corporations for public dollars. Public administrators in charge of human services programs, unaccustomed to the attention of for-profits, found themselves with new choices for service delivery. The RFP process is an effective vehicle for making those choices and, as this study shows, Pennsylvania counties rely on it.

Once a county decides which program(s) it intends to outsource, a RFP specific to that particular program is prepared and its availability publicly made known, often through announcements in newspapers of general circulation. Some counties also maintain *mailing lists of eligible providers to whom they send notification.*

A request for proposal (RFP) is a formal document that can vary in length and complexity. In this document, a county can provide information concerning the nature of the program or services to be outsourced, the goals and objectives of the program or services, any specific requirements that bidders for the outsourcing contract must include in their proposed programs, and budget parameters and guidelines. The RFP can require applicants to include organizational histories, organizational charts, board listings, descriptions of staffing capacity, staff credentials, organizational accomplishments, technological capability, fiscal administration and financial reporting mechanisms. Often times, if collaboration is a goal of the entity issuing the RFP, applicants are required to include detailed descriptions of their collaborative experiences, how collaborative arrangements would work for the proposed service, and to provide letters from collaborative partners confirming intent. All of the information a RFP solicits reflects elements helpful to decision makers interested in making the most of the competitive process, e.g., status of technology, organizational structure,

management and organizational processes, products or services, and delivery systems (Lienge, Rea, 1993).

A deadline for submission is given, usually noting that proposals received after that date will not be considered. Upon receipt of proposals, designated county staff members review the submissions. Recommendations are made to the department head or other county official who will make the decision. In some counties, meetings with applicants are held prior to awarding the outsourcing contract(s). Once decisions have been made and contract recipients have been notified, the process of executing the contract begins. This can be a lengthy, laborious process that can sometimes delay the start of the program until the contract is fully executed. Once executed, the contract, which most often contains a detailed work plan as presented by the applicant, must be amended to adjust for time delays in beginning the program or service.

Purchase of service (POS) agreements may also be competitive. However, POS transactions may offer county administrators more flexibility since agreements may be simpler in nature, shorter in time frame and directed to a specific aspect of a project. Typically, letters of agreement do not require multiple county signatures (including county commissioners) as do contracts. Purchase of service agreements related to human services could include specialized transportation, needs assessments, program or space utilization studies, or security.

Whether through RFPs or POS agreements, Pennsylvania counties intentionally instill competition into their contracting for human services. In doing so, they reflect the first of Osborne and Gaebler's ten principles needed for entrepreneurial government — promoting competition between service providers (1992, 20) — and concur with the

authors' belief that when service providers must compete, they keep their costs down, respond quickly to changing demands and strive mightily to satisfy their customers (Osborne, Gaebler, 1992, 79).

**Table – Selection of Outsourcing Providers****Table V-9**

**III-8 How does your county select providers for outsourcing human services programs?**

Tot Ctys	Responds	RFPs	Onetime only compet grnts	Pur of Serv agreements	Sm challenge grants	Other
30	29	27	7	21	7	9
		93.1%	24.1%	72.4%	24.1%	31.0%



## Performance Measurement of Outsourcing Providers

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*What criteria do counties use to measure performance outcomes of outsourcing providers that deliver human services programs?*

One of the ongoing debates about privatization centers on accountability. Those who favor privatization are challenged by those less enthusiastic to provide convincing evidence that private sector providers are performing the services for which they are being paid by the public sector. Contracting requires monitoring and enforcement, that is, a systematic procedure to monitor the performance of the contractor, compare it to the standards in the contract, and enforce the contract terms (Savas, 2000, 207). Without effective monitoring, contracting as a means of privatizing public services is left open to question, criticism and potential abuse. Analysis of data collected from CCAP and PACHSA members interviewed for this study, suggests that Pennsylvania counties do hold private sector providers accountable and have methods in place to do so.

To a person, CCAPs reported that their counties evaluate outsourcing providers. The performance measures cited by all CCAP respondents included:

- Effective program outcomes
- Efficient fiscal outcomes
- Provider accountability

CCAPs also reported using customer satisfaction as a performance measure and to a lesser extent, innovation. When asked which factors had been most effective in measuring performance, the frequencies changed. According to CCAPs, the most effective performance measures were:

- Provider accountability
- Customer satisfaction

These were followed by effective program outcomes and efficient fiscal outcomes.

See Table V-10 (II-5) and Table V-11 (II-6), page 136.

When asked how their counties held outsourcing providers accountable for performance outcomes, all but one of the PACHSAs cited the fiscal audit. Next, with identical frequency, were contract monitoring, site visits and written reports. See Table V-12 (III-9), page 136. Two open-ended questions gave PACHSAs an opportunity to further explain (1) how their counties conducted/ compiled performance measurement tools and (2) what criteria were used for measurement. Their replies are displayed in Table V-13 (III-10), page 137 and Table V-14 (III-11), page 138 and summarized below.

Criteria counties use to conduct/compile:

Contract monitoring – PACHSAs reported using the contract document, a standard monitoring document and/or the proposal document with the work statement. In some cases, these three documents were used separately; others reported using two or all three of the documents. Often, a standard monitoring document is included with, if not a part of, the contract document. In most cases, the work statement is taken from the proposal document and included in the body of the contract document or as one of the appendices.

Site visits – PACHSAs differed in their approaches to site visits. Some counties scheduled formal visits, allowing contractors to prepare for the review. Some counties had scheduled times for visits, though the reviews were less formal. PACHSA members in smaller counties maintained that they were able to “drop in” on providers; some did so regularly, others did so on an unannounced basis if they had been alerted to a particular problem or a situation that could become problematic.

Program audits and fiscal audits – PACHSA members who reported using program audits said they relied on the contract document and/or on the proposal document and work statement as their principal monitoring tool. When fiscal audits were used, PACHSA members often accepted a copy of a provider's single audit or they referred to other audit documents belonging to the provider. In one instance, a PACHSA member said the county assigned an auditor to investigate a provider's financial records because the materials supplied by the provider were in question.

Written reports from providers – PACHSA members reported that written reports varied according to contract. County representatives said they used monthly and quarterly reports submitted by providers. Sometimes the reports followed a standardized format; in some cases, providers submitted their information in their own formats. PACHSA members said they used the written reports as process measurement and, if corrective action had been recommended to a provider, to determine if the recommendations were being followed and to what end.

Because counties vary in population and geographic size, staffing, and numbers of outsourcing contracts in place, it seemed likely that the criteria used for each performance measure would vary. And they did. Although PACHSAs reported similar performance measures, when asked to elaborate on the criteria used for those performance measures, different criteria were reported.

Criteria counties use to measure:

Accountability to provider – Accuracy of reports and punctuality of reports were cited most frequently. Counties varied in the reporting periods --- some contractors were required to submit monthly reports, some bi-monthly, or quarterly. In some cases,

counties required both programmatic and fiscal accounts for each reporting period. In other cases, programmatic and fiscal reports were together; in other cases, the reports were submitted separately and some on different time schedules. Some counties required monthly programmatic reports but fiscal reports were submitted quarterly. Some counties used contractors' invoices as measures of fiscal reporting.

Customer satisfaction – Very few counties themselves conduct consumer surveys; in only one instance did a PACHSA report a consumer survey that was distributed to clients of a provider and returned directly to the county. A few PACHSAs said their counties reviewed or requested consumer surveys that outsourcing providers themselves conducted. Twice as many PACHSAs reported using complaints rather than compliments as a performance measure. In fact, the customer satisfaction index most frequently cited was consumer complaints. PACHSAs cited negative reports as a means of measuring customer satisfaction. Such reports, PACHSAs said, came from clients themselves or clients' families or from elected officials to whom the concerns had been made known.

Innovation – For the most part, PACHSAs defined innovation as new or improved methods of program delivery. Given the diverse and complex needs for services, PACHSAs appreciated an outsourcing provider's attempts at developing new approaches and forming or strengthening collaborations to address service needs. PACHSAs saw proactive strategies and providers' identification of emerging needs as innovative. Although they appreciated innovative attempts, PACHSAs recognized the existence of barriers to innovation. In particular, they saw budget constraints (which often are seen as catalysts for innovation) as limiting initiation of creating whole new programs vs. applying innovative ideas to existing services.

Efficiency of service and cost of service – For purposes of the survey, efficiency of service was defined as *achieving desired fiscal outcomes*. PACHSAs related this to unit cost, i.e., cost per client per month. Unit cost was the criteria most frequently cited by PACHSAs for measuring cost of service. The unit cost is included in a contractor's original proposal and, unless some negotiation takes place during the contract negotiation, that cost (or the re-negotiated cost) is included in the contract. Counties hold outsourcing providers to the agreed-up cost and use the latter's adherence to that cost as a performance measure. In some cases, when extenuating circumstances occur during a contracting period, the county and the outsourcing provider may negotiate a unit cost adjustment. If such an adjustment is made, the county then amends the contract agreement to reflect the change.

Effectiveness of service – For purposes of the study, effectiveness of service was defined as *achievement of desired program outcomes*. PACHSAs reported using this definition as a measurement tool. Fulfillment of contractual agreements and performance standards also were cited. To a lesser extent, PACHSAs rely on program and fiscal reports to determine service. As noted earlier, in some cases, program and fiscal reports are submitted together; in others, the reports are submitted at different times. Whether submitted together or separately, reports vary in time frame, with monthly, bi-monthly or quarterly periods noted.

*PACHSAs Discuss Purposes and Perspectives of Performance Measurement*

Epstein (1992,161) writes that for public officials, measurement of public services can be important for day-to-day service management, operational and strategic planning, budgeting, and accountability to the public. He cites three main purposes for performance measurement of public services: to improve decisions, to improve

accountability, and to improve the functioning of public services (1992, 162). During the course of their interviews, PACHSAs members reflected these purposes as they discussed performance measurement approaches in their respective counties.

According to one PACHSA, monitoring ties fiscal and programmatic aspects. He used mental health/mental retardation as an example of his county's monitoring process. Each MH/MR contract, in addition to the budget, must include a work statement, staff list, and board of directors list. The work statement includes narrative, service projection chart by month with unit of service and types of service, and an outcomes section.

In January, contractors submit outcomes, both quantitative and fiscal. At four months, providers submit fiscal and program reports; actual and planned outcomes are compared; 5% differences are flagged. Reports are submitted again at seven months.

The county holds a hearing with every agency on every contract. The hearings started 22 years ago when the PACHSA member took his position. Each contract has one program manager (a county staff member) who is with the provider through the whole process. The manager will know the program, so she/he knows where deviations are reasonable and explainable.

In another responding county, a formal contract monitoring document is used, but the process also has an informal aspect. This PACHSA member talked about the formal process, adding "That's the document 'on paper'." Staff members stop in on program providers; they visit with provider staff and clients. "This is a small area; we know the providers," he said. Responding to the observation that it appeared that the county has

both a formal and an informal evaluation process, he remarked, "We have formal evaluation because we have to; we have informal evaluation because it works."

Regardless of the type of evaluation, county administrators considered accuracy and punctuality important indicators of provider accountability. In two of the responding counties, accountability is measured in precise and individual ways.

The human services director in one of the two counties said his county looks for different things at different sites; different criteria are used, depending on the program, e.g., group home site visit would be different from a site visit to a drug and alcohol program or from a sheltered workshop. Monitors compare reports to actual activities and look at program statistics to determine if the provider is doing what it says it is doing.

The other county's human services director said monitoring varies with the contract and specific check lists are used. Site visits are unannounced. County representatives go at different times --- days, nights, weekends. They observe provider staffing and clients in light of the contract documents, i.e., they compare work plan with activity actually under way at the time of the visit. According to this PACHSA member, the county is not just looking at price and units of service. They want to be sure that the program they are buying is really taking effect --- is happening.

Only one PACHSA respondent specifically mentioned administrative costs vs. program operating costs as an efficiency item in fiscal monitoring. He noted that larger organizations (he cited Volunteers of America) are required to give a percentage of revenue to the parent organization. That percentage, sometimes, can be as high as 15%, he said. That required contribution is reflected in the cost of service but not in the

service delivered directly to clients, he observed and speculated that the larger the private [nonprofit] organization, the more money goes to administration (both national and local), therefore, less money goes to direct service. This PACHSA member, whose 23 years in government have been in human services, agreed that outsourcing requires strong contract monitoring and performance monitoring.

A human services director in another of the responding counties linked what she called the county's role as "steward of the public dollar" with its obligation to insure fiscal accountability. The PACHSA member, who oversees human services in a two-county jointure, has spent all 20 years of her government service in human services. She cited the importance of relationships as a foundation for outsourcing arrangements.

During her years in public service, this PACHSA member has seen the increased awareness of the importance of holding providers accountable for outcomes and of learning ways to do that. This is in spite of a real reluctance for change, she said. Counties sometimes find it difficult to make major provider changes because of the "engrained stability" that often occurs. The process of change can be painful, she remarked, but it is important to continue. That is why outcomes are so important, she said. Outcomes allow all involved to substantiate "here's why we are doing what we're doing." A defining question should be "Are we getting the outcomes that we need -- for families, children and adults?" She cited the changing nature of community needs and fiscal accountability among the "right reasons" for outsourcing.

Another county official stressed the importance of implementation of outsourcing. The official, whose 29 years in government include 18 in human services, said it is essential to communicate the county's vision and expectations to private providers. She



emphasized the importance of monitoring and performance evaluation and recommended using a system of accountability, incentives for outstanding providers and sanctions for noncompliance. She concluded that "A lot of outsourcing regarding service delivery is done more efficiently and cost effectively."

Another PACHSA, reflecting on his 30 years in government human services, stressed that his county has "always outsourced. It has been highly successful; we have a strong commitment to it." Outsourcing, this PACHSA maintained, "makes sense politically and economically. It's a good way of doing business."

## Tables – Performance Measurement of Outsourcing Providers

### Table V-10

**II-5 Does your county evaluate outsourcing providers?**

Tot Ctys	Responds	YES	NO
26	25	25	0
	96.2%	100%	0%

**If YES, what factors are used to measure performance of outsourcing providers?**

Responds	Provider accountabil	Customer satisfaction	Effective prg outcms	Efficient \$ outcms	Innovation	Others
25	25	23	25	25	15	1
	100%	92.0%	100%	100%	60.0%	4.0%

### Table V-11

**II-6 Which of these factors (from II-5) have been most effective in measuring performance?**

Tot Ctys	Responds	Acctability of provder	Customer satisfaction	Effective prg outcms
26	25	20	20	15
	96.2%	80.0%	80.0%	60.0%

Efficient \$ outcms	Innovation	Other(s)
15	5	1
60.0%	20.0%	4.0%

### Table V-12

**III - 9 How does your county hold Outsourcing providers accountable for performance outcomes?**

Tot Ctys	Responds	Contract monitoring	Site visits	Program audit	Fiscal audit	Written reports	Other
30	30	28	28	24	29	28	10
	100.0%	93.3%	93.3%	80.0%	96.7%	93.3%	33.3%

Table V-13

III - 10 - What criteria does your county use to conduct/compile:		
N=		
<b>30 a. Contract monitoring</b>		
Contract document	13	43.3%
Standard monitoring document	12	40.0%
Proposal document/work statement	10	33.3%
Differs according to contract	8	26.7%
Of the 13 that reported using the contract document, 8 — 61.5% — identified the proposal document/ work statement.		
<b>b. Site visits</b>		
Formal visits	9	30.0%
Scheduled visits	8	26.7%
Differs according to contract	7	23.3%
Of the 9 that reported formal site visits, 6 — 66.6% — reported visits that are schedule; 2 — 22.2% — reported both scheduled and unscheduled visits.		
<b>c. Program audits</b>		
Use of contract document	10	33.3%
Proposal document/work statement	8	26.7%
Use of outcomes	4	13.3%
<b>d. Fiscal audits</b>		
Use of provider's single audit	8	26.7%
Use of provider's audit	6	20.0%
Use of provider reports	5	16.7%
<b>e. Written reports from providers</b>		
Vary according to contract	9	30.0%
Use of monthly reports submitted	6	20.0%
Use of standard format reports	6	20.0%

Table V-14

III - 11 - What criteria does your county use to measure:		
N=		
<b>30 a. Accountability of provider to county</b>		
Accuracy of reports	13	43.3%
Punctuality of reports	12	40.0%
Meeting terms of contract	11	36.7%
<b>b. Cost of service</b>		
Unit cost = cost/client/month	11	36.7%
Negotiation	5	16.7%
Market rates	5	16.7%
<b>c. Customer satisfaction</b>		
Complaints	12	40.0%
Compliments	6	20.0%
Surveys taken by providers	9	30.0%
Surveys taken by county	8	26.7%
<b>d. Effectiveness of service</b>		
<i>(Desired program outcomes)</i>		
Stated outcomes achieved	7	23.3%
Contractual agreements	6	20.0%
Performance standards	4	13.3%
Program and fiscal reports	4	13.3%
<b>e. Efficiency of service</b>		
<i>(Desired fiscal outcomes)</i>		
Unit cost = cost/client/month	12	40.0%
Adherence to budget	6	20.0%
Reasonable costs	6	20.0%
Necessary costs	6	20.0%
<b>f. Innovation</b>		
New/improved methods of program delivery	12	40.0%
Community collaboration established or strengthened	9	30.0%
Provider is proactive	4	13.3%
Provider identified emerging needs	4	13.3%

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*How does the performance of public/for-profit partnerships compare with the performance of public/nonprofit partnerships in the delivery of human services programs?*

A specific interest of this study was the difference, if any, between the performance of for-profit corporations and nonprofit corporations as outsourcing providers of human services programs. Literature and research about public/private partnerships is plentiful, however, writings and studies about the subject often do not distinguish between private *for-profit* and private *nonprofit* corporations. Working with elected and appointed officials of Pennsylvania county government (CCAP and PACHSA members), this study collected data about both corporate structures that deliver human services programs in partnership with the public sector. When all was said and done, PACHSA members reported no significant difference in satisfaction levels with performance of for-profit vs. nonprofit corporations in the delivery of human services programs.

In Section II of the study, CCAPs (commissioner chairpersons or chief clerks/county administrators) were asked to choose from a list of outsourcing arrangements those used by their respective counties. The arrangements most frequently cited were with nonprofit corporations (88%); arrangements with for-profit corporations were cited less frequently (52%). See Table V-4 (II-1), page 120. Since the CCAPs were interviewed about outsourcing *in general* (vs. PACHSAs, who were interviewed specifically about outsourcing of human services), the former's responses suggest that nonprofits are also used to provide other public services (e.g., public safety, parks and recreation, arts and culture).

Using ICMA's "Profile of Alternative Service Delivery Approaches – 1992," as a guide, human services chosen for the study included the following: child care, children and youth services, drug and alcohol treatment, drug and alcohol prevention, mental health/mental retardation and elderly. Pennsylvania counties are responsible, by law, for providing these services. Funding comes to the counties from the state and is allocated in county budgets as categorical line items. (The term categorical also is used to identify particular populations, e.g., children and youth, mental health/mental retardation, elderly.) In addition to the categoricals, several state-level initiatives were included in the human services chosen for the study survey. The initiatives included Communities That Care (CTC), a program designed to identify and address risk factors and protective factors in communities; Family Centers, school or community-based centers offering (and sometimes housing) various services for families; and Family Service System Reform (FSSR), established to promote the wellbeing of families through collaboration of formal and informal service networks. Not all counties participated in these initiatives, contracts for which were issued on a competitive, RFP process. Counties may have chosen not to respond to the RFP or, having submitted an application, were not awarded a contract.

PACHSA members were asked to identify which of these human services programs were delivered through outsourcing arrangements. The categorical services were listed most frequently in this order:

- Drug and alcohol treatment
- Mental health/mental retardation
- Children and youth services
- Drug and alcohol prevention

See Tables V-15 and V-16 (III-3 and III-4), page 152.

Based on survey and interview responses, the longest standing outsourcing arrangements are for children and youth services and mental health/mental retardation services. This longevity of outsourcing with children and youth services and mental health/mental retardation services can be traced back to the 1960s when, at the level of federal government, there was greater recognition of the importance of self-determination on the part of local government; the same condition was reflected in legislation at the state level. In Pennsylvania, counties entered an era of increasing responsibilities. At this time, the Pennsylvania General Assembly amended laws affecting the creation of county institutional districts. These amendments charged counties with the responsibility of funding and administering comprehensive programs to address the needs of abused, neglected and dependent children. The changes were followed by the Mental Health/Mental Retardation Act and in the 1970s by similar legislation addressing Drug and Alcohol Programs and the Area Agencies on Aging (Neidig, 1999,7). Each of these pieces of legislation called for some form of collaboration with the private sector.

Child welfare legislation, enacted in the mid-1960s, required counties to provide extended services for neglected and abused children. In many cases, the services were (or were required to be) provided by private sector entities. As county children and youth departments sought special services for children and their families, they often turned to existing services in the community. Children and youth departments were charged with case management but were not allowed to provide the services as well as case manage them. In addition, faced with growing numbers of children and their diverse circumstances and needs, children and youth departments did not have the staffing capacity nor did the counties have the resources to directly employ all the

professionals needed to work with children and families. Then, as now, counties turn to the private for-profit and private nonprofit sectors for needed services.

Today, federal and state mandates continue to effect outsourcing decisions. With a frequency of 66.7%, county human services administrators reported that their counties are required to develop private-sector partnerships for their federally-funded contracts; a requirement for private-sector partners for state-funded programs was reported with a frequency of 60%. That not all counties identified federal and state requirements for private sector partnerships is a point of further investigation since it is unlikely that federal and state guidelines would vary from county to county.

In order to determine if counties see a difference in how for-profit and nonprofit corporations perform as outsourcing providers, the study posed this question to PACHSAs. Section III contained two identical sets of questions -- one set was geared to for-profit (FP) corporations, the second to nonprofit (NP) corporations. For each type, FP and NP, PACHSAs were asked how many corporations were used as outsourcing providers, how long the county had worked with the corporations and what human services programs the corporations delivered. The last question in each set asked the county to indicate their levels of satisfaction with the corporations. Counties expressed their preferences as highly satisfied, satisfied or dissatisfied.

More than 85% PACHSA members participating in this study reported on the use of for-profit and nonprofit corporations as outsourcing partners. More than one-half said they used fewer than 10 for-profit corporations and more than one-quarter said they did not work with any for-profit corporations. All 26 respondents reported working with nonprofits as outsourcing providers. More than half reported working with between 50



and 100 nonprofit corporations; just over 10% said they worked with fewer than 10 nonprofits. The responses could suggest a preference for nonprofits as outsourcing providers of human services. On the other hand, the responses could support the fact that nonprofits historically are the providers of human services programs; they are more experienced in this complex service area; more inclined to provide modestly funded programs that offer little if any promise of financial gain; and they are more familiar than for-profits with serving marginalized populations.

Even though nonprofits do have a longer history of providing human services programs, more than 65% of PACHSAs reported using for-profit corporations to deliver the human services programs chosen for the study. Those provided most frequently by for-profit corporations were children and youth services (75.0%), drug and alcohol treatment (70.0%) and MH/MR (65.0%). More than 85% of PACHSA reported using nonprofit corporations to provide the human services programs identified in the study. More than 90% used nonprofits to provide drug and alcohol treatment services, nearly 85% used nonprofits for children and youth services, drug and alcohol prevention and MH/MR. Just over 80% outsourced elderly services to nonprofits. See Table V-17 (III-14), page 152 and Table V-18 (III-18), page 153.

Given the reported use of both for-profits and nonprofits, PACHSAs were asked to rate their levels of satisfaction with for-profit and nonprofit outsourcing providers that delivered the human services programs. Levels of satisfaction did not vary significantly. See Table V-19 (III-15 and III-19), page 153. A detailed display of comparative data is presented in Table V-21, page 155. This finding could be related to the PACHSAs' stated concerns with cost of service provision and suggests that cost, rather than corporate status, is a primary factor in choosing outsourcing providers. During

interviews PACHSAs also were clear that if they were not satisfied with a particular provider contracts with that provider would have ended or, if carried to term, would not have been renewed. Overall, PACHSAs were satisfied with their outsourcing arrangements, whether with for-profit or nonprofit corporations. One human services administrator, when asked about satisfaction levels with the performance of for-profits vs. nonprofits, said her county did not require a potential provider to identify corporate status. "We don't ask and we don't care," she stated bluntly.

Of all the human services programs included in the study, PACHSAs identified six that were provided by both for-profit and nonprofit vendors. The six were:

- Child care
- Children and youth services
- Drug and alcohol treatment
- Drug and alcohol prevention
- Mental health/mental retardation
- Elderly

Of the six, four were identified by more than 50% of the PACHSA respondents. The four were:

- Children and youth
- Drug and alcohol treatment
- Mental health/mental retardation
- Elderly

In all six cases, when the reported levels of satisfaction were compared, differences in levels of satisfaction were not statistically significant. See Table V-20 (comparison of means), page 153.

Although differences in reported levels of satisfaction were not significant, differences can be noted in the types of services that are provided by the private sector. Child care,

children and youth services, drug and alcohol prevention, drug and alcohol treatment, mental health/mental retardation and elderly — all categorical designations within county budgets — are provided by both for-profits and nonprofits; more by the latter than the former. Communities That Care (CTC), Family Centers (FC) and Family Service System Reform (FSSR) are not designated categories in county budgets; rather, they are initiatives introduced by the Commonwealth in the mid to late-1990s. According to PACHSA responses, these initiatives are provided solely by nonprofit corporations — a dominance that is understandable given the nature of the initiatives.

Issued as RFPs, CTC, FC and FSSR are designed to identify the risk factors and protective factors in a community; to address the diverse needs of families; and to draw together the formal and informal support systems within communities in order to better serve families and children. By their very nature, these initiatives draw on the social service missions, established programs, and long-standing experiences of nonprofit organizations. In addition, the initiatives are funded with the slimmest of budgets; often require matching contributions in goods, services and, sometimes, in cash; usually do not begin on time due to multi-level approvals at the state level; and are subject to modification or cancellation, depending on available state funds. Given these factors, the initiatives are not overly attractive to the for-profit sector. For the nonprofit sector, however, the initiatives provide an opportunity to introduce or extend services (sometimes the very additions or extensions they have recommended to public funding sources), collaborate with other nonprofits, and augment their budgets. In addition, nonprofits, based on experience with other public-sector contracts, are familiar with the cumbersome state contracting process and its impact at the county level.

*Significance of the lack of statistical significance*

Based on surveys and interviews conducted for this study, no statistically significant difference was found in satisfaction levels reported by counties when they compared the performance of for-profit and nonprofit corporations in the delivery of human services. Why might this be? Traditionally, nonprofits are known for their humanistic endeavors, their work in areas declined or neglected by profit-making companies. For-profits, on the other hand, are recognized, applauded for their “bottom-line” focus and income-generating strategies. What might account for the lack of difference in how for-profit and nonprofit corporations, each structure with distinctly different missions and mandates, are rated by counties with whom they partner to deliver public-sector human services programs? Analysis of the data suggests several possible reasons directly related to Pennsylvania counties’ selection and performance measurement of outsourcing. A study of PACHSA responses points to several factors that could explain similar levels of satisfaction with the performance of both for-profit and nonprofit providers of human services. The factors include: competition, attention to the contracting process, an overall sense of public accountability and, in particular, contract monitoring of private sector organizations. Consideration of these factors, regardless of corporate status, suggests that counties are concerned with performance, not IRS classification.

Competition – Like it or not, private sector organizations interested in securing contacts with Pennsylvania counties must compete for the public dollars. When preparing to select private sector partners, counties issue a request for proposals (RFP) to which for-profits and nonprofits alike, if interested working with the county, must respond. The RFP sets forth guidelines and criteria that spell out program requirements. Applicants must conform to the guidelines and address the criteria in order to be

considered as a potential contractor. In doing so, private sector organizations define proposed services, knowing that their respective proposals will be evaluated based on the RFP and weighed against other submissions.

Attention to the contracting process – Once counties have made their selections, county officials prepare contracts with their chosen partners. The proposals that have been accepted are incorporated as a work statement into a binding contract. Once completed, the contracts are circulated for official signatures of both county officials and those representatives of the private sector organization who are authorized to legally bind their respective organizations. These fully executed contracts are then used as a basis for monitoring service providers who are held to the programmatic and fiscal components of the work plans they submitted.

Contract monitoring – Pennsylvania counties pay close attention to the performance of those with whom they contract to deliver public services. Through formal and informal monitoring visits, random and scheduled site visits, examination of program reports and invoices submitted for payment, county officials keep a close eye on contractors' progress toward program goals and objectives. When corrective measures are needed, county officials see that those measures are devised and follow-up to be sure the corrective actions are being taken. When they have deemed it necessary, counties have cancelled contracts or refused to renew them.

Public accountability – An underlying theme of PACHSA interviews was a high level of awareness of public accountability. Both as an agent for the Commonwealth and for the county in general, PACHSAs often mentioned and took seriously their role as "steward of the public dollar." This concern extended to members of the public whose

needs were being addressed by the services that were outsourced. It was with this sense of accountability that PACHSAs viewed their responsibility to see that private sector partners were adhering to contract provisions.

In *Reinventing Government*, Osborne and Gaebler differentiate among public, private and third sector. They conclude, though, that "government today --- under intense pressure to solve problems without spending new money --- look for the best method they can find, regardless of which sector it involves" (1992, 142). Data from Pennsylvania counties support this position.

#### A Case for Institutional Isomorphism?

Data from Pennsylvania counties concerning the lack of difference in levels of satisfaction with the performance of for-profit and nonprofit outsourcing providers also can be considered in light of the work of Paul DiMaggio and Walter Powell on "Institutional Isomorphism and Collective Rationality in Organizational Fields" (1983). Bureaucratization and other forms of homogenization emerge, DiMaggio and Powell argue, out of the structuration of organizational fields. This process, in turn, is effected largely by the state and the professions, which had become the great rationalizers by the second half of the twentieth century. According to the authors, these highly structured organizational fields provide a context in which individual efforts to deal rationally with uncertainty and constraint often lead, in the aggregate to homogeneity in structure, culture and, output (1983, 147). The concept that best captures the process of homogenization, DiMaggio and Powell contend, is isomorphism --- a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions (1983, 149).

In the initial stages of their life cycles, the authors maintain, organizational fields display considerable diversity in approach and form. Once a field becomes well established, however, there is an inexorable push towards homogenization. They define organizational field as those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products (1983, 148).

According to DiMaggio and Powell, once disparate organizations in the same line of business are structured into an actual field (which they argue happens by virtue of competition, the state or professions), powerful forces emerge that lead them to become more similar to one and other. Paraphrasing Schelling (1978, 14), DiMaggio and Powell state that "organizations in a structure field respond to an environment that consists of other organizations responding to their environment, which consists of organizations responding to an environment of organizations' responses" (1983, 149). They go on to say that organizations may change their goals or develop new practices, and new organizations enter the field. But, in the long run, organizational actors making rational decisions construct around themselves an environment that constrains their ability to change in later years (1983, 149). The authors describe three isomorphic processes -- each of which has some relevance to the lack of difference reported by Pennsylvania counties in levels of satisfaction with for-profit and nonprofit outsourcing providers.

*Coercive isomorphism* results from both formal and informal pressures exerted on organizations by other organizations upon which they depend. In some circumstances, organizational change is a direct response to government mandates (DiMaggio, Powell, 1983, 150). As applied to this study, the government requirements that ensure eligibility for county outsourcing contracts set forth standard requests for proposals (RFPs) that

outline expected levels of performance, program and financial reporting, financial management and, in some cases, third party evaluation. As for-profit and nonprofit organizations seek to comply with these government rules and regulations, they may begin to look alike in performance as well.

*Mimetic isomorphism* occurs when, due to ambiguous goals or environmental uncertainty, organizations model themselves after other organizations perceived to be better informed or more successful in the environment (DiMaggio, Powell, 1983, 151). That for-profit organizations would model themselves after nonprofits is unlikely; however, given the humanistic nature of the services used in this study and nonprofits' long tradition of effectively delivering such services, for-profits may attempt to replicate a social service approach, e.g., case management or counseling. On the other hand, it is equally unlikely that nonprofits would try to emulate the "bottom line" position of for-profits. Nonprofits, may however, pay closer attention to issues of accountability and performance outcomes as practiced by for-profit corporations.

*Normative isomorphism* stems primarily from professionalization. Two aspects of professionalization are important sources of isomorphism. One is the resting of formal education and of legitimation in a cognitive base produced by university specialists; the second is the growth and elaboration of professional networks that span organizations and across which new models diffuse rapidly (DiMaggio, Powell, 1983, 152). As applied to this study, normative isomorphism may have some effect on the lack of performance differences given the fact that administrators and staff of provider organizations, whether for-profit or nonprofit, tend to interact in the communities they serve. The networking may be formal or informal, still people are aware of which services are being provided by which organizations. DiMaggio and Powell make a point that is particularly applicable:



Government recognition of key firms or organizations through the grant or contracting process may give these organizations legitimacy and visibility and lead competing firms to copy aspects of their structure or operating procedures in hope of obtaining similar rewards (1983, 153).

In addition to providing food for thought about why there were no significant differences reported in the performance of for-profits and nonprofits as outsourcing providers of human services, DiMaggio and Powell's work introduces a troubling observation for those evaluating service providers. Important to note, they say, is that each of the institutional isomorphic processes can be expected to proceed in the absence of evidence that they increase internal organizational efficiency. To the extent that organizational effectiveness (sic) is enhanced, the reason will often be that organizations are rewarded for being similar to other organizations in their fields. This similarity can make it easier for organizations to transact with other organizations, to attract career-minded staff, to be acknowledged as legitimate and reputable, and to fit administrative categories that define eligibility for public and private grants and contracts. None of this, however, insures conformist organizations do what they do more efficiently than do their more deviant peers (1983, 153, 154).

**Related tables**

**Table V-15**

**III - 3 Which human services programs are delivered through outsourcing arrangements?**

Tot Ctys	Responds	CCInfoServ	C&Y	CTC	D&A Trmt	D&A preven
30	29	18	22	12	26	22
	96.7%	62.1%	75.9%	41.4%	89.7%	75.9%

Family Ctr	FSSR	MH/MR	Elderly	Other
14	17	25	17	14
48.3%	58.6%	86.2%	58.6%	48.3%

**Table V-16**

**III-4 Of the programs identified in III-3, what is your County's longest standing Outsourcing Arrangement?**

Children & Youth Services	50.0%
Mental Health/Mental Retardation	38.5%
Drug & Alcohol Treatment	15.4%
Elderly Services	15.4%

**Table V-17**

**III - 14 Which human services programs are delivered by for-profit corporations?**

Tot Ctys	Responds	Child Care	C&Y	CTC	D&A trmnt	D&A prev
30	20	7	15	0	14	4
	66.7%	35.0%	75.0%	0.0%	70.0%	20.0%

Family Ctr	FSSR	MH/MR	Elderly	Other
0	0	13	11	5
0.0%	0.0%	65.0%	55.0%	25.0%

Table V-18

III - 18 What human services programs are delivered by nonprofit providers?

Tot Ciys	Responds	Child Care	C&Y	CTC	D&A Trmnt	D&A Prevn
30	26	19	22	12	24	22
	86.7%	73.1%	84.6%	46.2%	92.3%	84.6%

Family Ctr	FSSR	MH/MR	Elderly	Other
11	14	22	21	6
42.3%	53.8%	84.6%	80.8%	23.1%

Table V-19

Section III - 15, 19  
Comparative Performance Levels of Satisfaction

	Highly Satisfied		Satisfied		Dissatisfied	
	For-profit	Nonprofit	For-profit	Nonprofit	For-profit	Nonprofit
Children & Youth Services	0.0	9.1	92.9	86.4	7.1	4.5
Drug & Alcohol Treatment	15.4	13.6	76.9	77.3	7.7	9.1
Mental Health/Mental Retardation	8.3	5.3	91.7	89.5	0.0	5.3
Elderly	11.1	25.0	88.9	75.0	0.0	0.0

Table V-20

**Comparison of means:**  
Satisfaction with performance of for profit providers vs. nonprofit providers

Program/service	Mean 1 for-profit	Mean 2 nonprofit	Ho: m1=m2
Childcare	2.00	2.12	Failed to reject
Children&Youth	1.93	2.05	Failed to reject
Communities That Care		2.17	
Drug&Alcohol Treatment	2.08	2.05	Failed to reject
Drug&Alcohol Prevention	2.25	2.05	Failed to reject
Family Center		2.27	
Family Service System Reform		2.00	
Mental Health/Mental Retardation	2.09	2.00	Failed to reject
Elderly	2.11	2.25	Failed to reject

*Differences in the levels of satisfaction are not statistically significant.*

**Table V-21**

See next page

- III - 15 Of the Human Services programs that are delivered by for-profit providers, rate your level of satisfaction.  
1 = Highly satisfied; 2 = Satisfied; 3 = Dissatisfied

Tot Ctys	Responds	Programs	Respnd		Highly satis		Satisfied		Dissatisfied	
30	17	Child care	6	35.3%	0	0.0%	6	100%	0	0.0%
	56.7%	C&Y*	14	82.4%	0	0.0%	13	92.9%	1	7.1%
		CTC**	0	0.0%	0	0.0%	0	0.0%	0	0.0%
		D&A trmt	13	76.5%	2	15.4%	10	76.9%	1	7.7%
		D&A preven	4	23.5%	1	25.0%	3	75.0%	0	0.0%
		Family Ctr	0	0.0%	0	0.0%	0	0.0%	0	0.0%
		FSSR ***	0	0.0%	0	0.0%	0	0.0%	0	0.0%
		MH/MR ****	12	70.6%	1	8.3%	11	91.7%	0	0.0%
		Elderly	9	52.9%	1	11.1%	8	88.9%	0	0.0%
		Other *****								

- III - 19 Of the Human Services programs that are delivered by nonprofit providers, rate your level of satisfaction.  
1 = Highly satisfied; 2 = Satisfied; 3 = Dissatisfied

Tot Ctys	Responds	Programs	Respnd		Highly satis		Satisfied		Dissatisfied	
30	24	Child care	17	70.8%	2	11.8%	15	88.2%	0	0.0%
	80.0%	C&Y*	22	91.7%	2	9.1%	19	86.4%	1	4.5%
		CTC**	12	50.0%	3	25.0%	8	66.7%	1	8.3%
		D&A trmt	22	91.7%	3	13.6%	17	77.3%	2	9.1%
		D&A preven	20	83.3%	3	15.0%	15	75.0%	2	10.0%
		Family Ctr	11	45.8%	3	27.3%	8	72.7%	0	0.0%
		FSSR ***	14	58.3%	1	7.1%	12	85.7%	1	7.1%
		MH/MR ****	19	79.2%	1	5.3%	17	89.5%	1	5.3%
		Elderly	20	83.3%	5	25.0%	15	75.0%	0	0.0%
		Other *****								

Compare	Programs	Respnd		Highly satis		Satisfied		Dissatisfied	
FPs	Child care	14	82.4%	0	0.0%	13	92.9%	1	7.1%
NPs	C&Y*	22	91.7%	2	9.1%	19	86.4%	1	4.5%
FPs	D&A trmt	13	76.5%	2	15.4%	10	76.9%	1	7.7%
NPs	D&A preven	22	91.7%	3	13.6%	17	77.3%	2	9.1%
FPs	MH/MR ****	12	70.6%	1	8.3%	11	91.7%	0	0.0%
NPs	MH/MR ****	19	79.2%	1	5.3%	17	89.5%	1	5.3%
FPs	Elderly	9	52.9%	1	11.1%	8	88.9%	0	0.0%
NPs	Elderly	20	83.3%	5	25.0%	15	75.0%	0	0.0%

- \* Children and Youth  
\*\* Communities That Care  
\*\*\* Family Service System Reform  
\*\*\*\* Mental Health/Mental Retardation  
\*\*\*\*\* Other - various services reported

### Conclusion

Regardless of their particular experiences and interests, human services administrators who responded to this study were clear that outsourcing is an evolving process that requires close monitoring to insure effectiveness and efficiency.

Respondents from larger and smaller counties alike talked about the complexities of operating a public system linked to political philosophy and climate, dependent on tax dollars, subject to growing budget limitations, increasing liability issues and escalating needs for services. Central to all their concerns and speculations about what the future will hold was a clear commitment to providing quality services that meet the varying and diverse needs of those they serve.

According to one human services director, outsourcing supports county government's role as "steward for public money." This PACHSA member, whose 30 years in government have been in human services, said outsourcing provides a model, a balance for "what government does and what the market does." His staff provides casework, including intake, assessment, treatment plans and administration. All direct client services are contracted out, he said. "That's the standard we have developed."

Another PACHSA member, whose 15 years in government have been in human services, defined his county's general operating philosophy this way: "... government is in a role to insure citizens/consumers get services they need and that those services are acceptable." Many for-profits and nonprofits are in a better position [than county government] to deliver those services, he said. "Government's role is to ensure accountability, efficiency and effectiveness." In order to do so, he pointed out that governments are developing the use of technology and the use of management

techniques, such as outcomes measurement, as ways to insure accountability, customer satisfaction, and effectiveness.

Another human services director stated, "The role of government is to manage money, evaluate program and assure quality. Government is not the place for delivering services." A 30-year veteran in government human services, he said human services can be prone to the "willy-nilly" of elected officials; some officials have no idea about human services; others do not fully understand them.

Effective implementation of outsourcing will require a whole different approach — and a different type of person in government service, he said. Service in the public sector will require the ability to manage large sums of money, to understand the RFP process, and to monitor for quality, he contented. From his perspective, most of the population does not want government to grow. This stance contributes to outsourcing's "bright future in government" according to the PACHSA member who sees a mixture of outsourcing and a move to cleaner delineation of who does what — government gives out the money, monitors, assures quality and compliance. "I think the wave of the future is to outsource more," he concluded.

## PART B - Discussion of Results Supporting Hypotheses

A total of eight hypotheses were constructed to study the three focus areas of this study of outsourcing in Pennsylvania counties: adoption, selection and performance measurement. The research matrix, shown on the last pages of this section, provides an overview of hypotheses, related survey material and quantitative findings. The matrix was adapted from a Graphic Overview of Qualitative Research Types (Tesch, 1990) as illustrated in Miles and Huberman (1994, 7). The format, another way to show the information presented in the overview presented in Chapter IV, page 84 and 85, expands to include quantitative data collected in the study. The matrix also allows for comparative presentation of quantitative data on for-profit and nonprofit corporations.

### The Hypotheses

*Hypotheses A, B and C relate to factors that influence a county's decision to adopt outsourcing as a means of providing public services.*

H-A Counties that use outsourcing providers have had past cooperative experiences with program providers from the for-profit and nonprofit sectors.

Findings clearly indicate the accuracy of the assumption that counties would have had past cooperative experiences with program providers from the for-profit and nonprofit sectors. Given the varied nature of human services that counties provide, counties encountered program providers in the community in settings other than contractual situations, e.g., on committees, in meetings or at community events. In some cases, county officials had previous experience working for a for-profit or nonprofit corporation that dealt with the county or served on boards or advisory groups. Regardless of the size of the county, PACHSAs reported knowing or being familiar with the providers and with their levels of performance in their particular program areas.



H-B Counties that use outsourcing providers do so to comply with state requirements to collaborate with the private sector in state-funded initiatives.

This hypothesis assumed that counties that might not otherwise have considered outsourcing public services might have done so because state-level agencies mandated partnerships, cooperative relationships or collaborative endeavors with other service providers in the community. The 1998 Workforce Investment Act and the new TANF (Transitional Assistance for Needy Families) guidelines, both of which are pieces of federal legislation, require community collaboration. In cases such as these two, states, as agents of the federal government, must comply. In order to do so, the states, as principals, must see that those to whom they allocate funds, their agents — in this case, the counties — also comply. Even though this is the case, PACHSA replies were inconsistent. Of the 30 PACHSA respondents, 20 (66.7%) said that their counties were required to develop private-sector partnerships for federally-funded contracts and 18 of the 30 (60.0%) said they were required to do so for state-funded programs. Since counties are funded from the same state sources (e.g., Pennsylvania Departments of Public Welfare, Health, Labor and Industry, Community and Economic Development), it would seem that replies to this question would have been consistent.

H-C Counties use outsourcing providers in order to deliver specific services that the county is not adequately staffed to provide.

This hypothesis assumed that, in this era of cost containment and a push for smaller government, departments of county government would hold the line on personnel costs by outsourcing staff-intensive services. In doing so, it was predicted, governments would avoid (1) increasing the public payroll, (2) dealing with collective bargaining units, (3) handling personnel issues and (4) adding specialists to the government payroll whose high-priced services are not regularly used. Findings clearly indicate that counties do not have sufficient staff to deliver human services programs that are needed

and for which funding is available. This lack of sufficient staffing is a contributing factor in county decisions to outsource. Furthermore, PACHSA responses indicated county officials' reluctance to increase the size of the public payroll and their aversion to dealing with what they saw as the downsides to dealing with collective bargaining units, particularly restrictions imposed on hiring and firing.

*Hypothesis D was concerned with the criteria counties use when selecting outsourcing providers.*

H-D Counties that use outsourcing providers to deliver human services programs more often choose program providers based on established working relationships with private sector entities rather than on formal competitive bidding procedures.

Given the highly specialized nature of some human services, this hypothesis predicted that the time-consuming process of contract bidding and the scope of human services providers from which to choose would result in counties relying on "known quantities" in the private for-profit and nonprofit sector to deliver needed services. The findings did not support this hypothesis. In fact, counties rely heavily on contract bidding, particularly on the request for proposal (RFP) process, to select outsourcing providers.

*Hypotheses E and F centered on how counties measure performance of outsourcing providers.*

H-E When cost of service is the main consideration, counties will use an outsourcing provider's adherence to the contract budget as a primary measure of performance outcomes.

If decisions to outsource public services are made purely for cost-related reasons, this hypothesis assumed that counties might take a "bottom line" approach to performance measurement. Tight fiscal circumstances might limit a county's involvement in technical assistance, ongoing monitoring and attention to quality assurance. In the end, dollars and cents could be the most important factor; adherence to contract budget could be the

principal concern. Although reports of technical assistance were few, findings show that counties do monitor providers; they require program and fiscal audits and they conduct on-site visitations that are both scheduled and unscheduled, formal and informal.

Findings also show that a principal concern in measuring performance outcomes is a provider's adherence to the contract budget.

H-F When customer service is the main consideration, counties will use levels of customer satisfaction as a primary measure of performance outcomes.

This hypothesis predicted that if quality of service was a main concern for a county, attention to customer satisfaction would weigh heavily in performance measurement. Efforts to assure high levels of customer service would be considered in addition to the cost of providing the service. Findings indicated that customer satisfaction is a factor used to measure performance, however, both CCAP and PACHSA responses consistently included customer satisfaction along with provider accountability, effective program outcomes and efficient fiscal outcomes.

*Hypotheses G and H centered the performance of public/for-profit partnerships compared with the performance of public/nonprofit partnerships in the delivery of human services programs.*

H-G Counties that contract with both for-profit and nonprofit corporations to provide human services programs will report higher levels of satisfaction with nonprofit corporations than for-profit corporations.

Given the long history of nonprofits providing services to and for people with multiple and special needs, this hypothesis assumed that counties would say nonprofits performed better than for-profits as outsourcing providers of human services. The findings did not support this hypothesis. Of the nine human services used in the study, all were provided by nonprofits; six of the nine were provided by for-profits. However, in those instances

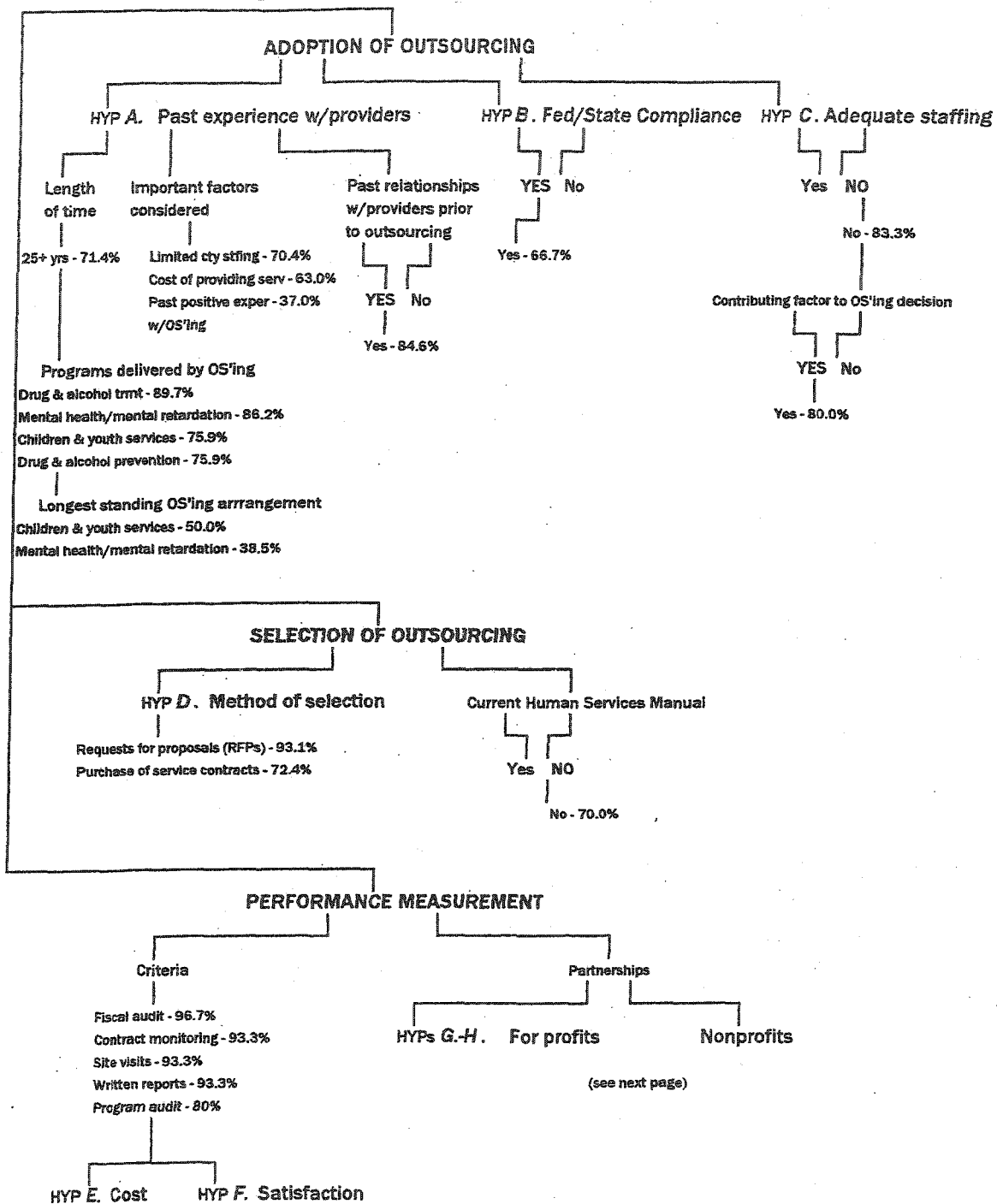
where the same services were provided by both for-profits and nonprofits, no significant difference was found in levels of satisfaction reported for nonprofit corporations compared with for-profit corporations.

H-H Counties that contract with both for-profit and nonprofit corporations to provide human services programs will report that, overall, nonprofit corporations are more cost effective outsourcing providers than for-profit corporations.

This hypothesis predicted that given the fact that nonprofit corporations cannot distribute profits to shareholders; do not have board members who receive financial remuneration; in most cases, have salary ranges far lower than for-profit corporations; and have what could be characterized as an ability to do "more with less," a nonprofit may be more likely to stretch the public dollar further than would a for-profit corporation. Findings did not support this hypothesis. Regardless of the corporate status of the outsourcing provider, counties were concerned with cost effectiveness and weighed it heavily in evaluation of service providers. Findings show that counties do outsource with more nonprofit corporations than for-profit corporations and have been doing so longer than with for-profits, but they did not see nonprofits as being more cost effective.

Exhibit V-1

RESEARCH MATRIX



**Partnerships**

HYPs G.-H.

For profits			Nonprofits					
<b>Number of Outsourcing Providers Used</b>								
0.0%	100+			26.9%				
4.5%	50-99			26.9%				
9.1%	20-49			23.1%				
18.2%	ten - 19			11.5%				
50.0%	<10			11.5%				
22.7%	none			0.0%				
<b>Length of partnerships</b>								
17.6%	25+ years			72.0%				
29.4%	20-24 yrs			16.0%				
17.6%	11-19 yrs			12.0%				
29.4%	5-10 yrs			0.0%				
5.9%	1-4 yrs			0.0%				
0.0%	< 1yr			0.0%				
<b>Human Services programs OS'd</b>								
35.0%	Child care			73.1%				
75.0%	Children & Youth Services			84.6%				
0.0%	Communities That Care			46.2%				
70.0%	Drug & Alcohol Trmnt			92.3%				
20.0%	Drug& Alcohol Preven			84.6%				
0.0%	Family Centers			42.3%				
0.0%	Family Serv Sys Reform			53.8%				
65.0%	MH/MH			84.6%				
55.0%	Elderly			80.8%				
<b>Levels of Satisfaction</b>			<b>Levels of Satisfaction</b>					
HS	SAT	Dis	HS	SAT	Dis			
0.0%	100%	0.0%	11.8%	88.2%	0.0%			
0.0%	92.9%	7.1%	9.1%	86.4%	4.5%			
15.4%	76.9%	7.7%	25.0%	66.7%	8.3%			
25.0%	75.0%	0.0%	13.6%	77.3%	9.1%			
8.3%	91.7%	0.0%	15.0%	75.0%	10.0%			
11.1%	88.9%	0.0%	27.3%	72.7%	0.0%			
			7.1%	85.7%	7.1%			
			5.3%	89.5%	5.3%			
			25.0%	75.0%	0.0%			
<b>Comparative Performance</b>								
HS	SAT	Dis	Levels of Satisfaction			HS	SAT	Dis
0.0%	92.9%	7.1%	Children & Youth Services			9.1%	86.4%	4.5%
15.4%	76.9%	7.7%	Drug & Alcohol Trmnt			13.6%	77.3%	9.1%
8.3%	91.7%	0.0%	MH/MH			5.3%	89.5%	5.3%
11.1%	88.9%	0.0%	Elderly			25.0%	75.0%	0.0%

HS = Highly satisfied    SAT = Satisfied    Dis = Dissatisfied

## VI. The Case Study

*Note: In order to protect the confidentiality of all involved in this case study, the name of the county, the county officials, staff and board members have been changed. Names of program providers (representatives of those agencies with whom the county has outsourcing contracts) are fictitious.*

Keystone County, the subject of this case study, is one of 67 counties in the Commonwealth of Pennsylvania --- a state that has many claims to distinction among American states, including home of the revolutionary congresses, the Declaration of Independence and the Constitutional Convention. The Commonwealth, established by William Penn as his *holy experiment*, is distinguished as the one colony that permitted all types of religious services by people of diverse nationalities and beliefs. Others recognize Pennsylvania as a region of old cities which, to this date, show their varied cultural origins, their mountainous terrain and long winding rivers that, centuries ago, were charts for the state's rail and early dirt roads.

Those very routes, in addition to the state's physical inland location, were central to what some historians see as Pennsylvania's greatest effects on its own development and the nation's as a whole --- those have been in business and industry. The aggressive business advances that emanated from Philadelphia, the leading city of the eighteenth-century America, and the later enterprises in lumber, coal, iron and oil depended on the unique geographical advantages of the Keystone State. The chief importance of Pennsylvania in fostering its own growth and in the growth of the nation comes from its first providing the essential business basis for the industrial revolution and then taking the lead in carrying it out (Cochran, 1978, 3).

### Counties as a unit of state government

In 1776, when the founding fathers penned the Constitution establishing the United States of America, the country's total population was so small that the states could handle most of the services. In Pennsylvania, certain duties were delegated to the counties, e.g., running of jails, conducting and overseeing elections, maintaining property records and wills, administering justice through courts and sheriffs. In these and other duties, no great demands on time or finances were made. At least in 19<sup>th</sup> century Pennsylvania, county-based political power never developed to serve as a check on the power of the state. Some county officials, however, jealously guarded their territory and demanded a laissez-faire attitude on the part of state officials to let them go their own way.

During the early 20<sup>th</sup> century, county officials found themselves experiencing increased recognition of their power and importance. In the Act of May 10, 1913, the Governor of Pennsylvania approved the formation of an organization of county officials. The Act stated:

*That the county commissioner, together with the county solicitor and the chief clerk of the county commissioners of each county are hereby authorized to organize themselves into a State Association, with the Authority to hold annual meetings at such time and place within the Commonwealth as they may designate, for the purpose of discussing the various questions arising in the discharge of their duties, and for the purpose of providing for a uniform and economical method of administering the affairs of the respective county.*

The counties needed a legislative mandate to form an association that already existed because they needed the authorization to pay the expense of county officials when they attended the association's annual meeting. In the years following the association's formal authorization, the state legislature enacted other measures affecting county



government. In 1919, the division of counties into eight "classes" based on population was created, then reaffirmed by a constitutional amendment in 1923. Section 210 of The County Code, as amended in 1982, divides the counties into nine classes according to population. The Code states "For the purposes of legislation of their affairs, counties of this Commonwealth, now in existence and those hereafter created, shall be divided into nine classes as follows:

<b>1 First Class Counties</b>	<b>Population of 1,500,000 and over</b>
<b>2 Second Class Counties</b>	<b>Population of 800,000 and more but &lt; 1,500,000 and over</b>
<b>2.1 Second Class A Counties</b>	<b>Population of 500,000 and more but &lt; 800,000</b>
<b>3 Third Class Counties</b>	<b>Population of 225,000 and more but &lt; 500,000</b>
<b>4 Fourth Class Counties</b>	<b>Population of 150,000 and more but &lt; 225,000</b>
<b>5 Fifth Class Counties</b>	<b>Population of 95,000 and more but &lt; 150,000</b>
<b>6 Sixth Class Counties</b>	<b>Population of 45,000 and more but &lt; 95,000 and those having a population of 35,000 and more but &lt; 45,000 which by ordinance or resolution of the Board of County Commissioners elect to be a county of the sixth class</b>
<b>7 Seventh Class Counties</b>	<b>Population of 20,000 or more but &lt; 45,000 and those having a population of 35,000 and more but &lt; 45,000 which have not elected to be a county of the sixth class</b>
<b>8 Eighth Class Counties</b>	<b>Population of &lt; 20,000</b>

Keystone County is a class three county.

#### Modernization

After World War II, the renewed emphasis on reorganizing state government was reflected in widespread change in the structure of Pennsylvania governance. In 1945, the State Museum and State Archives were placed under the Historical and Museum Commission. In 1947, the Tax Equalization Board was created to review school tax assessments so that the burden of public education would fall evenly on all districts. In 1951, the Council on Civil Defense was created and in 1978 it became the Emergency Management Agency. In 1955, an Office of Administration was set up within the

executive branch. A government reorganization act permitted any Governor to transfer functions from one department to another, subject to the approval of the General Assembly. The Human Relations Commission was established in 1955 to prevent discrimination in employment. In 1966, the Department of Community Affairs was created to deal with matters concerning local governments. The termination in 1968 of the Department of Internal Affairs resulted in four of its bureaus being placed in other agencies. In 1970, creation of a Department of Transportation and a Department of Environmental Resources were results of an enlarged concept of the role of state government. Both had broader functions than the departments they replaced, the Highways Department and the Department of Forest and Waters.

The consolidation of two agencies into the Department of General Services in 1975 was another step in the direction of efficiency. The creation of a Commission for Women by executive order in 1975 and the replacement of the Council on Aging with the Department of Aging in 1978 both followed the trend toward serving populations segments that have special needs. As a result of a Constitutional Amendment, the Attorney General became an elected official in 1980, and that office became an independent department. The designation Department of Justice was discontinued. Within the executive branch, an office of General Council was formed to continue the old function of an attorney appointed and subordinate to the Governor. A further result of the amendment was the eventual creation, in 1984, of a separate Department of Corrections. The establishment of an Ethics Commission in 1978 and an Independent Regulatory Review Commission in 1982 was two of the many measures dealing with particular problems that have surfaced in the governmental process. The augmentation of the Department of Commerce in 1987 by the Economic Development Partnership, anticipated a more powerful economic policy. In June 1996, the Departments of

Commerce and Community Affairs were merged to form the Department of Economic and Community Development.

A series of important Constitutional Amendments culminated in the calling of a Constitutional Convention in 1967-68 which revised the 1874 Constitution. A significant provision prohibits the denial to any person of his or her civil rights. The General Assembly now meets annually and is a continuing body. The Governor and other elected officials are eligible to succeed themselves for one additional term. A unified judicial system has been established under the Supreme Court, a Commonwealth Court has been created and the inferior courts have been modernized. Broad extensions of county and local home rule are possible. In 1971, voters amended the State Constitution to guarantee that equal rights could not be denied because of sex. By an act of December 6, 1972, the State Constitution, so amended, was declared to be henceforth known and cited as the Constitution of 1968.

During the 1960s, counties entered an era of increasing responsibilities. At this time, the General Assembly amended laws affecting the creation of county institutional districts. These amendments charged counties with the responsibility of funding and administering comprehensive programs to address the needs of abused, neglected and dependent children. The changes were followed in 1966 by the Mental Health/Mental Retardation (MH/MR) Act and in the 1970s by similar legislation addressing Drug and Alcohol Programs and the Area Agencies on Aging. Before long, the need to provide new types of support to its members would change the structure of the County Commissioners' Association.

During the late 1960s, as the Commonwealth's Constitution was undergoing revision, the changes had a major affect on the operations of county government in Pennsylvania. During this same period, on the federal level, there was greater recognition of the importance of self-determination on the part of local government; the same condition was reflected in new legislation at the state level. The revision of the state constitution reinforced this trend. Until this time, all of a county's powers emanated from the state; now there was more separation from the state in many matters. Now county commissioners had more autonomy (Neidig, 1999, 5 – 8).

As this research shows, many of the first moves toward privatization of human services programs are linked to federal legislation enacted in the 1960s and 1970s. Survey data supplied by members of Pennsylvania Association of County Human Services Administrators (PACHSA) indicate that the earliest human services programs to be outsourced were in mental health/mental retardation and children and youth services.

#### Politics and Government

A close examination of Pennsylvania politics and government leads to an understanding of how local political fortunes — and the structure of Pennsylvania's local government system — affect state government and legislation and how the Commonwealth's distinct geographic differences force creative coalition building. Study of Pennsylvania history sheds light on the intra-party politics, exemplified by party caucuses, that carry much of the true power in Harrisburg. The research also underscores the state's diverse economic agendas, ranging from the agricultural interests of many small farmers to the manufacturing interests (both management and labor) rooted in industrial urban centers (*Road Map to Harrisburg*, a publication of Pennsylvania Economy League Eastern Division).

In spite of the state's economic differences, Pennsylvania has long been defined by its geography. Two large, distinct urban centers --- Philadelphia in the southeast and Pittsburgh in the southwest --- are separated by three hundred miles of turnpike, the expanse of the entire state, and the difference between mid-Atlantic and mid-Western sensibilities and lifestyles. Between Philadelphia and Pittsburgh are nearly six million people who live in a variety of small and mid-size cities, the nation's largest rural population, and vast expanses of undeveloped land. The balance of the state often is referred to as the "T," referring to the shape of the Commonwealth with the southeast, occupied or influenced by Philadelphia, and the southwest, occupied or influenced by Pittsburgh, are removed from the configuration. For many observers, understanding these characteristics of Pennsylvania's geography is an aid to understanding its politics. Not unlike national economic, social and/or political issues, Pennsylvania is often defined by the geographic region they are perceived to benefit. Common is the phrase, "That's a Pittsburgh thing," or "That's for Philadelphia." The reference is frequently heard in conversations dealing with large public-sector programs or capital projects. In fact, hefty expenditures in one of the cities is often balanced by an equally substantial infusion of funds for the other.

Their differences aside, the two major cities do share some common factors that are useful in understanding Pennsylvania's political life. Both cities have had long histories of single-party dominance. For a large portion of the 1900s, both Pittsburgh and Philadelphia were Republican controlled. In recent years, the cities have become Democratic strongholds, with one-party rule the norm. This, in spite of the fact that Pennsylvania is predominately Republican; 45 of the 67 counties, or 67%, are governed by a Republican majority.

Republican dominance reflects a full-circle movement from the time of the New Deal when the rising influence of labor the growing urbanization of the state ended a long period of Republican control. In stride with the New Deal, Democrats fielded a successful gubernatorial candidate in 1934 but Republicans dominated the next four gubernatorial elections. The Democrats, however, took control of Pittsburgh in 1933 and Philadelphia in 1951 and achieved electoral majorities in seven of the 11 Presidential elections from 1936-1976. In 1954 and 1958, Democrats held the Governor's seat; Republicans won the Governor's race in 1962 and 1966. In 1970, Democrats elected the Governor and regained control of the legislature for the first time since 1936. The Democratic Governor was re-elected in 1974. In 1978, Republicans regained the Governorship and held it until 1986. By 1980, Republicans became the majority party when, in addition to the Governor's slot, they held both U.S. Senate seats, supported President Ronald Reagan's candidacy in 1980 and won majorities in both houses in the state legislature. In 1986, Democrats elected a new Governor and re-elected him in 1990. In 1992, Democratic majorities were returned to both houses of the General Assembly for the first time since 1978. Continuing the rotation between the two major political parties, then U.S. Representative Tom Ridge, a Republican, was elected in 1994. In 1995 and 1996, the majority in the House of Representatives switched from Democratic to Republican by the shift of one seat, but the November 1996 elections gave Republicans a five-member House majority and they maintained their majority in the State Senate. Republican Governor Ridge was re-elected in 2000; in 2002, he resigned his office to accept President George W. Bush's appointment as Director of Homeland Security. Lieutenant Governor Mark Schweiker completed Ridge's term of office. In 2002, Democratic candidate Ed Rendell defeated Republican Mike Fisher; Republicans retained their majority in the House and Senate.

### Geography

The geographic dynamics of the state play a part in effective advocacy in Pennsylvania politics. Many a budget or legislative deal has been crafted by a coalition of various geographic interests; examples of such alliances include farm areas and suburbs, the aggregate force of the entire state against Philadelphia, or even urban and rural against the more affluent suburbs. Geographic tradeoffs similar to "if Pittsburgh, then Philadelphia" are often required. A program that benefits urban areas might have to be offset by something that helps the state's smaller communities. An attempt to balance also is evident in the state's gubernatorial races. Most often, the candidate for governor and the candidate for lieutenant governor will hail from opposite geographic locations. Not surprisingly, the basics of building coalitions in a state as diverse and large as Pennsylvania require tradeoffs, balances, and carefully crafted compromise (*Road Map to Harrisburg*, a publication of Pennsylvania Economy League Eastern Division).

Not unlike the state as a whole, Pennsylvania counties build coalitions within and beyond their respective borders. Among those coalitions are partnerships with private sector agencies and organizations on whose resources counties rely to deliver an array of public services. Keystone County offers a useful, "illustrative case" (Yin, 1994) for examining the theory underlying such partnerships forged in adoption, selection and performance measurement of outsourcing arrangements. Stated differently, one could argue, examining the practice reveals the theoretical foundations on which the former is based. In Keystone County, we find an example of the Principal/Agent Theory where, the county, as agent for the state in delivering mandated services, in turn, chooses its own agents to provide human services to citizens in need. In practice, we find a strong inclination to privatization of public services, as the county opts to outsource delivery of

services through contracts that establish partnerships with private for-profit and private nonprofit entities. In doing so, Keystone County exhibits a high commitment to accountability, a clear reliance on the contracting process and a strong pattern of attention to contract monitoring as a means of measuring performance of its outsourcing providers. This account of Keystone County begins in Part I with a detailed overview of the practice of outsourcing in one programmatic unit within the county's human services division. The theoretical implications are addressed in Part II. Implications for further consideration are outlined in Part III.

If, as the saying goes, a picture is worth a thousand words, then a case study is worth at least that many pieces of data. Charts, graphs and tables portray the concise, tidy details of research but voices of human experience, interactions with and observations of people, and accounts of the exchanges bring the statistics to life. Unlike a photograph, numbers tell a story that is incomplete without description and explanation that convey perspectives, opinions, experiences and insights. Problems presented. Plans devised. Actions taken. Lessons learned.

The work of government cannot be separated from the people who govern --- those who tackle the problems, devise the plans, take the actions and apply the lessons learned. In this case study, the work of one department in one Pennsylvania county (anonymously depicted) provides the focal point for a closer examination of performance measurement of outsourcing providers, one of the three focus areas of this study. As the case indicates, Keystone County pays particular attention to the terms of the contract in its monitoring and performance measurement. As interviews with other counties in this study indicated, Keystone County has chosen to "steer" rather than "row" the governance process. In doing so, county officials rely on an array of navigational crew



and instruments --- laws, rules, regulations, mandates and human resources --- intended to set, guide and, when necessary, adjust the course of the large, expensive, sometimes unwieldy craft that is county government. What follows is an examination of a selected section of Keystone County's log --- *performance measurement of outsourcing human services programs.*

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### *PART ONE – THE PRACTICE OF OUTSOURCING*

Keystone County has a long history of outsourcing to deliver human services programs. For more than 25 years the county has used this privatization approach to deliver services that it is mandated to provide. The top three factors the county considers when deciding to use outsourcing providers for human services programs are (1) the county's history with the service provider; (2) its limited county staffing capacity and (3) program innovation. See Exhibit VI-1, next page, for a comparison of Keystone's top three factors with all PACHSA responses to this question.

According to the PACHSA member interviewed for this study, the county looks at how long it has worked with a service provider and what the prior relationship has been. Staffing capacity is an issue, the PACHSA member said, because the county needed to expand services and could not take on additional staff. *Here, Keystone County's experience supports two of the research hypotheses: counties that use outsourcing providers have had past cooperative experiences with program providers (Hypothesis-A) and that counties use outsourcing providers in order to deliver specific services that the county is not adequately staffed to provide (Hypothesis-C).* The county looks to

outsourcing providers for delivery of innovative service plans because, in his experience, service providers outside the public sector are able to be more flexible than the County with its civil service constraints. (The Keystone County official was one of only six PACHSAs (22.2% of all PACHSA respondents) to include innovation among their top three considerations when deciding to outsource. Although other PACHSAs cited civil service restrictions as a reason to outsource services, few directly linked this factor with innovation.)

**Exhibit VI-1**

<b>Top three factors considered when deciding to use outsourcing providers</b>		
<b>Keystone County</b>		<b>All PACHSA responses</b>
History/prior experience with provider	<b>1</b>	Cost of providing service
Limited county staffing	<b>2</b>	Limited county staffing
Program innovation	<b>3</b>	Positive past experience with outsourcing

According to the PACHSA member, program providers can be more innovative, they can do what government cannot always accomplish because providers are not tied to the rules and regulations of civil service. When Keystone County looks outside the public sector for outsourcing providers for human services programs, officials issue requests for proposals, one-time-only competitive grants and purchase of service agreements. Because the county often uses what the PACHSA member called "locally grown" providers, long-standing relationships with providers also are taken into consideration when contracting for services. *In this instance, Keystone County's experience does not support Hypothesis D: Counties that use outsourcing providers to deliver human services programs more often choose program providers based on established working*

*relationships rather than on formal competitive bidding procedures. Even though the private sector relationships are considered, Keystone County adheres to an established RFP process. As part of the decision-making process of selecting outsourcing providers, county staff and advisory board members meet with service providers to discuss proposed services. The advisory board is a representative group of stakeholders established by the county commissioners to comply with state regulations. During these sessions, all present — county representatives, advisory board members and service providers — have the opportunity to ask questions and clarify information.*

*Once a contract has been executed, Keystone County officials focus on performance measurement, using goals and objectives outlined in the contract as the basis of assessment. The PACHSA member cited contract monitoring, site visits, program audits, some fiscal audits, and written reports from outsourcing providers. Here Keystone County's experience supports Hypotheses E. Cost of service is a main consideration for Keystone County and officials do use outsourcing providers' adherence to contract budget as a primary measure of performance outcomes. Going beyond the options given in the survey, the PACHSA member summarized what he called "compliance criteria" that had evolved as the county monitored its contracted service providers. Of all the PACHSA interviews, this member was the only one to outline such an approach. See Exhibit VI-2, next page.*

*The criteria include providers' attendance at meetings when requested by the county; provider attendance at county advisory board meetings to report on their county-contracted programs; the number of consumer complaints or compliments received by the county; a providers' ability to bring additional funds to the table; and providers' efforts*

## Exhibit VI-2

**Keystone County's compliance criteria  
for outsourcing providers**

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- Meeting attendance
- Attendance at advisory groups to report on programs
- Number of complaints, letters of reference
- Bringing other funds to the table
- Self-monitoring

at self-monitoring and self-monitoring reports that providers compile on their own.

Consistent with the data from all counties, Keystone County contracts with more nonprofit corporations than for profit corporations as outsourcing providers and has been contracting with the nonprofits for longer periods of time. *Still, Keystone's experience did not support Hypotheses G and H. Keystone County's levels of satisfaction with nonprofits vs. for profits were not significantly different (H-G) and Keystone did not report that nonprofit corporations were more cost-effective than for-profits as outsourcing providers (H-H).*

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The PACHSA member's articulation of Keystone County's compliance criteria and his referral to a county programmatic unit that exemplified the characteristics favorably positioned Keystone County for further research as the subject of the case study planned for this research project.

In response to the researcher's interest in more closely examining application of Keystone County's compliance criteria, the PACHSA member recommended contact with a programmatic unit within the human services department. Subsequent contact with the administrator of the programmatic unit provided the researcher with opportunities for first-hand observation of and interviews with the unit's advisory board, the board's three committees and program providers with whom the programmatic unit contracts for service delivery. The scope of this case study includes Keystone County's human services division, one of the division's programmatic units, the unit's advisory board and the program providers with whom the programmatic unit contracts.

*In order to collect information, short questionnaires were prepared and used as the basis for interviews with the PACHSA member, the administrator of the programmatic unit, advisory board members and program providers. In addition, the researcher attended two monthly meetings of the advisory board, a meeting of one of the three board committees, a community program conducted by another of the board committees, and an on-site meeting with one of the program providers. During the course of the case study, the PACHSA member who completed the research survey and was interviewed retired; his successor also was interviewed by the researcher.*

#### History and Structure of Keystone County Advisory board

Keystone County Advisory board was formed in accordance with provision of a Pennsylvania law passed in 1972. The board's purpose is to support the administration of this program unit and similar units throughout the Commonwealth and to seek input from citizens and professional groups. Guidelines call for the advisory board to be comprised of 13 individuals from various professions including health care, education, business, industry and human services. Membership must include representatives of

the minority community, the population served by the program unit, as well as those less than 25 years of age. Board membership is set at two consecutive three-year terms. A member may serve a third term pending approval of a request for a waiver submitted to the state-level department overseeing this program area. While other counties have advisory boards in place, interviews with Keystone County human services department administrators made clear the fact that the county had adopted not just the letter but the spirit of the law. From the outset, the department head, a seasoned professional committed to the task at hand, embraced the concept of broad, diverse representation and hands-on involvement. Together with a small group of like-minded, equally determined colleagues, the first department head sought out other professionals in various fields. The nascent group assessed community needs, devised and implemented plans to address the identified needs and, according to the county representatives interviewed, set the purposeful pace and high expectations that shape the stakeholder group to this day.

The advisory board works directly with the administrator of the programmatic unit who sits on the board along with the unit's fiscal officer. A member of the programmatic staff and the department secretary attend the monthly meetings. The administrator of the programmatic unit and the department director also attend meetings of the advisory board which, ultimately, is responsible to the county commissioners. In order to facilitate the exchange of information between programmatic units within the department, a representative of another programmatic unit serves as a liaison to the advisory board.

Leadership positions on the advisory board include chairperson, vice chairperson and secretary. Advisory board members serve on one of three committees, referred to as Committees 1, 2 and 3 for the purposes of this study. Committee 1 oversees selection

of program providers, distribution of the county's programmatic funds, and contract monitoring. Each year, throughout March and April, Committee 1 conducts meetings with local service providers that have responded to the programmatic unit's call for proposals. Members of Committee 1, along with the unit administrator, the fiscal officer and the program specialist, sit with agency representatives for a detailed review of program and budget submissions. At this time, all three parties --- advisory board members, staff and program provider --- have the opportunity to discuss the provider's proposal, clarify material, and ask and answer relevant questions. Committee 1 requires providers to prepare and submit objectives for the coming year; these are then used as a guide.

Committee 2 screens and recruits potential advisory board members. The committee's selections are then submitted to the full advisory board, which approves and elects, then sends the slate to Keystone County Commissioners who officially appoint the members. Potential members must complete financial disclosures to assure there is no conflict of interest involving the county. Committee 2 sets the slate of officers for the advisory board itself and recruits chairpersons for the board's three committees. Although the informal structure sees members "moving through the chairs," the formal process involves asking a member to serve and then presenting the slate for vote of the full advisory board. Elections are held on an annual basis.

Committee 3 assumes responsibility for networking with local, regional and state legislators in program-related matters. Once a year, this committee hosts a breakfast meeting that attracts nearly 100 guests. The program features a keynote speaker and panelists, including legislators, professionals and community members.

In addition to their committee work, advisory board members are involved in contract monitoring in several ways. Providers attend monthly meetings of the advisory board and give program updates. During the course of the year, the board holds at least one meeting at a provider's location. The board also invites a consumer of a particular provider to attend a board meeting; the consumer is asked to talk about her/his experiences with the provider's programs. Members of Committee 1 meet with providers who have submitted proposals for funding. The meetings are held during March and April, after the proposal submission deadline and before funding decisions are made.

#### The Contract as a Principal Monitoring Tool

Central to the findings of this study is the importance of the executed contract in the monitoring process. Of the 30 PACHSA members responding to this study, 13 (43.3%) listed the contract document, 12 (40.0%) named the proposal document (most often included as an attachment to the contract) and 10 (33.3%) cited a standard monitoring document (most often directly reflecting terms of the contract) when asked for the criteria their respective counties used to conduct contract monitoring. Four of the 30 PACHSAs (13.3%) reported using all three — the contract document, the proposal document and a standard monitoring tool. Four of the 30 (13.3%) cited the contract document and the proposal document and one of the 30 (.033%) used the proposal document and a standard monitoring document.

In Keystone County, the PACHSA member reported using all three documents — the contract, the proposal document and, where applicable, a standard monitoring document. (See Endnote 1.) Formal monitoring occurs at least once during a program year, usually midway through the 12-month period. As observed first-hand by the researcher, and recorded in this account of the Keystone County Advisory board, the



group adheres closely to the outsourcing contracts it issues as the group carries out its state mandate to oversee the use of state funds awarded to program providers.

In practice, Keystone County reflects steps of the contracting process laid out by Peat and Costley in their article, "Effective Contracting of Social Services" (2001, 55-74).

The authors designed a study to examine empirically the process of contracting using a blend of a systems model and a management model. One of their research questions explored how a government funding agency can structure the contracting process to increase the probability that desired outcomes would be achieved (2001, 56). As a result, they identified five stages that begin after the decision to contract out has been made. According to Peat and Costley, the stages are as follows:

*STAGE 1 - Sending out Requests for Proposals (RFPs)* – In the RFP, the funding agency specifies what is required of the contractor to reach the goals and objectives. Without this information, the prospective contractor can only guess what is expected. Specifications commonly given in the RFP include information related to costs, units and type or category of service delivery (Peat and Costley citing DeHoog, 1986; Donahue, 1989; Kettner and Martin, 1995; Kramer and Grossman, 1987; Paulson, 1988; Terrell and Kramer, 1984; Wedel, 1980; Wedel and Colston, 1988). Specifications are connected to goals and objectives and need to be spelled out clearly so potential contractors can develop their proposals to match the goals and objectives of the funding agency (2001, 57). In their proposals, prospective contractors state how they plan to provide services to meet the goals and objectives of the funding agency, as they are stated in the RFP. Information frequently included is the cost of providing services, the number of units of service to be delivered (in social services, usually depicted as contact hours), and the type of services to be delivered (that is, individual, family, or group)

(Peat, Costley, pp. 57, 58). Gronbjerg (1993) states that "the process of writing proposals serves to force agencies to clarify goals, specify strategies, and articulate expected outcomes" (p. 214).

*STAGE 2 - Reviewing proposals* – The funding agency assesses the proposals and determines which will be recommended for funding. A common means by which proposals are rated is through a point system where various sections addressed in the proposal are weighted, with all sections equaling 100%. The awarding of points is commonly based on the extent to which the proposal addresses the requirements as depicted in the RFP. (Often, the RFP will designate the points that will be awarded to various sections.) Recommendations for funding are often based on the score a proposal received, which is usually depicted as an overall percentage of points. However, if specifications are clearly spelled out in the RFP, and the proposal rating system is constructed using these specification areas, objectivity may be increased (Peat, Costley, 2001, 58).

*STAGE 3 - Negotiating and structuring contracts* - Through the contract negotiation stage, the funding agency and prospective contractors can arrive at clear and detailed specifications of requirements. Contract wording is generally developed from specifications detailed in the RFP. However, the final outcome can depend a great deal on the negotiation process. Sometimes proposal specifications do not accurately reflect the goals and objectives as given in the RFP, and yet the contracting agency finds merit with the proposal. Consequently, contract negotiations can lead to a document that modifies the original intent of the contracting agency and proposed intent of the contractor for the sake of reaching a workable agreement. This will result in a contract with specifications that are different from the RFP (Peat, Costley, 2001, 58).

*STAGE 4 - Monitoring and evaluating service delivery* - The funding agency attempts to determine whether the goals and objectives have been or are being met. As with the previous stages of the process, the funding agency usually documents the information gathered during this stage. Through monitoring and evaluating, the funding agency attempts to determine whether the goals and objectives have been met. As other researchers have noted, this can be problematic if the goals and objectives were never clearly stated or if there was not agreement between the funding agency and the contractor on what those goals and objectives were (Peat and Costley citing Bachman, 1994; Donahue, 1989; Fisk, Kiesling, and Muller, 1978; Hardina, 1991; Jansson, 1989; Kettner and Martin, 1985, 1993, 1995; Pack, 1987; Paulson, 1988; Richter, 1993; Sundquist, 1984; Terrell, 1979; Terrell and Kramer, 1984). Here the importance of the previous two stages is underscored; if a contract was awarded without thorough review or if the negotiating process was flawed in any way, monitoring and evaluating services can be adversely affected.

*STAGE 5 - Renewing/terminating or discontinuing contracts* - In this fifth stage of contracting, decisions are made relevant to the renewal and discontinuation of contracts. Ideally, these decisions would be based on the results of the objective monitoring and evaluating of activities. However, as some researchers have concluded, certain contractor characteristics such as the size and the experience of the contracted agencies may play an indirect role in making these decisions (Peat, Costley, 2001, 59).

As shown in Exhibit VI-3, next page, Keystone County's contracting process reflects each of these stages and includes related constituencies in the process.

## Exhibit VI -3

**When the decision to contract out has been made,  
the contracting process begins.**

<b>The Contracting Process</b>	<b>Keystone County</b>	
	<b>includes</b>	<b>involves</b>
<b>1 Sending out requests for proposals</b>	√	Program administrator, staff
<b>2 Reviewing proposals</b>	√	Program administrator, staff, advisory board
<b>3 Negotiating and structuring contracts</b>	√	Program administrator, staff, advisory board, providers
<b>4 Monitoring/evaluating service delivery</b>	√	Program administrator, staff, advisory board, providers
<b>5 Renewing/terminating/discontinuing</b>	√	Program administrator, staff, advisory board

**Peat, Costley, 2001**

### The Advisory Board Conducts Business

At 8 a.m. on the second Thursday of every month Keystone County advisory board convenes to attend to business. On this winter morning, a first floor conference room in a county office building is packed. Advisory board members, staff members and program providers gather around a rectangle of long, narrow tables. Punctuality is expected, so the late comers are few; those already seated squeeze closer, making room for the more recent arrivals and extra chairs, borrowed by a staff member from another room. The minute hand of the clock has swept past 12; the advisory board chairperson, centrally seated, calls the group to order. Introductions follow. Six of the nine current advisory board members are present; all but one of the 16 program providers is represented. The administrator of the programmatic unit, program specialist and secretary also are at the table. As always, the agenda will guide the course of the proceedings which, for the convenience of all present, are held to one hour. Following this meeting, the advisory board will stay for an information session on a topic related to the unit's services. The information session, collaboratively prepared and presented by staff members of three program providers that have county contracts, has been designed to raise the awareness and better inform the advisory board about current events and activities. Such sessions, according to the programmatic unit administrator, are presented regularly to update advisory board members.

Introductions complete, the chairperson introduces a representative of one of the program providers with whom the county contracts for services. As previously scheduled, the woman describes the work of her agency. A question and answer period follows during which Board members and staff ask for clarification or additional information about the provider's presentation. Next, the chairperson begins the round of updates from the program providers concerning their respective programs funded with

county dollars. Given the meeting's timeframe, the providers are asked to focus on "critical issues only." One by one, provider representatives report on numbers of consumers served, staff vacancies and the efforts to fill the positions, special events scheduled and other program developments. The reports, each recorded on a handheld tape recorder passed from person to person, prompt questions from advisory board members and county staff members. Time also is given for group discussion of general concerns, among them consumer impact of forthcoming changes to state programs.

The provider reports are followed by updates from chairpersons of each of the three advisory board committees. The chair of Committee 3 reports on the upcoming breakfast meeting, an annual event that for the past several years has been sponsored in conjunction with a neighboring county. The chair announces the date, time and location and provides details about the program topic, the guest speaker and the panelists. From the advisory board's perspective, the annual breakfast is an effective means of capturing the attention of state, regional and local legislators who are positioned to promote legislation and support funding that benefits services provided by the county. Each year, the forum attracts state senators, state representatives, local elected officials, representatives from the judiciary, law enforcement and criminal justice as well as program providers and the community. The breakfast is also the stage for recognizing a volunteer for exceptional service.

During the report from Committee 2, the chairperson introduces a potential member of the Board. The chair of Committee 1 announces upcoming sessions with program providers who have responded to the request for proposals recently issued by the county. Committee members will join staff members to conduct 30-minute review sessions with selected applicants. The sessions are scheduled throughout March and April at a county office.

Wrapping up the morning's business is a report from the administrator of the programmatic unit who, throughout the proceedings has fielded questions from those present, clarified points of discussion, and interjected related thoughts and information as the others have reported. The administrator provides updates on staff work, talks about assignments in progress, presents information from and about state funding sources, and reminds the group of upcoming meetings and events. She announces that an upcoming board meeting will be held at one of the program provider's sites. Such visits allow advisory board members to see first-hand a funded program in operation; they meet staff members, tour the facility and see county dollars at work. The program administrator concludes her remarks with a distribution of a two-page summary of related business. As copies of the administrator's summary make their way around the table, the advisory board chairperson opens the floor for questions and comments. Those made, the chairperson reminds board members of the in-service that will immediately follow and adjourns the meeting.

#### Advisory Board Members Discuss Their Roles in Contract Monitoring

Interviews conducted with five of the advisory board members reflect a genuine interest in and commitment to their work as volunteers and community representatives. Their responses to survey questions (See Appendix F for a copy of the survey questions) reveal a strong connection with and, to some extent, reliance on the staff, particularly the administrator, of Keystone County's programmatic unit. Questions concerning the history and purpose of the advisory board often were referred to the unit administrator. Inquiries about board composition, decision-making, leadership within the group and the board's role in contract monitoring prompted individual perspectives reflecting a person's tenure on the board, familiarity with program issues, and any

first-hand experience they had with contract monitoring, program delivery and finance. Of the five, two are employed in the private sector; one is self-employed; two have retired from the private sector.

Francis is in his sixth year on the advisory board. He is the current chair of Committee 3 and a former member of the Committee 1. Victor, a member since 1999, services as vice chairperson of the board. Michael, now in the third year of a three-year term, is immediate past chairperson. He has served on Committee 3 and is now on Committee 1. Mary, the current advisory board chairperson, is completing her first three-year term. Mark, a brand new member, serves on Committee 1. Citing his short time with the board, Mark did not respond to the entire board survey; he did, however, supply copies of related information from his board orientation materials.

Of the four who did complete the advisory board questions, all agreed on the importance of monitoring as a means of measuring performance. "Providers know that they have to comply with the regulations; they have to show performance to qualify for funding," Francis pointed out. "Providers know that 'outsiders' have the power to question proposals," Michael said. The board can ask questions of the program provider's staff or they can address their questions to the county staff, on whom, he said, the board relies. "It's amazing, the power of the purse strings ... but in the end, everybody in this [contracting process] is trying to do the right thing," Michael remarked.

From Victor's perspective, the monitoring process is effective because providers must address the problems identified and return to the board with solutions. He realizes the board, in its advisory capacity, does not have the power to withhold funding; however, providers know they must have answers for the board, he said. According to Mary,



quality assurance is key to the monitoring process. The board gets to see if a provider is meeting its established goals, information that is important to know because, she says, [funding] and the monitoring process go "hand-in-hand."

Although advisory board members are satisfied with the monitoring process, Victor said they see it as an evolving process, hence they continue to look for ways to improve contract monitoring. The issue comes up every year, according to Mary. As a result of one year's review, members realized that they did not have a history of each organization that received funds. Now they have a spreadsheet summarizing each organizational audit; they can make notes, summarize meetings and track performance, Mary said. The spreadsheet was used for the first time in 2000-01 and again for [subsequent] monitoring.

Time constraints prevent the advisory board from interviewing all providers who submit proposals. Those who are called for interviews are not notified until after the proposals have been submitted, Mary explained. Coming from one who goes through each proposal with a highlighter, paying special attention to the unit cost figures, Michael would like to have more time. Although preparing for the provider meetings and conducting the sessions are time consuming, he said that additional time would allow advisory board members to meet with more of the providers to discuss their proposals.

Demanding though the work of allocations and monitoring may be, the advisory board members who responded to the survey and were interviewed favored outsourcing to the private for-profit and/or nonprofit sectors rather than have services delivered by the public sector. Government is large enough as it is, the advisory board members concurred. If the county programs that are outsourced were provided by county

employees, the process would be more involved and extremely expensive, Victor said. Keeping services in house would require creating a level of middle management and that, he said, would be a waste. Outsourcing is more efficient, he maintained. In Mary's opinion, the scope of county government should be limited; "bureaucracy just gets in the way," she said and Francis agreed. "If the county did provide the services, a whole other bureaucracy would be created at the county level," he said.

Beyond avoiding additional levels of bureaucracy, outsourcing services affords the county access to what Mary termed "a huge network of resources for the people to access." More providers mean more resources, therefore, services can reach larger, more diverse populations, she maintained. Francis sees the providers having more expertise in [specific] services; for Michael, providers can deliver services more efficiently. If there is a downside to outsourcing, the latter said, it is in the area of accountability. A provider could develop an attitude that "this isn't my company." Listening to the programmatic unit administrator discuss provider relations one could conclude that such a detached attitude is unlikely.

#### Monitoring from the Program Administrator's Perspective

According to Grace, administrator of the programmatic unit studied, Keystone County has a very close relationship with program providers. With some, she speaks daily. Her programmatic unit holds providers more accountable than other county departments, Grace said, because the state-level department holds local offices to high levels of accountability. In her view, when it comes to contracting and monitoring, the state-level department to which her unit reports is the most aggressive state office. That stance and the resulting process keep everybody honest, she adds.

The county's monitoring process began with the monitoring tool used by the state-level office that monitors the county programs. About 10 years ago, Grace revamped it. She sees monitoring as a technical assistance tool, not an occasion to slap wrists. In addition, monitoring provides an opportunity to be sure providers are following licensing standards. If the program administrator could change anything about the monitoring process, she would alter the frequency. Monitoring twice rather than once a year is "not a bad idea" because going a full year without a review can result in potentially problematic issues with providers being overlooked.

All in all, in Grace's estimation, Keystone County's experience with outsourcing arrangements has been favorable. The process presents fewer personnel problems, she maintains; therefore, county staff members can devote most of their time to program [management] issues and the outsourcing providers devote most of their time to program delivery. From a performance standpoint, she says the county has been "very lucky" with service provision from both the for-profit and nonprofit sectors. Differences between the sectors that are apparent to Grace appear in relationships with consumers and with legislators. Nonprofits have more sensitivity to consumer needs and more interaction with legislators, she said, citing the advisory board's annual breakfast meeting where program providers can bring their concerns directly to legislators. For-profit corporations are not as aggressive with legislators, she believes; they need to interact more with elected officials.

#### Monitoring from the Program Providers' Perspective

During in-person and telephone interviews, representatives of five program providers with whom Keystone County contracts reported their experiences with the county's monitoring process. All five programs provide the same or similar services.

Each reported an annual monitoring visit; for one of the five, Keystone County's monitoring visit coincides with contract monitoring by another of its County funders. For one of the five, Keystone County is the primary funding source. Of the five agencies, three are nonprofit corporations; two are for-profit entities. Although program providers described the process differently, the differences were not related to an organization's corporate status.

As outlined by one of the program providers, Keystone County monitors the overall program, including chart review, examination of invoices submitted, record keeping and auditing procedures. Where Keystone and another county monitor together, files of five residents from each county are selected by program staff. Other program staff said county monitors randomly selected client files. One of the program providers saw the monitoring process related to goals and objectives contained in the work plan his agency submitted to the county; another noted less discussion of goals and objectives and more attention to state guidelines. Another, noting the similarity to state monitoring, termed the process "very subjective," adding that the process "depends on the monitor and a monitor's interpretation."

Among the five program providers interviewed, differences of opinion existed about the focus of the monitoring process. One provider saw monitoring as process and task – oriented, looking more at administrative functions than service delivery to consumers; two providers cited feedback given to them during the monitoring process as ensuring [professional] quality of service delivery. One of the two who identified quality assurance features mentioned that a monitor's assistance assured that [professional staff] were targeting observable and measurable goals included on [consumers' service] plans; the monitor also suggested that professional staff be trained to engage collaboratively with

the consumer in planning the [service] process, thus increasing the likelihood that the consumer would invest and engage in the process.

The program providers had different reasons for the effectiveness of the monitoring process, attributing it to third-party feedback, exclusive attention, a personal (not punitive) relationship with the county, suggestions for improvement, the county's assistance when difficulties arose, and the use of the monitoring visit as a preparation for state monitoring. The most important reason that the monitoring process is effective, one provider stated, is the high quality staff who complete the monitoring; they are knowledgeable and able to provide excellent feedback, she said. Asked what changes they would make in the monitoring process, providers suggested more focus on [certain] aspects and less attention to policy review because it is done by state licensing monitors; monitoring twice rather than once a year (the program administrator's preference, as well); and adding a qualitative component that is outcome oriented. Looking closely at the services consumers are receiving, one provider said, would add information that is not included on [consumer records]; pulling and reviewing [records] does not tell the whole story, she maintained. One provider noted the difficulty of meeting the multiple and diverse needs of its many funders, including insurance companies and other organizations. Often times, she said, when one funder requests a change, her organization makes a blanket change just to make life more manageable.

#### Making the Contracting Process More Manageable

Improving the efficiency and effectiveness for all involved motivated Keystone County's new department director to review and revise contracting process, including monitoring. Prior to accepting the position, Robert served as a county elected official. For most of his years in elected office, Robert served as chairperson of a committee

directly related to the department featured in this case study. As part of a county-level initiative to examine operational and organizational effectiveness of county programs, Robert and the PACHSA member he would later replace held monthly committee meetings that included presentations by major service providers or discussions concerning something of interest in the department. Robert took the information gleaned at the monthly committee meetings back to higher level county meetings where his detailed reports served to keep other elected officials informed about the county's programs. Shortly after accepting his new position as head of the county department, (following the retirement of the PACHSA member originally interviewed for this study), Robert (who resigned his elected position to accept the PACHSA job) initiated a study of the department's contracting process.

Specifically, Robert was interested in incorporating more quantifiable performance measures into department contracts. In order to accomplish this end, he worked with the department staff to include in contracts more definable outcomes. The sheer number --- approximately 700 contracts --- warranted more efficient preparation and monitoring practices, Robert contended. As a result of the contract study, several changes were made. The county revised the contract format, establishing a uniform boiler plate. Now, multi-year contracts (usually three years) are issued. The contracts, which serve as the principal monitoring tool, contain clear, quantifiable outcomes against which the performance of contractors can be measured.

Before the changes, a specific database was not used, contracts were not consistently formatted and several attorneys were needed to review all the agreements. Because of the analysis of the contracting process, the county's Director of Administration developed software and created a centralized database. Every contract now goes into

the management information system with an assigned number; contract changes can be made only within the database. Now, one attorney, on a part-time basis, is responsible for reviewing all contracts. The end result --- Robert's intended outcome for the contract analysis --- is a more uniform, cost-efficient procedure that is more effective in monitoring Keystone County's contracts (as principal) with service providers (the agents). In turn, according to Robert, the county, as an agent of the state, is better prepared for its monitoring sessions conducted by the state-level agencies, the principals.

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#### Compliance criteria --- description vs. practice

As interviews for this case study were conducted, the compliance criteria first articulated by the PACHSA member (outlined in Exhibit VI-2, page 178) served as a touch point for comparison between what was *described* and what actually happened. As might be expected, some differences were apparent between the "saying" and the "doing;" between the description given by the PACHSA member, whose responsibilities as a department head placed him once-removed from the actual implementation of the criteria, and the actual application of the criteria as evidenced in the work of the program staff and advisory board.

With one exception, case study interviews confirmed that the criteria as articulated did indeed accurately describe the actual process, viz:

- *Outsourcing providers do attend meetings when requested by the county -* meetings can be to review proposals, to update county staff members on recommended or required program modifications, to address specific performance issues brought to the attention of the county staff.

- *Providers do attend county advisory board meetings to report on their county-contracted programs –* at each monthly meeting, providers report on contract-related issues, including accomplishments, setback and concerns. Advisory board members, staff and other providers have the opportunity to ask questions, share information and/or clarify points of interest.

- *Numbers of consumer complaints or compliments received by the county are considered -* specific examples of consumer complaints or compliments did not arise during the course of the case study, however, interviews with staff and providers did confirm that avenues did exist for such information to reach the county staff, whether directly from the consumer or indirectly, through information contained in reports or observed on site visits.

- *Providers' efforts at self-monitoring and self-monitoring reports that providers compile on their own -* this measure was not specifically mentioned, although advisory board members and staff were aware, as a result of reports made at meetings, written reports filed by providers and examination of files during on-site visits, of other monitoring and self-regulatory practices of providers.

- *Providers' ability to bring additional funds to the table –* this measure did not



appear to be a consideration in the contracting process. It was not explicitly mentioned by advisory board members, staff or providers. Implicitly, it would appear to be a factor given the close attention to financial accountability and fiscal responsibility in the use of county funds awarded to outsourcing providers.

### A Conceptual Matrix of Keystone County's Monitoring Process

Keystone County elites employ a comprehensive monitoring process to measure performance of outsourcing providers, but their attentiveness to outcomes does not stop there. The county officials, administrators, staff and program providers also keep a close eye on the performance of the monitoring process itself. What works? What needs improvement? In short, how effectively are they steering? Is this craft of county government on course? Exhibit VI-4 on page 203 is a conceptual matrix as suggested by Miles and Hubermann (1994, 127, 130); the matrix presents an overview of Keystone's monitoring process as related by those interviewed.

Overall, the advisory board members are satisfied with the effectiveness of the monitoring process. When problems are identified, the board addresses the situation with the provider involved. The providers, who understand their accountability to the board, must then address the problem and return to the board with solutions. Board members value their ability to ask questions of the providers and to confer with county staff members who may be better versed on a particular situation. Because the process is ongoing and board members are involved year round, they have a good idea about providers' attention to and attainment of goals. Providers know that they must comply with regulations and show performance to maintain funding and qualify for future contracting opportunities. If an improvement to the monitoring process were to be made, more time would be available to meet with providers and review their proposals. Allocations and monitoring go hand in hand for the Keystone advisory board whose members see quality assurance as the key.

Program providers agree that the monitoring process adds to quality assurance and cite the competence of and "excellent feedback" from county staff who conduct the

monitoring. The providers value the third-party input and the advice and assistance from the county staff. Some providers would add a qualitative component that would draw more attention to clinical aspects of their work. The monitoring process is only effective in picking up required tasks that are not being properly documented. A recurring comment from providers related to the many and often conflicting regulatory requirements from their many funding sources, both public and private. Interpretations of the same guidelines --- confidentiality, for example --- can vary from funder to funder. If monitors could adhere to exactly the same guidelines, what providers term "unnecessary and time-consuming modifications" could be reduced or eliminated. Because county monitors see so many programs, one provider reflected, they are ideally situated to compile and publish a "best practices guide" (complete with what he called "all the good forms"). Overall, the providers appreciate the exclusive attention that monitoring affords and see the process as "another avenue for expression." To improve the process, one provider --- the only one "very satisfied" --- would have more frequent monitoring, with two rather than one yearly meeting.

More frequent monitoring would suit the unit manager just fine. She would prefer two annual visits rather than one, the current arrangement. On one hand, she sees monitoring as a technical assistance tool, not an occasion to "slap wrists." On the other, she views the process as an opportunity to ensure that providers are following licensing standards. The process, she says, keeps everybody honest.

Performance, as opposed to compliance, is a main concern of the head of this Keystone County department. Revisions and streamlining of the contract format now assure that quantifiable performance measures are clearly stated in the document. Ongoing

education will improve the monitoring process because all involved will be more aware of outcomes measurement.

**EXHIBIT VI-4  
Conceptual  
Matrix**

		What works?	What needs improvement?	Overall impression
<b>ADVISORY BOARD MEMBERS</b>	Victor	When problems are identified, the Board can bring back the provider. Providers must address the problems identified and return to the Board with solutions. Providers know they have to answer to the Board.	Would not change it. The basics stay the same.	Satisfied "Monitoring is an evolving process."
	Michael	Providers know that "outsiders" have the power to question proposals. The Board can ask questions or they can talk to [the County program staff].	More time to meet with and/or review providers' proposals	Satisfied "Everybody is trying to do the right thing."
	Mark	New member - did not reply (dnr)	New member - dnr	New member - dnr
	Francis	The process is ongoing, year-round. Site visits are included. Providers know they must comply with regulations & show performance to qualify for funding.	"Nothing comes to mind."	Satisfied
	Mary	Quality assurance is key. Board has a good idea whether a provider is meeting its goals. Allocations and the monitoring process go hand in hand.	Every year, Board looks at the current process and decides.	Satisfied
<b>PROGRAM PROVIDERS</b>	Program provider A	Helps to improve quality assurance. Gives third-party feedback and advice. County assists when difficulties arise.	More focus on clinical aspects; delete policy review because it is done by state licensing.	Helpful/satisfied
	Program provider B	The process is only effective in picking up required tasks that are not being properly documented, process wise.	Add a qualitative piece. Look at treatment plans...look at treatment that patients are receiving.	Helpful/moderately satisfied
	Program provider C	Nothing mentioned.	Provider is reviewed by so many different organizations and insurance companies that it is difficult to meet everyone's needs. Monitors would adhere to exactly the same guidelines to avoid unnecessary and time-consuming modifications on the part of providers.	Moderately satisfied
	Program provider D	To the extent that is effective, it gives us another avenue for expression, in addition to the providers' meetings. The process is never punitive. Exclusive attention in monitoring.	Sometimes County and state have different interpretations of the same rules, e.g. confidentiality. Because monitors got to see all the programs, they could compile and publish "the best" for all to see, e.g., publish all the good forms.	Helpful/satisfied
	Program provider E	The high quality of the staff who complete the monitoring. (Staff is) knowledgeable and able to provide excellent feedback.	More frequent monitoring -- twice a year vs. once	Helpful/very satisfied
<b>COUNTY MANAGER</b>	Program Director	The process keeps everybody honest. Monitoring is a technical assistance tool -- not an occasion to slap wrists. An opportunity to be sure that providers are following licensing standards.	More frequent monitoring -- twice a year vs. once	Helpful/very satisfied
<b>COUNTY ADMINISTRATOR</b>	Human Services Dept. Exec. Director	Contract boiler plate in place. Three-year contracts are now awarded. Outcomes are included in contracts. Quantifiable performance measures are now in contracts.	Education, greater awareness about outcomes measurement	Helpful/very satisfied

### The Conceptual Matrix as an Analysis Tool

Viewed separately, comments and observations of participants in Keystone County outsourcing tell one story. As community members in service to their county government, Advisory board members bring an "outside" perspective that is informed by their individual and collective professional, societal, community and personal experiences. The outsourcing providers come to the table with their hands-on, daily experiences of delivery programs and services, complete with practical and professional challenges and consumer commitments. County officials, charged with multi-faceted responsibilities, are accountable to elected officials, other county departments, state-level agencies and, in the long run, to citizen taxpayers and consumers alike. Taken as a whole, those involved in Keystone County outsourcing comprise an entity responsible for assuring the efficient and effective allocation and use of county funds and optimal service to county residents. The matrix reveals some similarities and differences in how parties involved see this happening. Within each entity — advisory board members, program providers and county representatives — there are agreements and divergent points of view. Looking at the variations among the groups, the differences appear to be in the levels of perceived satisfaction with the monitoring process and the identification, on the program providers' part, of specific improvements they see needed in the process.

With the exception of one advisory board member who would like more time to meet with providers and review their proposals, this group had no recommendations for improvement. The advisors were uniformly satisfied with the monitoring process. Not so with the program providers, whose performance — their own and that of their staffs and their agencies — is the focus of the monitoring process. The responses of program providers revealed mild frustration with the monitoring format, although they appeared to

be genuinely satisfied with the people who conducted the monitoring. Program providers' suggestions for improvement included attention to qualitative aspects of program delivery as well as the seemingly predominant quantitative factors. They wanted attention paid to professional indicators such as clinical work and treatment plans, not just to adherence to policy and procedure. And because the county monitors do spend time assessing the latter, one provider suggested that they share the wealth by compiling and publishing best practices "for all to see." Unlike the advisory board members, program providers, as a group, were not 100% satisfied with the monitoring process. Three of the four found the exercise helpful; two were satisfied and two were moderately satisfied. These sentiments present an interesting juxtaposition to the two county representatives interviewed who were very satisfied with the monitoring process. An indication of the difference in perspective would lie in the fact that the manager of the county programmatic unit sees monitoring as an opportunity to be sure that providers are following licensing standards. The program providers see adherence to licensing standards as a concern of state-level monitors, not the county. Program providers point to licensing as one of the areas not only of duplicated effort but of conflicting interpretation on the part of monitors for different contracts. One apparent disconnect is in the area of communication. The county manager reports speaking daily with some program providers, yet neither she nor the program providers indicated discussions related to these matters.

The fact that the county human services director is very satisfied with the monitoring process is understandable because he is the one who initiated the review of the county contracting practices and he is pleased with the revisions. He is clearly focused on outcomes and confident that the quantitative performance measures now included in the contracts will go a long way to achieving those outcomes. When he talks about

improvements to the monitoring process, he is intent on educating all involved in order to increase awareness about outcomes measurement.



## *PART TWO – THEORY REFLECTED IN PRACTICE*

Keystone County's decision to outsource public services predates the renewed interest in privatization that occurred in the 1970s when efforts to reduce the size and cost of government brought public officials to examine any and all methods of accomplishing that end. As with other Pennsylvania counties, Keystone County's outsourcing of human services can be traced to passage of legislation in the mid-1960s regulating mental health/mental retardation services and soon after, legislation affecting children and youth services, area agencies on aging and then drug and alcohol programs. Each law required some form of collaboration with the private sector. Initially, then, compliance may have been the catalyst for public/private partnerships. More than 30 years later, Keystone County's decisions to partner with the for-profit and nonprofit sectors reflect particular aspects of (1) government philosophy, (2) Public Administration principles (3) economic theory and (4) privatization tenets.

### Government philosophy

The Declaration of Independence swept away the divine-right-of-kings rationale for governmental authority and replaced it with a new and radical doctrine — that governments derive their powers from the consent of the governed. The people are the source of the government's power (Bibby, 1992, 38). This belief in popular sovereignty, in people as the source of governmental authority, is at the core of representative government. In turn, government is in place at federal, state and local levels to protect individual rights and achieve political stability. The extent to which these responsibilities should be carried out is often addressed in discussions of "big" versus "small" or "extensive" versus "limited" government. Traditionally, those in favor of smaller or more limited government seek ways of fulfilling government's obligations without expanding its ranks, rules and regulations. Proponents of smaller government are attracted to

privatization claims of more effective and efficient outcomes than those realized by the public sector.

Early in the 1990s, Keystone County acknowledged the growing size of county government and, according to the CCAP, "did something" to counteract the growth. In a move indicating its intention to contain the size of government, the county adopted an ordinance ensuring that public employment would keep pace with county population. The ordinance stated that growth in the number of county employees could not exceed the percentage of population growth in the county. According to the CCAP, that ordinance encouraged Keystone County to adopt outsourcing as a method of service delivery. Within the private sector, the CCAP stated, the county has found those with the expertise to guide the county commissioners and with the resources to operate and deliver public services. Government, says the PACHSA, is not the place for delivering services. The role of government, the official said, is to manage money, evaluate program and assure quality.

#### Public Administration Principles

As public administrators, Keystone County officials are concerned with the fundamentals of public administration – the efficient, economical and coordinated management of public programs and services. Although county officials would not appear to endorse Frederick Taylor's scientific management principle of "one best way," their choices do indicate a resolve to achieve Taylor's goal of maximizing productivity of tools and workers, in this case those belonging to the public sector and those available in the private for-profit and nonprofit sectors. The county's goals of efficiency and effectiveness could align it Max Weber's teachings as county officials strive to make their bureaucracy the most fully developed form of organization. An examination of the

county finds traces of Weber's efforts to bring order to the complexity of public management through bureaucratic tenets of hierarchy, formalization and specialization.

These are not the only threads that weave through Keystone County's approach to public administration. Upon examination, Elton Mayo's three dimensions of management can be seen in the county's application of scientific and technical skills to its complex roles and responsibilities in providing public services, its interest in a systematic ordering of operations as it refines its contract monitoring process and its organization of teamwork and cooperation as it works its staff, advisory boards, program providers and service consumers. Keystone County also has done its share of "muddling through," as described by Charles Lindblom. As the county has implemented change in its service delivery, it has done so incrementally, as it responded to practical, political and policy shifts within the public and private sectors.

As Keystone County conducts its daily art and science and craft of government, it embodies each of the characteristics of Nigro and Nigro's definition of public administration, to wit: the County is a cooperative group effort in a public setting; it deals with executive, legislative and judicial branches of government and their interrelationships; it has an important role in the formulation of public policy, therefore, is part of a political process; it differs in significant ways from private administration; and it is closely associated with numerous private groups and individuals in providing services to the community (Nigro, Nigro, 1984, 11).

### Economic Theory

Public Administration requires an ability to act effectively in real world situations (Denhardt, Hammond, 1992, vii) where distribution of scarce resources has forced the

issue of competition in an effort to meet supply and demand. Each day, Keystone County comes face to face with the economic fundamentals of efficiency, equity, stability and growth. The county's concern with and commitment to these fundamentals put it squarely in the Public Choice camp. County officials' recognize and respect the link between politics and economics and they concentrate on the resulting relationships; their collaboration in public/private partnerships reflects their persistent interest in using market systems to deliver public services that are funded by county government. As Public Choice theorists would suggest, Keystone County officials acknowledge the obstacles to public sector reform that may be inherent in government delivery of certain services. As the county has grappled with growing and diverse demands and the reality of fewer resources to meet those demands, they have chosen alternate arrangements for the production and provision of public services.

Keystone County's outsourcing arrangements also reflect the Principal/Agent theory which holds that many activities are too costly or too complex to be provided by one principal. In this case, with the county as the principal, officials have chosen to hire agents --- outsourcing providers --- with the knowledge and skills needed to undertake particular tasks. In a broader application of this theory, the county human services division can be seen as the agent and the county commissioners, the principal. In turn, the county itself is an agent for the Commonwealth of Pennsylvania (the principal) and, expanding this line of reasoning, the Commonwealth services an agent for the Federal government. Ideally, one could point to all levels of government as agents of the citizenry, although practically speaking this is not always the case.

### Privatization

Keystone County has answered the basic economic questions of what will be produced, how it will be produced and who will receive the final output, in part, by adopting outsourcing as a means of providing services it is mandated or has opted to deliver. As both the CCAP and PACHSA members indicated, the county is committed to reducing the size and the role of government and in doing so has increased the role of the private sector --- both for-profit and nonprofit --- in the activity and in the ownership of its assets (Savas, 1992, 81). The county's decision to do so reflects primary objectives of privatization cited by Miller and Tufts (1992): to improve the use of scarce resources by reducing the costs of providing public services, particularly where private enterprise is strong and government is assured of more effective services at lower costs; to modify the role of government from that of a primary producer of goods and services to that of governing; to enable government to meet responsibilities that might otherwise be too costly; to reduce the tax burden; to limit taxes (Miller, Tufts, 1992, 236).

As the county has evaluated its privatization efforts, officials' assessment of the practice mirrors benefits cited by privatization advocates. County officials see their outsourcing arrangements as accomplishing their goals, as reflected in privatization literature, to:

- lower costs, while improving quality
- allow for economies of scale
- allow public vs. private comparisons of cost and performance
- avoid large start-up costs
- provide access to specialized skill and training
- promote flexibility in size and mix of services
- make it possible to hire and fire as necessary
- allow for experimentation in different modes of service provision
- reduce dependence on a single supplier
- bypass inert bureaucracies
- allow quicker response to new service areas  
(Holzer, Callahan, 1998, 90; Savas, 1987)

### *PART THREE – IMPLICATIONS FOR FURTHER CONSIDERATION*

What has this case study of Keystone County revealed about adoption, selection and performance measurement of outsourcing? What has it explained? What questions has it left unanswered?

To begin, Keystone County's experience with outsourcing confirms that the process of adoption, selection and performance measurement is, indeed, a complex undertaking --- one that requires collaborative planning, thoughtful implementation, careful assessment and ongoing modification. The process, as explained and exemplified by Keystone officials and staff, is not one limited to the public sector alone. Outsourcing of public services is a collaborative endeavor, involving politicians, public administrators, public employees, concerned citizens, service providers from both the for-profit and nonprofit sectors, and consumers. On the part of each party involved, there must be a willingness to perform efficiently and effectively to achieve a common goal of reliable, responsive governance. With this in mind, Keystone County has marshaled collective and diverse resources essential to meeting the ever-growing challenges presented by its many constituencies.

As for the questions left unanswered, one has only to consider the realities of a 21<sup>st</sup> Century world to realize they are numerous, complex and evolving. In Pennsylvania, as in other states, Governor Ed Rendell faces budget deficits, the effects of which will be felt across the Commonwealth in cuts to programs and services. Keystone County, as well as others across the state, will be directly affected by the fiscal shortages. During budget hearings in the fall of 2002, Keystone County service providers, human services officials and advocates argued passionately against possible monetary cuts for social services administered through the county. The services came under scrutiny because, if

approved in tact by Keystone County Commissioners, the proposed 2003 budget would have required (and did indeed result in) a 70% property tax increase. Human services officials and service providers presented testimony about the growing and more serious needs among those they serve. At both ends of the discussion, the focus was on the most efficient use of public dollars. In short, the exchange embodied the classic definition of economics — the equitable distribution of scarce resources needed to meet demands for services.

Underlying Keystone County's experience are factors common to all counties throughout Pennsylvania and all states throughout the nation. A weakened economy, a reduced workforce, severely reduced tax revenues and escalating needs for services are stretching public resources to the breaking point. Add to these factors a growing emphasis on national security, the reality of home-front terrorism and the diversion of funds to homeland security. How to govern in this unpredictable, unstable environment? Surely there is no "one best way;" no "ideal approach." As Keystone County pursues the answers to these questions, several observations can be made about the way Keystone has chosen and the approach the county has taken in allocating limited resources to seemingly unbounded human services needs.

As an "illustrative case" (Yin, 1994), Keystone County offers the opportunity to assess conditions that would be necessary to optimize its approach to monitoring and performance measurement should other counties be interested in replicating the effort.

Broadly characterized, Keystone County has committed to privatization of public services, as evidenced by outsourcing; it has devoted considerable time and resources to refining the contract document itself and has streamlined the contracting process.

The county has defined leadership roles and assigned coordination and oversight responsibilities to designated staff members. It has engaged stakeholders, including representatives of business, industry, government, health care, education, social services and the community at large. Members of agencies with whom the county contracts are involved as are consumers of services. Keystone exhibits a high degree of commitment to accountability for its own performance and holds service providers to equally high standards. The county also commits time and resources to ongoing training and education of its advisory board and staff, as well as to technical assistance with outsourcing providers.

Specifically, Keystone County's implementation and ongoing assessment of outsourcing of human services programs are exemplified, as follows:

- *Commitment to privatization of public services, as evidenced by outsourcing of human services*

Rather than deliver the specific services for which it has responsibility, this programmatic unit opts to partner with private agencies that deliver these services. These partnerships are carefully and deliberately chosen through a request for proposal (RFP) process that affords the county the opportunity to provide services while maintaining oversight, staying within a set budget and not increasing the size of its own staff.

- *Defined leadership roles*

Staffing is central of Keystone County's outsourcing of human services. The county has assigned key staff members to oversee implementation and ongoing assessment of outsourcing arrangements. The administrator of the programmatic unit



works closely (she reported daily contact in some instances) with outsourcing providers. This same staff person is the principal liaison to and resource person for the advisory board as well as to her immediate supervisor and to the department director concerning outsourcing contracts and contractors. She also organizes site visits, arranges the proposal review sessions with potential contractors and facilitates and attends meetings of the advisory board committees. In addition to the administrator, the department's fiscal officer as well as support staff and department heads attend the monthly advisory board meetings.

#### **Exhibit VI-5**

##### **Characteristics of Keystone County's Approach to Outsourcing**

- Commitment to privatization as a means of providing human services
- Defined leadership roles and responsibilities
- Attention to the contract document and contracting process
- Engagement of stakeholders
- Commitment to accountability
- Provision of ongoing training, education and technical assistance

- *Attention to the contract document and the contracting process*

Keystone County has taken pains to review, revise and standardize the contract document. In doing so, officials have simplified the contracting process, allowing for expediency in contract execution (often a lengthy and prolonged exercise) and timeliness of revisions, when necessary. Where possible, the county has issued multi-year contracts to allow for continuity of service delivery and maximum efficiency of government resources.

- *Engagement of stakeholders*

Keystone County has created a working advisory board comprised of representatives of business, industry, government, health care, education, social services and the community at large. Recruitment and selection of volunteer members is seriously pursued. Once appointed to the board, members are expected to attend meetings, participate in committee work and provide input to the programmatic staff. Program providers and consumers are included in monthly meetings and they, too, are expected to attend and report on activity related to their respective contracts.

- *Commitment to accountability*

Keystone County holds all parties accountable for performance. Keystone's focus on accountability of program providers stems from recognition of its own responsibility to its state-level funders. Contract monitoring of its agents is seen, in part, as preparation for state monitoring of its function as an agent of the Commonwealth. The county also views monitoring as a means of assuring its accountability to those who are served through contracts with outsourcing providers. In addition to measuring accountability through contract performance, the county also uses the monthly advisory board meetings to hold members accountable to the obligations of their respective roles as advisors, community volunteers, program providers and county staff members.

- *Provision of ongoing training, education and technical assistance*

The County department and programmatic unit for whom the advisory board was formed take an active role in building awareness of board members about the work of the department and the unit. The staff arranges for in-service sessions presented for the board by outsourcing providers. At least once a year, consumers of services are invited to board meetings to discuss their program experiences. At other times in the year, the

board travels to visit outsourcing providers on site. Both the presentations by consumers and the site visits are designed to better inform the advisory board and staff about the delivery of human services that are outsourced. At the yearly special event, professionals, consumers and the community at large is invited to hear from and exchange ideas with legislators regarding programmatic concerns, budget issues, pending or existing legislation, among other issues. Technical assistance is staple of the county's monitoring process, assuring that outsourcing providers receive the input and guidance needed to successfully fulfill provisions of their county contracts.

#### Replicating the Keystone County Contracting Process

A natural extension of the review of the characteristics of Keystone County's approach to outsourcing is the consideration of whether or how the county's approach could be replicated in other counties. Throughout the interviews, county staff and advisory board frequently mentioned what, from their perspectives, were distinguishing features of their process --- features that may or may exist in other areas. One factor repeatedly cited by the program administrator was the energy and commitment of the first director of the department --- Anna, a woman who held her position for more than 20 years and whose dedication to her work and to the service consumers seems to have indelibly influenced those who followed her in the department.

Grace, who joined Anna staff three years prior to the latter's retirement then moved into her position, describes her predecessor and former supervisor as "dynamic" and "a powerhouse." As a professional, activist and advocate in her field, Anna was chosen to serve on a governor's council in the early 1970s. When the work of the council resulted in recommendations that counties establish specific departments at the county-level to carry on the work of the council, Anna was selected to head Keystone County's

department. Drawing on her established reputation and long-standing connections in the field, Anna put together a collaborative effort to undertake the work of the department. That collaboration included establishing the advisory board, as mandated by the state, with like-minded, equally-committed professionals, community members, consumers and consumers' family members and friends. According to Grace, Anna "set the system in motion." Ideally, Grace believes that in order to replicate the Keystone County system, a county would "need Anna -- and there isn't another one."

Practically speaking, Grace can cite aspects of Keystone County's process that could be replicated. She first cites the advisory board committee structure of three groups focusing, respectively, on allocations, legislative affairs and board nominations. "People see things from different perspectives," Grace says. The involvement "shows that you are getting input from someone other than just the staff." She points, too, to the high expectations of Board members. In addition to strict attendance requirements, board members are expected to actively participate in meetings and work on committees. "If people come and don't do anything, we ask them to resign," Grace says. "We don't keep people who aren't active. We don't let them come and just sit there."

In addition to the committee involvement, Grace points to the county's monitoring process as a component that could be replicated by other counties. She recommends the use of requests for proposals (RFPs) and thorough and accurate monitoring of resulting contracts. She notes the importance of providing technical assistance to outsourcing providers, stresses a positive approach to monitoring visits, and underscores follow-up as a way of ensuring that concerns identified during monitoring are addressed by the provider.

Thoughts on replication also were offered by Keystone County's PACHSA member who, during the course of this research, retired as human services executive director. He was a contemporary of Anna and able to offer a historical view of Keystone County's human services department. Did he agree with Grace's portrayal of Anna as a significant influence? "Absolutely," he said. He then outlined other factors he saw as contributing to the success of the department's program and process. Among them were others involved in the start-up, including three physicians whose work in the field was respected and who were known in the community and union representatives from a large industrial plant who had a vested interest in serving the needs of union members and their families. Other catalysts, he said, were state recognition of problems local governments were facing and citizen advocacy to address those problems.

As for those interested in replication of Keystone County's approach, the PACHSA recommended strong leadership and basic problem solving techniques. Interested parties would have to conduct a needs assessment in order to collect very good information about their community. Once identified, the community would have to decide how to address the needs. One of the "brilliances" of the Keystone County approach, the PACHSA said, was the adoption of a multifaceted approach to the problems. The program within the human services department focuses on prevention, intervention and treatment, he noted, advising others to "build around those three areas."

#### SUMMARY

While this examination of Keystone County does provide an opportunity for closer examination of selection and performance measurement of outsourcing, the study is, by design, specific to one programmatic unit in one department in one county. The

account analyzes one set of circumstances that may, to a greater or lesser extent, be found in other counties in the Commonwealth of Pennsylvania. What the study does present are the process and the procedures that one county has designed, implemented and continues to evaluate as a means of addressing persistent questions posed daily to all public administrators — the age-old Wilsonian queries are alive and well: *What can government properly and successfully do and how can government do these things with the utmost possible efficiency and at the least possible cost either of money or energy?*

**End note**

1. Procedurally, a contract is not valid until it is “fully executed,” meaning that it has been signed by all parties involved — county human services director, county administrators (including one or more of the following: commissioner, county executive, chief clerk/county administrator, solicitor), the service provider and witnesses for both parties. At times, service providers are not allowed to begin delivering services until the contract approval process is complete. Because contract execution can be a lengthy process, contractors can allow program providers to initiate the contracted services once the contracting process is under way.

## **VII. Summary . Conclusions . Recommendations for Further Study**

### **Summary**

This research began with an interest in outsourcing as a means of privatizing public services. The study sought to answer four questions:

- What factors influence a local government's decision to outsource public services?
- What criteria does a local government use to select an outsourcing provider?
- How do local governments measure performance of outsourcing providers?
- How does the performance of public/for-profit partnerships compare with the performance of public/nonprofit partnerships in the delivery of human services programs?

In order to answer the research questions within a specific framework, county level government in Pennsylvania was selected as the target population. The sample of Pennsylvania's 67 counties was taken from the County Commissioners Association of Pennsylvania (CCAP) and Pennsylvania Association of County Human Services Administrators (PACHSA). Data was collected through mail surveys, telephone interviews, in-person interviews and a case study of one county chosen on the basis of information gathered during telephone interviews. Responses to the initial survey mailing came from 57 (85.1%) of the 67 counties; 52 of the 57 counties (91.2%) reported outsourcing public services. Of the 52 counties, 26 (50.0%) CCAPs were interviewed and 30 (57.7%) PACHSAs were interviewed. A total of 40 of the 52 counties (76.9%) are represented in the study.

Based on analysis of data collected, answers to the research questions are as follows:

- Factors that influence a local government's decision to outsource public services are cost of providing service, internal attempts to decrease service delivery costs, limited county staffing and positive past experience with outsourcing.
- Criteria local government uses to select outsourcing providers include responses to Requests for Proposals (RFPs) and, to a lesser extent, purchase of service agreements.
- Local governments measure performance of outsourcing providers through examination of fiscal audits, contract monitoring, site visits and written reports.
- When comparing the performance of public/for-profit partnerships with the performance of public/nonprofit partnerships in the delivery of human services programs no statistically significant difference was found.

Data from Keystone County, the subject of the case study, reflects the same findings as those of the overall study. Going beyond these findings, however, the Keystone County study offers a closer look at established procedures for outsourcing that reveal a long-standing practice of outsourcing of human services and a strong commitment to public and private sector accountability. Firmly set in a foundation laid nearly 30 years ago by the first head of the programmatic unit studied, the unit uses a detailed, participatory process to implement and monitor outsourcing. The process draws heavily on the resources of an advisory board comprised of a diverse mix of stakeholders including professionals from a variety of fields, community members, consumers as well as members of the county human services staff. Strict attention to the contracting process, recently evaluated and modified by the new human services department executive, begins with a competitive request for proposal process. Upon staff completion of submissions, applicant interviews are conducted by members of the staff and advisory board. Once negotiated and fully executed (i.e., accepted and signed by county and contractor officials), the contract becomes the principal monitoring tool used to evaluate provider performance and measure outcomes.



In order to assure the highest possible level of performance and optimal achievement of outcomes, the county designates leadership roles and responsibilities accompanied by ongoing education and training for the advisory board, staff and providers. As part of its monitoring, Keystone provides technical assistance, as warranted, to contractors and requires that agencies follow-up to insure that the assistance given is implemented, deficiencies are addressed, performance is improving and outcomes are reached. Although county officials question whether the inspired convergence, more than 30 years ago, of people, passion and public awareness could be duplicated, they do recommend other components that would be beneficial should other counties want to replicate their model. They cite the committee structure of the advisory board, the requirement for active involvement of board members, the use of a defined request for proposal process and accurate monitoring of the resulting contracts.

### **Conclusions**

That outsourcing is alive and well as a means of privatization used by counties in the Commonwealth of Pennsylvania is sure and certain. Counties use outsourcing to provide a variety of human services programs and have been doing so long before privatization was re-introduced in the 1980s. Clearly, in Pennsylvania, contracting is and has been intrinsic to provision of human services at the county level. Pragmatically, outsourcing reflects the counties' interest in more cost-effective public services that, in effect, result in better government. Ideologically, outsourcing supports the counties' pursuit of less government by reducing the public sector role in direct service provision. This is not to say that the public administrators are seeking to divest their counties of *all* responsibility. Rather they are intent on finding efficient and effective means of dealing with growing demands for services and shrinking resources with which to meet those demands. In addition, counties are feeling the pressure of federal and state mandates,

some of which are unfunded, and all of which place additional obligations on county government. To some extent, the counties are triaging. They are attending to the most complex issues (e.g., managed care) and focusing resources on those programs and services that cannot be delegated to outside (nonpublic) agencies. With plates full to overflowing, they are then choosing to entrust to private sector contracting those programs and services where they do have discretion. In some cases, these are the less complicated matters, shorter term projects or those with established, positive track records of outsourcing (e.g., mental health/mental retardation, drug and alcohol treatment, and children and youth service). In other instances, counties are outsourcing programs and services that require highly specialized professionals whose services would not be readily available within the public sector and/or would be too costly to employ on a regular basis. Also, they are choosing not to reinvent the wheel. When compatible, effective services already exist in their communities, counties are choosing to contract with those providers.

Reflecting the beliefs of those who see privatization as a means of reducing or containing the size and cost of government, Pennsylvania counties decided to outsource in response to internal fiscal pressures. Positive past experiences with outsourcing providers encouraged counties to pursue outsourcing as a way to handle limited county staffing and better manage the cost of providing services. In addition to their fiscal motivations and contrary to the beliefs of those opposed to privatization, Pennsylvania counties utilize outsourcing not as a way of side-stepping responsibility but rather as a means of ensuring availability, accessibility and quality for the services they are required to provide or that are needed in their areas. For the counties, outsourcing is a means of achieving what they believe government should be doing --- seeing that services are delivered, not delivering the services themselves. In this regard, the use of outsourcing

fits the “public financing – private provision of services” definition of privatization.

Ultimately, by controlling financing, county government can delegate direct service obligations without relinquishing control of service provision.

Although the type and extent of their efforts vary, counties are conscientious about performance evaluation and outcomes; their monitoring practices range from formal, scheduled on-site appointments to informal “drop in” visits. Counties require submission of audits and in some cases, if circumstances call for it, they conduct their own audits. They track programmatic and fiscal reports on monthly and/or quarterly bases; most require final contract reports. Although some counties conduct surveys of consumers, many rely on contractors’ surveys or on direct feedback from consumers. Consumer compliments and complaints, although mostly the latter, are a measure of customer satisfaction. In most cases, this reactive position is due to lack of sufficient staffing and to the difficulties inherent in working with the populations served by human services programs, e.g., maintaining contact after the service has been delivered or lack of response from those surveyed.

An unexpected outcome of this study was clarity about the variations, statewide, in human services delivery systems. Attempts to identify particular organizational patterns, whether by county classification (based on population), geographic location or department structure, were unsuccessful. Pennsylvania counties are required to provide services for children and youth (C&Y), mental health/mental retardation (MH/MR) and the elderly. However, the manner in which these services are organized varies greatly from county to county, depending on preferences of the boards of commissioners and county administrators. In some cases, a human services department, headed by an executive director, houses C&Y, MH/MR and aging programs. In other counties, these

programs are administered, housed and managed separately. In the case of smaller counties, jointures (formal, state-approved agreements) among several counties have been formed to deliver some or all of the required services. This organizational variation, in large measure, could account for the lack of any discernible pattern among the counties, e.g., all counties manage a Human Services Development Fund (HSDF), however, they use the fund in a variety of ways, some to fund specific services, some to encourage collaboration among services, and some to fill gaps in existing funding.

What is consistent among the counties is their use of competitive bidding to solicit proposals for outsourcing contracts and their attention to the contracting procedure. Even when counties are familiar with service providers, even though counties and providers may have long and successful contracting arrangements or other working relationships, most counties employ requests for proposals as competitive means of selecting outsourcing providers. Once providers are selected and contracts are issued, counties rely on close monitoring to insure adherence to contracts. If performance concerns are detected, counties respond with corrective action plans that must be followed. If providers fail to comply or cannot show good faith effort, counties sometimes terminate contracts midcourse or do not renew them. Competition, seen as the essential ingredient common to successful privatizations (Savas, 2000) and as having the greatest effect on productivity (Osborne, Gaebler, 1992), is a key factor in the counties' decision-making.

Taken in the context of privatization literature, it does not appear that Pennsylvania counties grappled with the decision as to whether or not they *should* contract, but rather with *how* they would contract. Seen in the context of Public Choice Theory, counties (1) identify and implement alternative means of service production and delivery of scarce

public resources and (2) develop, implement and evaluate effective strategies for improving public sector productivity. Viewed within the framework of the Principal/Agent Theory, the counties play a dual role. As principals, counties use the contract and subsequent monitoring of its provisions as a means of maintaining control as they outsource program delivery to their agents in the private sector. As agents of state and/or federal government funding sources, the counties rely on contract and monitoring processes to fulfill their reporting obligations.

The application of theory, relevant though it is, does not fully explain nor do justice to the process underlying Pennsylvania counties' outsourcing decisions. In fact, it is highly unlikely that county officials relied on theory when they began contracting for services and the study indicates that very few used consultants whose work more than likely would have had some research base. It appears that they chose outsourcing because contracting was a practical solution to service delivery dilemmas and because it involved the community which was a requirement of federal and state legislation passed in the mid and late 1960s. In many ways, moves to de-institutionalize and mainstream services during the 1970s forced the issue of finding alternate means within the private sector to provide programs and services to those in need. Adaptation to and compliance with changes in treatment philosophy and service provision led public administrators to look within and beyond the public sector for new ways to meet their responsibilities. Long before the resurgence of privatization in the 1980s, Pennsylvania counties were contracting with local, private sector providers for delivery of human services programs. Although theorists and researchers may bristle at the observation, public administrators were well into "alternative means of service provision" when the former caught up with them and characterized the public sector initiatives categorically as privatization and specifically as outsourcing. In this case, an age-old adage, not a

finely honed theory, saved the day. Practical necessity, once again, was the mother of invention. Charles Lindblom may have coined the term “muddling through,” however, it is a solid bet that practitioners did not need him to tell them they were doing just that.

Throughout this study, the juxtaposition of theory and practice offered other revealing insights. One of several such revelations came at the outset of the study, with the design of the survey which was modeled, in part, on the International City/County Management Association’s (ICMA) “Profile of Alternative Service Delivery Approaches.” The initial survey used the ICMA terminology -- Alternative Service Delivery Approaches (ASDAs). When the survey instrument was tested during a focus group the term raised questions. Public sector participants in the group strongly recommended revising the language because, they assured the researcher, “No one will know what you’re talking about. Call it what it is. Outsourcing.” For the practitioners, ASDA was an academic term coined by those who observed from the heights (literally and figuratively) of a Washington, D.C. research center.

Practitioners’ reservations about “academics” and other “un-initiated outsiders” came through loud and clear during many of the interviews conducted for this study. At the outset, some public officials responded perfunctorily. As these interviews progressed, interviewees recognized the researcher’s familiarity with “their work.” When it became apparent to them that the researcher had first-hand knowledge and experience with the public and nonprofit sectors and with outsourcing, they began to talk more openly about their experiences and perspectives. The researcher’s familiarity with CCAP and PACHSA also increased credibility and resulted in greater willingness to talk on the part of the interviewees. -- as did the fact that the researcher conducted some of the interviews on site and in-person.

Interviewees' interest in the experiences of other counties was far greater than their interest in any theoretical underpinnings of the study. Many offered questions they wanted to pose to other practitioners and expressed an interest in any best practices that the study would uncover. This quest for information prompted the researcher to recall a conversation with the (then) executive director of PACHSA. The director commented on the decline in attendance at PACHSA quarterly meetings, normally held in central Pennsylvania. She attributed this decrease in participation to the heavy workload and conflicting demands on county officials who routinely decided that they could not take time away from their responsibilities. This, the researcher speculated, resulted in a lack of opportunity for networking and information sharing among practitioners which could explain, in part, county officials' interest in what other counties were doing.

In addition to their interest in the work of their colleagues across the state, public administrators who were interviewed were eager to talk about their frustrations, about their progress and the achievements within their own departments and other areas of county government. Clearly, they appreciated the undivided attention of someone who was willing to listen (and take copious notes) as they spoke at length about their roles and responsibilities. The fact that what they were saying would contribute to an account of county outsourcing seemed important to them. As these conversations evolved, another point came through loudly and clearly — those who were interviewed definitely saw “the bureaucracy” as people and systems separate and apart from themselves. When they spoke of “bureaucrats” they were referring to others within county government or, more frequently, to “Harrisburg” (referring to state government) or to “the feds” (referring, of course, to the federal government). Even though others in their

communities may have seen them as part of county bureaucracy, those interviewed certainly did not perceive themselves in that way.

Other juxtapositions, such as formal and informal practices in contracting, offered food for thought. The study affirms existing evidence, cited by Austin (2003), of increasing reliance of public social service agencies on service contracting. Although in this particular work, Austin focuses on contracting with nonprofit agencies, he maintains that the advantages of contracting seem to outweigh the disadvantages. The advantages of contracting for public social services agencies, Austin states, are the ability to (a) fulfill legislative mandates, (b) increase efficiency, (c) gain flexibility in service start-up and termination, and (d) improve service quality as contractors extend the public sector's service capacities and access to special services (Austin, 2003, 102).

While Austin's alphabetically ordered list definitely relates to county contracting, little about the contracting process is that neatly arranged. As county officials contend with those "other bureaucrats" they have devised ways of getting the job done that fit with the reality of their circumstances. When numbers are required, they produce detailed reports with rows and columns, check marks and darkened circles or squares. This is accomplished in spite of the fact that reports are generated from different sources and numerous providers who use various methods of data collection and reporting that can range from manual ledgers to technologically advanced computer systems. Even more significant is the substance of these reports. By design and necessity, human services deal with individuals and families whose lives are far from orderly and, in most cases, defy singular categorization. Several members of one family may be involved in multiple programs, components of which the county administers and other segments that are outsourced to one or more providers. Almost by necessity, counties must rely on



informal procedures and practices in order to comply with formal requirements. This is one of many examples where a county's dual role as principal and agent requires public administrators to enforce with their providers contract requirements that they realize, based on their experience as agents of state and federal government, are often unreasonable or un-doable from a practical standpoint. Unorthodox as their approaches at times might be, public administrators often rely on effective informal means to achieve ends that are formally mandated in contracts they hold with state and federal governments and with private sector providers. As the one PACHSA said, "We do formal monitoring because we have to. We do informal monitoring because it works."

An interesting perspective on flexibility in contract start-up and termination came up in county interviews as respondents talked about collective bargaining units, a long-standing privatization issue. Where they existed, unions often were seen as posing barriers to flexibility because of rigid stipulations on hiring and firing. A county's ability to contract for a specific program or service afforded the opportunity to respond in a timelier manner, provide specialized services for varying lengths of time, form broader partnerships and, if necessary or warranted, terminate a program or service.

Outsourcing, then, allows the counties to achieve their goals of less government involvement in direct service and fewer employees on the public payroll. If Pennsylvania counties are to be taken as a measure, clearly, collective bargaining remains as a matter not soon to be resolved in privatization debates.

In another area of contracting, Pennsylvania counties substantiate existing data on the high use of nonprofits as providers of public human services. More than 70% of the respondents have worked with nonprofits for more than 25 years; more than half work with 50 -100 nonprofit organizations. Approximately 18% of the respondents have

worked with for-profits for more than 25 years; less than 4% work with more than 50 – 100 for-profits and most work with less than 10 of these organizations. These long-standing relationships with nonprofits can be seen as one of the constants in a public-sector environment subject to political, philosophical and demographic changes. Any sense of prolonged security on the part of nonprofits would be false, however; where programs were provided by both for-profits and nonprofits, counties reported no significant difference in levels of satisfaction. Rather than the higher levels of satisfaction with nonprofits, as predicted at the beginning of the research, it would appear that the stability and continuity of service that nonprofits offer county government are their distinguishing features.

This particular finding was unexpected, since the original assumption was that the long history working in human services, the accumulated understanding of people and services, the predilection of nonprofits to take on society's tougher problems, and their "softer approach" would contribute to higher levels of satisfaction than those given to for-profits. These characteristics, however, may be the reason that the public/nonprofit relationships were forged in the first place and that they have endured.

Among the respondents, nonprofits are the only outsourcing providers of Pennsylvania's Communities That Care (CTC), Family Centers (FC) and Family Service System Reform (FSSR) initiatives. Counties are not required to offer these particular programs; application was optional. Not all counties responded to the RFP and of those that did, not all were funded. That said, the CTC, FC and FSSR initiatives were ripe for collaborative efforts between the public and nonprofit sectors. In fact, the initiatives could well have been introduced as a result of persistent problems identified and reported to state agencies by counties and nonprofits. The issues are thorny,

complicated, not responsive to one single intervention (e.g., recidivism, truancy, illiteracy, child abuse, drug and alcohol abuse and addiction, family violence) --- yet completely familiar to those working directly with the neediest of populations. Given the dominance of nonprofits in these outsourcing arrangements, one could conclude that the public sector found ready and willing partners in an effort that, predictably, would be underfunded, challenging and time-consuming to implement, susceptible to budget machinations, and subject to close scrutiny by state funders looking to justify expenditures on newly introduced ventures. Not exactly hot ticket items for for-profits' bottom-line fiscal interests and motivations. In this case, the nonprofits went where for-profits fear to tread --- into the bewildering territory of complex family systems besieged by political, social and economic disadvantages. In this high-risk proposition, albeit without any chance of financial gain, it was the nonprofits who assumed an entrepreneurial role attributed normally to the for-profit sector.

Some of the most obvious conclusions of this study are reflected in the words of respondents themselves who, during the course of their interviews, talked about the evolving nature of outsourcing, about the importance of conducting thorough monitoring, the necessity of having county staff trained in the management techniques, about the impact of technology, the necessity of keeping abreast of technological advancements, and the obligations inherent in being stewards of the public dollar and servants of the public interest. In an era of ever-tightening budgets and ever-expanding service needs, respondents cited the persistent challenges in achieving these goals. In large measure, those who were interviewed for this study were a far cry from the unflattering images sometimes attributed to government employees. Quite the contrary. As noted earlier, CCAPs and PACHSAs were informed, eager to talk about their work and often were interested to know about what other county officials were reporting in interviews for this

study. The county officials were cognizant of the challenges and opportunities that public service offers and committed to work that, by its very nature, can go unrecognized until something goes awry.

To a greater or lesser extent, respondents would most likely agree with Peter Drucker, the first advocate of privatization (he coined the term, originally calling it reprivatization) when he argued that what was needed was more governance, not less. In his *Age of Discontinuity* (1968), Drucker wrote:

*We do not face a "withering away of the state." On the contrary, we need a vigorous, a strong and a very active government. But we do face a choice between big but impotent government and a government that is strong because it confines itself to decision and direction and leaves the "doing" to others. [We need] a government that can and does govern. This is not a government that "does;" it is not a government that "administers;" it is a government that governs.*

This opportunity and challenge to govern, to be a public administrator, is a complex task, as respondents were quick to point out. In an era of rapid and often radical change in government, public administration is being asked to --- required to --- look both inwardly and outwardly for the best practices to ensure efficient, effective and productive programs and personnel. Some say clear lines between private and public sectors have blurred. This study suggests that the boundaries may be unclear because, over time and through practice, they have *blended* in an intricate pattern of collaboration and joint ventures. What has been blurry is the distinction within the private sector between for-profit and nonprofit organizations. In this case, until recently, the blending of identification has hampered efforts to determine what, if any, differences exist in the efficacy of public sector partnerships with for-profit and with nonprofit corporations. This study of Pennsylvania counties adds research to the existing literature that shows no

statistically significant difference in the performance of for-profit and nonprofit corporations as outsourcing providers of human services programs.

In no sector, in no political or economic or social sense can people agree on "one best way." Morally, ethically, professionally and personally, public administrators are challenged, even chided, to address complex situations --- both internal and external --- that require the broadest perspective, the most flexible approach and the most efficient and effective means to the most productive outcome for the largest possible audience. An observation made a quarter century ago still applies: administration uses artistry but it is not an art. It uses science but it is not a science. It is more properly thought of as a craft, seeking to achieve goals and to meet standards, and in doing so, often managing to utilize all the creativity and capacity that its harried practitioners can master" (Berkley, 1978, 8,9). The author went on to say ...

*... while Public Administration cannot lay claim to any magic potion to make our vexing social and economic dilemmas disappear, it can and probably will play a most critical role in their hoped-for solution (Berkley, 1978, x).*

If the work of Pennsylvania county administrators is any indication, Public Administration is, indeed, a vital part of the solution to these dilemmas. The input and insight offered, first-hand, by CCAP and PACHSA members is drawn from more than three decades of outsourcing with the private sector. During that time, researchers have been examining privatization, scholars have pondering the subject, and academicians and their students have been studying its impact and implications. All that time, CCAP and PACHSA members have been on the front lines of county government --- *doing the work* --- implementing privatization options; monitoring results; making adaptations as needed; dealing with the challenges posed by politicians; by executive, legislative and judicial directives; by citizens, service consumers and, sometimes, their own public employees. In doing so, they have identified and exemplified best practices, among them: the

importance of competition, the value of well-written and executed contracts; the necessity for clear and open communication; the impact of consistent monitoring and performance measurement; and the benefits of ongoing education, training and technical assistance.

Even though Pennsylvania County government has been working with the private sector to provide public services long before the renewal of interest in privatization, little has been documented. Prior to this study, specific information about this trend, or about outsourcing at the county level, in general, was not readily available from state or county officials. Lack of time and resources rather than lack of interest may well be the cause of this information gap. The research results fill a noticeable deficit in the Commonwealth's privatization annals, providing both historical and practical information compiled from interviews with those who have first-hand knowledge and experience. In doing so, the study also augments the larger body of privatization literature with an account that combines both theoretical and practical aspects of this popular, although sometimes controversial, topic as it plays out at the grass roots level of local government. Information about the dominant role of the nonprofit sector as a public-sector partner in the provision of human services supports and extends the research by Savas, Salamon, Anheier and Weisbrod, among others. Based on this research, a longitudinal dimension, as documented by Pennsylvania counties' more than nearly 40 years of outsourcing human services, can be added to the studies about the roles of nonprofit corporations.

From a public policy perspective, the study offers governmental institutions and officials useful data for consideration as they deliberate matters relating to expenditures for public services. The data could be used to inform discussions about budgeting, block

grant funding or cost-benefit analyses. As policy makers review options for state and federal regulations for development and implementation of public/private partnerships, the Pennsylvania data offers a representative sampling of county-level procedures and practice. The information about *practice* is particularly important. Practice linked to theory offers insight into what it means to implement outsourcing as a privatization approach; this aspect is often missing in privatization literature. Public officials charged with exploring issues relating to contracting, collective bargaining, program evaluation or other related areas will find relevant information here.

Overall, scholars can use this study of outsourcing in Pennsylvania counties as a basis for further development and testing of economic, management and organizational theories which can then be applied by practitioners to improve the practice of public administration. Academics can use the study both in further theory development and for the teaching of public managers and students will have a resource to advance their knowledge and understanding of the Public Administration field.

#### **Limitations of the Study**

This study has several limitations. First and foremost, the research focuses on one level of government --- the county --- in one of 50 states. Clearly, factors such as a weakened economy, higher rates of unemployment, reduced tax revenues and growing needs for services would be found in other states and support the generalizability of the research. On the other hand, generalizability would be limited by the different approaches taken in other states to address these conditions, by variances in state-county relationships, and by attitudes and approaches to privatization. As its history shows, Pennsylvania has always demonstrated openness to diversity and advancement, dating back to its founding by William Penn as a holy experiment. From its beginnings,

the Commonwealth has welcomed the religions of all nationalities and beliefs. The Industrial Revolution has its roots here. As the state progressed and delegated certain duties to the counties, the latter used that leverage as a check on the state power. That power increased when, in 1913, an organization of county officials was approved by the Governor. Later in the twentieth century, the counties were charged with responsibility of funding and administering certain human services programs. Counties in other states may not be similarly organized or empowered.

In addition, the study examined outsourcing only as it is conducted in human services, just one of many departments in county government. Nonprofits were included specifically in their roles as outsourcing providers of human services; admittedly, their missions are much broader, including advocating for those they serve and others in need. Analysis of the data is primarily qualitative with basic quantitative data provided. Although the study includes customer satisfaction as a factor of performance measurement, the customer perspective given is that of the county representatives; for reasons of confidentiality and availability, attempts were unsuccessful to collect information from consumers of the human services that are outsourced. Due to time and availability for interviews, not all CCAP and PACHSA members are represented in the study. Because of this, not all county interviews include responses from both CCAP and PACHSA members.

#### **Recommendations for further study**

Based on the data collected for this study, the possibilities for further study of outsourcing are rich, interesting and varied. A compelling subject is Pennsylvania's dire financial status. In the months since this study concluded, Pennsylvania's state budget,



which must by law be balanced, has been drastically reduced to offset huge deficits. Human services budgets took an enormous hit. Effective July 1, 2003, funding for drug and alcohol services has been reduced, overall, by 40%; cuts in drug and alcohol treatment dollars amount to 76%. Mental health/mental retardation programs have taken a 10% reduction. The state's Human Services Development Fund (HSDF), a critical piece of funding that counties receive and use in a variety of ways to provide or supplement public services, has been virtually eliminated. The HSDF allocation went from \$33 million to just over \$3 million, representing the legislative minimum allocation of \$50,000 per county. As illustrated by this study, these are the very programs for which counties use numerous outsourcing contracts. The ripple effect of these budget cuts will impact the public sector, the private for-profit and nonprofit sectors, and, above all, the community where families and individuals who benefit from human services programs will be seriously under-served or not served at all. Counties have been tireless in responding to this budget crisis. Across the state, impact studies, data collections, consumer profiles and human interest stories have been produced abundance and widely publicized. Access to this data will allow for comparisons of projected-to-actual impacts as well as ample material for economic, social and political analyses. Community impact studies could include issues relating to crime, abuse, violence, health care, employment and family stability, just to name a few.

With the exception of this study, little if any research has been conducted about outsourcing at the county-level in Pennsylvania. That said, in Pennsylvania alone, more can be done in several areas: a comparison of counties with and without collective bargaining units would shed light on the impact of unions on the practice of outsourcing. Of particular interest would be a follow-up study on the county that outsourced its entire mental health/mental retardation department, save three administrative positions; the

move was made in 1997, allowing for investigation of a five-year period of program operation and evaluation. Points of interest in that study could include assessment of the original goals of the transition; interviews with elected officials who engineered the transition by creating the nonprofit corporation that assumed the MH/MR work; retention of staff who made the transition from public to nonprofit employees; and interviews with staff members who stayed with the program.

This research also suggests that in-depth interviews with government personnel elicit different understandings, interpretations and shades of meaning that deserve attention and further investigation. The experiences and insights of public sector employees shed informed and diversified light on privatization discussions. These important contributions often are lost in quantitative research and frequently missing in public administration literature.

Gathering data directly from consumers of services that are outsourced, although difficult to accomplish as proven during the course of this study, would add to information about customer satisfaction. In future attempts, the research design could include some form of an agreement with providers to allow the researcher to conduct a focus group with consumers who would agree to participate and would be insured confidentiality. Another possibility would be to grant the researcher permission to interview walk-in clients on a voluntary basis, again insuring confidentiality. Failing those attempts, perhaps interviews could be arranged with human services advocates (e.g., community representatives or family members). A major hurdle facing any future attempt to interview consumers directly will be Pennsylvania's strict adherence to the recently enforced federal HIPAA (Health Insurance Portability and Accountability Act) regulations

that impose stringent regulations on release of client information and severe penalties for transgressions.

Consumer satisfaction data could also broaden the discussion of for-profit corporations vs. nonprofit corporations as outsourcing providers of human services. An in-depth study of one human services program, e.g., drug and alcohol treatment, that is provided by both a for-profit and a nonprofit organization would add to the comparison discussion. As always, outsourcing as a means of privatization would benefit from longitudinal studies, which would add to the generalizability of conclusions drawn. Beyond what could be accomplished with further study of Pennsylvania counties, research into the use of outsourcing in other states would benefit both the literature and the practitioners. Using the same three areas — adoption of outsourcing, selection of outsourcing providers and performance measurement — studies of other states could reveal interesting and applicable similarities and differences that could broaden and deepen what we know, and do not know, what we do and do not do in studying, implementing and evaluating outsourcing as a means of privatization.

The lack of any statistically significant difference in the performance of for-profit corporations and nonprofit corporations as outsourcing providers of human services is an ideal area for further research. Further work undertaken directly with consumers will add to this subject because it is unlikely that consumers will have any idea of the corporate status of their service provider. Further investigation of isomorphism also offers interesting possibilities. The isomorphic argument suggests that government regulations, modeling of successful program approaches and professional networking can be factors in muting organizational distinctions. Testing these factors with for-profits

and nonprofits that deliver similar programs would further advance knowledge and understanding of performance comparisons within the private sector.

Standing alone, the nonprofit sector itself offers endless possibilities for further research. One not explored in this study is the advocacy role of the nonprofit sector. Traditionally, historically and philosophically, nonprofits have served as the voice for those whose circumstances place them at risk socially, emotionally, intellectually, educationally, financially, politically and in many other ways. These advocacy positions may be at risk for compromise if nonprofits find more and more of their income sources within the public sector --- a distinct possibility in a weakened economy.

One essential area that would greatly enhance public administration literature, theory, education and practice is the addition of the diverse voices and views of public, for-profit and nonprofit practitioners. Their insights, ideas and suggestions --- gained from front-line experiences --- merit closer attention. These individuals and groups deserve center stage in public administration programs, classrooms and publications where their considerable and hard-earned expertise can be highlighted and shared with students and educators alike. As an instructor in a graduate public administration department, one successful approach used by the researcher was having each student compile a case study detailing a real-life dilemma that she or he was encountering in the workplace. These studies were completed and submitted early in the semester, then distributed to other class members. As the course progressed, students used course material to address the case study. At the end of the course, students analyzed and presented their respective case studies in light of the material presented in class. In this way, students benefited from peer-to-peer assessment and recommendations that put course content to practical use. Based on student evaluations, the student who

prepared the initial case study, the student who analyzed and prepared recommendations, and other students in the class all benefited from the exercise.

In this research, PACHSAs acknowledged the changing nature of their work and speculated on new demands and expectations. County officials saw the need for improved contract management skills, including the use of outcomes vs. outputs; greater understanding and wider application of technology and improved methods of measuring customer satisfaction. Singular attention to this one topic — skills and characteristics of 21<sup>st</sup> century public administrators — presents itself as an exciting qualitative project involving in-depth interviews with public sector practitioners. These needs stand a far greater chance of being identified and disseminated when public administration programs at the masters and doctoral levels include substantive dialog along with (preferably rather than) staid didactics. This approach challenges everyone in the learning environment. Professors whose lives have been spent in academe must risk stepping into the real world, just as many practitioners must — and do — take brave and expensive steps back into the classroom. Even the “classroom” itself must be re-defined. If, as the PACHSA executive director reported during this study, practitioners are reluctant to attend professional association meetings because of over-extended work schedules, innovative measures to extend classroom walls to county conference rooms or other off-campus sites must be further explored. This underscores the importance of teleconferencing and tele-courses as means of extending the dimensions of academic institutions and pursuits. And all concerned will need to focus on clearer verbal and written communication skills. In some cases, sad to say, this will involve the addition of formal education in the fundamentals of grammar and composition. Time and effort exerted are to no avail if the end result is difficult to comprehend and not able to be put to good use.

In the end, past, present and future public administrators can always return to Woodrow Wilson's query:

*What can government properly and successfully do?*

*How can government do these things with the utmost possible efficiency and at the least possible cost of either money or energy?*

The profession, field, literature and practice of public administration can only benefit from such focused attention.

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## Vita

## Sharon McCrone

- 1949 Born March 27 in Dunmore, Pennsylvania
- 1967 Academic diploma, Cathedral High School, Scranton, Pennsylvania
- 1971 A.B., Marywood College, Scranton, Pennsylvania  
Majored in communication arts with minor in secondary education
- 1971 University of Oklahoma, Norman, Oklahoma - Graduate work in journalism
- 1972-73 Pennsylvania State University, University Park, Pennsylvania  
Staff, Career Development and Placement Department
- 1973 Pennsylvania State University, University Park – Graduate work in journalism
- 1974-76 Newspaper reporter, The Sentinel, Lewistown, Pennsylvania
- 1977 San Jose State University, San Jose, California - writer, University Relations
- 1978-85 Marywood College, Scranton, Pennsylvania  
Director of Public Relations, Director of News and Information
- 1981 Master's Degree, Public Administration, Marywood
- 1985-87 Consulting Practice - communications planning and training
- 1986-88 Women's Employment Program, Scranton, Pennsylvania  
wrote curriculum and instructed life skills and employment readiness classes
- 1987 Instructor, University of Scranton, Scranton, Pennsylvania
- 1987-89 Marywood College - Graduate School of Arts and Sciences  
Department of Public Administration and School of Continuing Education
- 1988 Employment Opportunity & Training Center – EOTC – of  
present Northeastern Pennsylvania, Scranton, founding executive director
- 1991 University of Scranton - certification, small group leadership
- 1994 Rutgers University, Newark, New Jersey - Graduate Department of Public  
Administration, doctoral program in public administration
- 1995 Margaretta Belin Chamberlin Award for Community Leadership
- 1996 Civic League, certification, Group process and facilitation
- 1998 Article: "Performance, Participation and Placements" – a financial  
management case study with Sherry Fontaine, Ph.D. Institute for Nonprofit  
Organization Management, University of San Francisco, California, 1998
- 1998 Alpha Alpha, National Public Administration Honor Society
- 2003 Ph.D., Public Administration

**APPENDICES**

- A** Description of Tax Exempt Status of Nonprofit Corporations
- B** Independent Sector Data on Nonprofit Corporations
- C** Nonprofit Sector Impact Study –  
Pennsylvania Association of Nonprofit Corporations
- D** International City/County Management Association (ICMA)  
Questionnaire
- E** Research Materials
  - Introduction to Study
  - Survey Sections I, II, III
- F** Case Study Materials
  - Case study questions
  - Letter to service providers

## Appendix A



Organization Reference Chart from  
Tax-Exempt Status for Your Organization  
 Internal Revenue Service Publication 557 (Rev. October 1988)

Section of 1986 Code	Description of organization	General nature of activities
501(c)(1)	Corporations Organized Under Act of Congress (including Federal Credit Unions)	Instrumentalities of the United States
501(c)(2)	Title Holding Corporation for Exempt Corporation	Holding title to property of an exempt organization
501(c)(3)	Religious, Educational, Charitable, Scientific, Literary, Testing for Public Safety, to Foster National or International Amateur Sports Competition, or Prevention of Cruelty to Children or Animals Organizations	Activities of nature implied by description of class of organization
501(c)(4)	Civic Leagues, Social Welfare Organizations, and Local Associations of Employees	Promotion of community welfare; charitable, educational or recreational
501(c)(5)	Labor, Agricultural, and Horticultural Organizations	Educational or instructive, the purpose being to improve conditions of work, and to improve products and efficiency
501(c)(6)	Business Leagues, Chambers of Commerce, Real Estate Boards, Etc.	Improvement of business conditions of one or more lines of business
501(c)(7)	Social and Recreation Clubs	Pleasure, recreation, social activities
501(c)(8)	Fraternal Beneficiary Societies and Associations	Lodge providing for payment of life, sickness, accident, or other benefits to members

## Appendix B

## Appendix C

## Appendix D

## Appendix E

## **OUTSOURCING ARRANGEMENTS IN PENNSYLVANIA COUNTIES**

**A Study Conducted by  
Employment Opportunity & Training Center – EOTC – of Northeastern Pennsylvania  
Scranton, PA  
&  
National Center for Public Productivity  
Rutgers University  
Newark, NJ**

### ***Introduction to Study***

Employment Opportunity & Training Center – EOTC – of Northeastern Pennsylvania, Scranton, is collaborating with the National Center for Public Productivity, headquartered at Rutgers University, Newark, NJ, to study **Outsourcing Arrangements used by Counties in the Commonwealth of Pennsylvania**. A specific piece of our research will focus on **Outsourcing Arrangements used by the Counties to deliver human service programs**.

As you well know, in this ever-changing time of economic expansion, technological advancement and social transitions, challenges facing local government never seem to end. Efforts to meet challenges tap the ingenuity, creativity, flexibility and just plain determination of public administrators throughout the nation. Pennsylvania is no exception. As local governments strive to provide cost efficient, quality services to citizens, a variety of service delivery options have evolved. In addition to having their own employees provide services, many local governments have established contracts, agreements, partnerships and other arrangements with for-profit and nonprofit corporations. These options for service delivery — often referred to as **Outsourcing of Services** — are of particular interest to the **Center for Public Productivity and EOTC**. The results of this research will contribute to the growing body of literature and long-standing interest in what generically have come to be called **Public/Private Partnerships**.

Our study contains three separate sections.

**SECTION I. COLLECTION OF COUNTY INFORMATION**

**SECTION II. ADOPTION OF OUTSOURCING AS AN OPTION TO SERVICE DELIVERY**

**SECTION III. USE OF OUTSOURCING TO DELIVER HUMAN SERVICES PROGRAMS**

Sharon McCrone, EOTC Executive Director and a candidate for a Ph.D. in Public Administration at Rutgers, is the principal researcher for this study. If you have questions, please contact her directly. Phone: 570-348-6484; Fax: 570-348-6492; E-mail: [eotc@aol.com](mailto:eotc@aol.com).

Thank you for contributing your expertise and first-hand experience to this important project, the results of which will be available to the **County Commissioners Association of Pennsylvania (CCAP)** and to **Pennsylvania Association of County Human Services Administrators (PACHSA)** members.

Marc Holzer, Ph.D.  
Director, National Center for Public Productivity

Sharon McCrone  
EOTC Executive Director



Graduate Department of Public Administration • Faculty of Arts & Sciences  
University Heights • Hill Hall • Newark • New Jersey 07102-1895 • (973) 353-5093

Mr. Terry Barley  
Director  
Cumberland Co. Aging & Comm. Services  
16 W. High Street  
Suite 100  
Carlisle, PA 17013

Dear Mr. Barley:

Employment Opportunity & Training Center – EOTC – of Northeastern Pennsylvania, Scranton, is collaborating with the **National Center for Public Productivity**, headquartered at Rutgers University, Newark, NJ, to study Outsourcing Arrangements used by Counties in the Commonwealth of Pennsylvania. A specific piece of our research will focus on Outsourcing Arrangements used by the Counties to deliver human service programs.

In order for our study to be successful, the **Center for Public Productivity and EOTC need your assistance**. The valuable information you provide about your County's use of Outsourcing Arrangements will add to the depth, breath and accuracy of our survey. During the week of April 24 or May 1, Sharon McCrone, EOTC Executive Director and a candidate for a Ph.D. in Public Administration at Rutgers, will be contacting you to arrange a date for a telephone interview that should take approximately one hour. We recognize the many demands on your valuable time and will adjust our time to accommodate your schedule. We hope you will be able to lend your expertise and first-hand experience to this important project. The results of the study will be available to the County Commissioners Association of Pennsylvania (CCAP) and to Pennsylvania Association of County Human Services Administrators (PACHSA) members.

The **Rutgers-EOTC** study contains three separate sections.

**SECTION I. COLLECTION OF COUNTY INFORMATION**

Collects specific information about each County

**SECTION II. ADOPTION OF OUTSOURCING AS AN OPTION TO SERVICE DELIVERY**

Collects information about Outsourcing Arrangements, in general

**SECTION III. USE OF OUTSOURCING TO DELIVER HUMAN SERVICE PROGRAMS**

Collects information specific to those Counties that Outsource Human Service programs

In order to keep the telephone interview as time efficient as possible, a copy of Section I is attached. Please complete this information and return to EOTC in the enclosed, stamped self-addressed envelope by May 2.

If you have questions, please contact Sharon McCrone, the principal researcher for this study, at EOTC. Phone: 570-348-6484; Fax: 570-348-6492; E-mail: eotc@aol.com.

Sincere thanks for your time and interest.

Marc Holzer, Ph.D.

**OUTSOURCING ARRANGEMENTS  
IN PENNSYLVANIA COUNTIES**

Please complete SECTION I and return by April 25.  
A stamped, self-addressed envelope is enclosed.

**SECTION I. COLLECTION OF COUNTY INFORMATION**

**RESPONDENT DATA:**

**County:** \_\_\_\_\_

Name of person completing SECTION I: \_\_\_\_\_

Department: \_\_\_\_\_

Title: \_\_\_\_\_

Address: \_\_\_\_\_

City: \_\_\_\_\_ Zip code: \_\_\_\_\_

Phone: \_\_\_\_\_ Fax: \_\_\_\_\_ Email: \_\_\_\_\_

For further information, is person listed above the appropriate contact for this study?      Yes \_\_\_\_\_      No \_\_\_\_\_

If NO, please provide contact information below:

Name: \_\_\_\_\_

Department: \_\_\_\_\_

Title: \_\_\_\_\_

Address: \_\_\_\_\_

City: \_\_\_\_\_ Zip code: \_\_\_\_\_

Phone: \_\_\_\_\_ Fax: \_\_\_\_\_ Email: \_\_\_\_\_

Please check the appropriate County Classification category:

8 _____	3 _____
7 _____	2 _____
6 _____	2A _____
5 _____	1 _____
4 _____	

**PRINCIPAL QUESTION:**

**DOES YOUR COUNTY OUTSOURCE LOCAL GOVERNMENT SERVICES?**

(as described in the *Introduction to Study*)

Yes \_\_\_\_\_ No \_\_\_\_\_

*Thank you for your valuable time and information.  
I will call you during the week of April 17 or April 24 to  
arrange a convenient time for a telephone interview.*



**SECTION II. ADOPTION OF OUTSOURCING AS AN OPTION TO SERVICE DELIVERY**

**County:** \_\_\_\_\_

**Respondent:** Name \_\_\_\_\_  
Phone \_\_\_\_\_

Length of time in current position \_\_\_\_\_  
Length of time in government (public sector) \_\_\_\_\_

**Interview verification:** Date \_\_\_\_\_ Time \_\_\_\_\_ Duration \_\_\_\_\_  
Phone \_\_\_\_\_ In person \_\_\_\_\_

1. Please indicate any/all of the Outsourcing Arrangements your County uses:

- \_\_\_\_\_ a. Another government or authority
- \_\_\_\_\_ b. Private for-profit corporation
- \_\_\_\_\_ c. Private nonprofit corporation
- \_\_\_\_\_ d. Franchises/concessions
- \_\_\_\_\_ e. Subsidies
- \_\_\_\_\_ f. Volunteers
- \_\_\_\_\_ g. Other(s) (please list) \_\_\_\_\_

2. What factors influenced your County's decision to outsource services? Please check all that apply.

- \_\_\_\_\_ a. External fiscal pressures, including restrictions placed on raising taxes
- \_\_\_\_\_ b. Internal attempts to decrease costs of service delivery
- \_\_\_\_\_ c. State or federal mandates tied to intergovernmental financing
- \_\_\_\_\_ d. Change in political climate emphasizing a decreased role for government
- \_\_\_\_\_ e. Active citizen group favoring privatization
- \_\_\_\_\_ f. Unsolicited proposals presented by potential service providers
- \_\_\_\_\_ g. Concerns about government liability
- \_\_\_\_\_ h. Other (please list) \_\_\_\_\_

3. Who was involved in studying the feasibility of Outsourcing? Please check all that apply.

- \_\_\_\_\_ a. Department heads
- \_\_\_\_\_ b. Line staff
- \_\_\_\_\_ c. Potential service deliverers
- \_\_\_\_\_ d. Outside professionals/consultants
- \_\_\_\_\_ e. Service recipients/consumers
- \_\_\_\_\_ f. Citizen advisory committees
- \_\_\_\_\_ g. Managers/chief fiscal officers of other local governments who have Outsourcing experience
- \_\_\_\_\_ h. State agencies, leagues or associations
- \_\_\_\_\_ i. Other (please list) \_\_\_\_\_

Concluded on page 2

4. Who participates in determining the use of Outsourcing as a method of service delivery?  
(understanding that County commissioners hold the ultimate authority to enter contracts)

*Please check all that apply.*

- |  |  |
|--|--|
| <input type="checkbox"/> a. Manager/chief fiscal officer           | <input type="checkbox"/> f. Procurement/purchasing officer |
| <input type="checkbox"/> b. Assistant manager/chief fiscal officer | <input type="checkbox"/> g. Categorical department head    |
| <input type="checkbox"/> c. Line employees                         | <input type="checkbox"/> h. Elected officials              |
| <input type="checkbox"/> d. Management and/or budget analysts      | <input type="checkbox"/> i. Other (please list) _____      |
| <input type="checkbox"/> e. Solicitor                              | _____  |

5. Does your County evaluate Outsourcing Providers?

Yes  No

If Yes, what factors are used to measure performance of Outsourcing Providers?

*Please check all that apply.*

- |   |
|---|
| <input type="checkbox"/> a. Accountability of provider to County  |
| <input type="checkbox"/> b. Customer satisfaction   |
| <input type="checkbox"/> c. Effectiveness (Desired program outcomes achieved)   |
| <input type="checkbox"/> d. Efficiency (Desired fiscal outcomes achieved)   |
| <input type="checkbox"/> e. Innovation (New/improved methods of program delivery;<br>community collaborations established/strengthened) |
| <input type="checkbox"/> f. Other(s) (please list) _____  |

6. Which of these factors have been most effective in measuring performance? *Please check all that apply.*

- |   |
|---|
| <input type="checkbox"/> a. Accountability of provider to County  |
| <input type="checkbox"/> b. Customer satisfaction   |
| <input type="checkbox"/> c. Effectiveness (Desired program outcomes achieved)   |
| <input type="checkbox"/> d. Efficiency (Desired fiscal outcomes achieved)   |
| <input type="checkbox"/> e. Innovation (New/improved methods of program delivery;<br>community collaborations established/strengthened) |
| <input type="checkbox"/> f. Other(s) (please list) _____  |

7. Which of the following activities has your County undertaken to ensure success in implementing Outsourcing Arrangements? *Please check all that apply.*

- |   |   |
|---|---|
| <input type="checkbox"/> a. Contract monitoring | <input type="checkbox"/> d. Fiscal audit              |
| <input type="checkbox"/> b. Site visits         | <input type="checkbox"/> e. Other (please list) _____ |
| <input type="checkbox"/> c. Program audit       | _____   |

8. Has your County encountered any obstacle in implementing Outsourcing?

Yes  No

If Yes, which of the following obstacles have been encountered? *Please check all that apply.*

- |  |
|--|
| <input type="checkbox"/> a. Opposition from citizens                                       |
| <input type="checkbox"/> b. Opposition from elected officials                              |
| <input type="checkbox"/> c. Opposition from local government line employees                |
| <input type="checkbox"/> d. Opposition from department heads                               |
| <input type="checkbox"/> e. Restrictive labor contracts/agreements                         |
| <input type="checkbox"/> f. Legal constraints  |
| <input type="checkbox"/> g. Insufficient supply of competent providers for Outsourcing     |
| <input type="checkbox"/> h. Lack of staff with sufficient expertise in contract management |
| <input type="checkbox"/> i. Lack of empirical evidence on the effectiveness of Outsourcing |
| <input type="checkbox"/> j. Lack of precedent; institutional rigidities                    |
| <input type="checkbox"/> k. Other (please list) _____                                      |

**SECTION III. USE OF OUTSOURCING TO DELIVER HUMAN SERVICE PROGRAMS**

County: \_\_\_\_\_

**Respondent:** Name \_\_\_\_\_  
 Title \_\_\_\_\_  
 Phone \_\_\_\_\_

Length of time in current position \_\_\_\_\_  
 Length of time in government (public sector) \_\_\_\_\_  
 Length of time in human services \_\_\_\_\_

**Interview verification:** Date \_\_\_\_\_ Time \_\_\_\_\_ Duration \_\_\_\_\_  
 Phone \_\_\_\_\_ In-person \_\_\_\_\_

**A. HISTORY OF OUTSOURCING FOR HUMAN SERVICES**

1. How long has your County used Outsourcing to deliver human service programs?

- |   |  |
|---|--|
| <input type="checkbox"/> a. 25+ years     | <input type="checkbox"/> d. 5 – 10 years     |
| <input type="checkbox"/> b. 20 – 24 years | <input type="checkbox"/> e. 1 – 4 years      |
| <input type="checkbox"/> c. 11 – 19 years | <input type="checkbox"/> f. Less than a year |

2. What are the three top factors your County considers when deciding to use an Outsourcing Provider for human service programs and/or services? *Please use 1-2-3 to prioritize your selections (with 1 being the highest rating).*

- |   |   |
|---|---|
| <input type="checkbox"/> a. Limited County staffing capacity          | <input type="checkbox"/> e. Funding source requires est. partnerships |
| <input type="checkbox"/> b. Cost of providing service                 | <input type="checkbox"/> f. Customer satisfaction                     |
| <input type="checkbox"/> c. Positive past experience with Outsourcing | <input type="checkbox"/> g. Program innovation                        |
| <input type="checkbox"/> d. County commitment to collaboration        | <input type="checkbox"/> h. Other ( <i>please list</i> ) _____        |

3. Other than those categorical programs that your County is legislatively mandated to provide, which human service programs are delivered with Outsourcing? *Please check all that apply.*

- |   |   |
|---|---|
| <input type="checkbox"/> a. Child care                  | <input type="checkbox"/> f. Family Center                       |
| <input type="checkbox"/> b. Children and Youth          | <input type="checkbox"/> g. Family Service System Reform (FSSR) |
| <input type="checkbox"/> c. Communities That Care (CTC) | <input type="checkbox"/> h. Mental health/mental retardation    |
| <input type="checkbox"/> d. Drug and alcohol treatment  | <input type="checkbox"/> i. Elderly                             |
| <input type="checkbox"/> e. Drug and alcohol prevention | <input type="checkbox"/> j. Other ( <i>please list</i> ) _____  |

4. Of the programs you identified in #3, what is your County's longest standing Outsourcing Arrangement?

- |   |   |
|---|---|
| <input type="checkbox"/> a. Child care                  | <input type="checkbox"/> f. Family Center                       |
| <input type="checkbox"/> b. Children and Youth          | <input type="checkbox"/> g. Family Service System Reform (FSSR) |
| <input type="checkbox"/> c. Communities That Care (CTC) | <input type="checkbox"/> h. Mental health/mental retardation    |
| <input type="checkbox"/> d. Drug and alcohol treatment  | <input type="checkbox"/> i. Elderly                             |
| <input type="checkbox"/> e. Drug and alcohol prevention | <input type="checkbox"/> j. Other ( <i>please list</i> ) _____  |

5. Prior to establishing Outsourcing contracts with private sector program providers, did your County have working relationships with the selected program providers?  
 Yes  No

6. Is your County required to develop private sector partnerships (as defined in Introduction to this survey) as a requirement for:

a. Federally-funded programs  Yes  No

If Yes, for what programs? \_\_\_\_\_

If No, what was the motivating factor(s) in deciding to form private sector partnerships?  
 \_\_\_\_\_

b. State-funded programs  Yes  No

If Yes, for what programs? \_\_\_\_\_

If No, what was the motivating factor(s) in deciding to form private sector partnerships?  
 \_\_\_\_\_

7. Does your County have sufficient staffing to deliver human service programs that are needed in your County and for which funding is available (other than those the County itself is legislatively mandated to provide)?

Yes  No

If Yes, what, then, are the advantages of Outsourcing?

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

If No, is the lack of sufficient staffing a contributing factor in your County's decision to use Outsourcing?

Yes  No

**B. SELECTION OF OUTSOURCING PROVIDERS**

8. How does your County select providers for Outsourcing the delivery of human service programs?

- |  |  |
|--|--|
| <input type="checkbox"/> a. Requests for Proposals           | <input type="checkbox"/> d. Small challenge grants       |
| <input type="checkbox"/> b. One-time-only competitive grants | <input type="checkbox"/> e. Other ( <i>please list</i> ) |
| <input type="checkbox"/> c. Purchase of Service Agreements   | _____  |

8 a. Does your County have a current Human Services Policies and Procedures Manual?

Yes  No

If Yes, Is it used? (Is it a viable document?)  
 Does it contain a statement or a position about Outsourcing?

Yes  No

If Yes, what is the statement?  
 May I have a copy?

### C. PERFORMANCE MEASUREMENT OF OUTSOURCING PROVIDERS

9. How does your County hold Outsourcing Providers accountable for performance outcomes?

*Please select all that apply.*

- |   |   |
|---|---|
| <input type="checkbox"/> a. Contract monitoring | <input type="checkbox"/> d. Fiscal audit                                  |
| <input type="checkbox"/> b. Site visits         | <input type="checkbox"/> e. Written reports from<br>Outsourcing Providers |
| <input type="checkbox"/> c. Program audit       | <input type="checkbox"/> f. Other ( <i>please list</i> ) _____            |

10. What criteria does your County use to conduct/compile:

- a. Contract monitoring
- b. Site visits
- c. Program audits
- d. Fiscal audits
- e. Written reports from Outsourcing Providers
- f. Other(s)

11. What criteria does your County use to measure:

- a. Accountability of provider to County  
(punctuality of reports, accuracy of reports, responsiveness to requests)
- b. Cost of service
- c. Customer satisfaction
- d. Effectiveness of service  
(Desired program outcomes)
- e. Efficiency of service  
(Desired fiscal outcomes)
- f. Innovation  
(new/improved methods of program delivery; community collaboration est'd /strengthened)
- g. Other(s)

**QUESTIONS 12, 13, 14 AND 15 REFER TO YOUR COUNTY'S WORK WITH PRIVATE FOR-PROFIT CORPORATIONS**

12. How many **for-profit corporations** does your County use as Outsourcing Providers?

- |                                     |   |
|-------------------------------------|---|
| <input type="checkbox"/> a. 100 +   | <input type="checkbox"/> d. 10 – 19       |
| <input type="checkbox"/> b. 50 – 99 | <input type="checkbox"/> e. Fewer than 10 |
| <input type="checkbox"/> c. 20 – 49 |   |

13. How long has your County worked in partnership with **for-profit corporations**?

- |   |  |
|---|--|
| <input type="checkbox"/> a. 25+ years     | <input type="checkbox"/> d. 5 – 10 years     |
| <input type="checkbox"/> b. 20 – 24 years | <input type="checkbox"/> e. 1 – 4 years      |
| <input type="checkbox"/> c. 11 – 19 years | <input type="checkbox"/> f. Less than a year |

14. What human service programs are delivered by **for-profit providers**? *Please check all that apply.*

- |   |   |
|---|---|
| <input type="checkbox"/> a. Child care                  | <input type="checkbox"/> f. Family Center                       |
| <input type="checkbox"/> b. Children and Youth          | <input type="checkbox"/> g. Family Service System Reform (FSSR) |
| <input type="checkbox"/> c. Communities That Care (CTC) | <input type="checkbox"/> h. Mental health/mental retardation    |
| <input type="checkbox"/> d. Drug and alcohol treatment  | <input type="checkbox"/> i. Elderly                             |
| <input type="checkbox"/> e. Drug and alcohol prevention | <input type="checkbox"/> j. Other ( <i>please list</i> ) _____  |

15. Of the County programs that are delivered by **for-profit providers**, please rate your level of satisfaction with 1=Highly satisfied, 2=Satisfied, or 3=Dissatisfied.

- |   |   |
|---|---|
| <input type="checkbox"/> a. Child care                  | <input type="checkbox"/> f. Family Center                       |
| <input type="checkbox"/> b. Children and Youth          | <input type="checkbox"/> g. Family Service System Reform (FSSR) |
| <input type="checkbox"/> c. Communities That Care (CTC) | <input type="checkbox"/> h. Mental health/mental retardation    |
| <input type="checkbox"/> d. Drug and alcohol treatment  | <input type="checkbox"/> i. Elderly                             |
| <input type="checkbox"/> e. Drug and alcohol prevention | <input type="checkbox"/> j. Other ( <i>please list</i> ) _____  |

**QUESTIONS 16, 17, 18 and 19 REFER TO YOUR COUNTY'S WORK WITH PRIVATE NONPROFIT CORPORATIONS**

16. How many **nonprofit corporations** does your County use as Outsourcing Providers?

- |                                     |   |
|-------------------------------------|---|
| <input type="checkbox"/> a. 100 +   | <input type="checkbox"/> d. 10 – 19       |
| <input type="checkbox"/> b. 50 – 99 | <input type="checkbox"/> e. Fewer than 10 |
| <input type="checkbox"/> c. 20 – 49 |   |

17. How long has your County worked in partnership with **nonprofit corporations**?

- |   |  |
|---|--|
| <input type="checkbox"/> a. 25+ years     | <input type="checkbox"/> d. 5 – 10 years     |
| <input type="checkbox"/> b. 20 – 24 years | <input type="checkbox"/> e. 1 – 4 years      |
| <input type="checkbox"/> c. 11 – 19 years | <input type="checkbox"/> f. Less than a year |

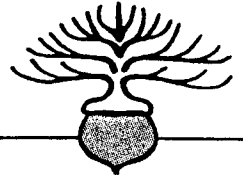
18. What human service programs are delivered by **nonprofit providers**? Please check all that apply.

- |   |   |
|---|---|
| <input type="checkbox"/> a. Child care                  | <input type="checkbox"/> f. Family Center                       |
| <input type="checkbox"/> b. Children and Youth          | <input type="checkbox"/> g. Family Service System Reform (FSSR) |
| <input type="checkbox"/> c. Communities That Care (CTC) | <input type="checkbox"/> h. Mental health/mental retardation    |
| <input type="checkbox"/> d. Drug and alcohol treatment  | <input type="checkbox"/> i. Elderly                             |
| <input type="checkbox"/> e. Drug and alcohol prevention | <input type="checkbox"/> j. Other (please list) _____           |

19. Of f the County programs that are delivered by **nonprofit providers**, please rate your level of satisfaction with 1=Highly satisfied, 2=Satisfied, or 3=Dissatisfied.

- |   |   |
|---|---|
| <input type="checkbox"/> a. Child care                  | <input type="checkbox"/> f. Family Center                       |
| <input type="checkbox"/> b. Children and Youth          | <input type="checkbox"/> g. Family Service System Reform (FSSR) |
| <input type="checkbox"/> c. Communities That Care (CTC) | <input type="checkbox"/> h. Mental health/mental retardation    |
| <input type="checkbox"/> d. Drug and alcohol treatment  | <input type="checkbox"/> i. Elderly                             |
| <input type="checkbox"/> e. Drug and alcohol prevention | <input type="checkbox"/> j. Other (please list) _____           |

20. Other comments or observations relating to your County's experience with Outsourcing Human Service Programs:



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Employment Opportunity & Training Center of Northeastern Pennsylvania

Suite 3D Kane Building  
116 North Washinton Ave., Scranton, PA 18503  
Phone (570) 348-6484 Fax (570) 348-6492  
e-mail: eotc@aol.com

**One last request.**

**We need your help.**

We are in the final stages of compiling data for the EOTC-Rutgers University Study of Outsourcing in Pennsylvania Counties.

The important information you can provide about outsourcing in your County will add to the thoroughness and accuracy of our study. I have attached a copy of Section II, designed for completion by the chairperson of the Board of Commissioners or the Chief Clerk/County Administrator. The survey should take less than 10 minutes to complete.

During the week of August 20, Sandy Currie will call you to arrange a convenient time for a telephone meeting with me. Our conversation should take no more than 15 minutes.

Thank you so much for your time and consideration. I look forward to speaking with you soon.

Sincerely,

Sharon McCrone  
EOTC Executive Director  
Principal Researcher  
Study of Outsourcing in PA Counties

Phone: 570-348-6484  
Fax: 570-348-6492  
email:shmcc@mindspring.com

Att.



## Appendix F

## **Case Study Questions**

For purposes of uniformity and continuity, the researcher will use a questionnaire to guide the interviews. The study is composed of four sections. Section I addresses the history and purpose of the group, its composition, decision-making methods, leadership styles and outcomes. Section II focuses on the monitoring process and the additional compliance factors used by the group. Section III contains questions for providers and Section IV for clients.

### **Case Study Questions (Keystone County) Advisory Board**

#### **Section I – Board and Advisors**

##### **A. History and Purpose**

- 1. Why and when was the Advisory Board/Group formed?**
- 2. What was the original goal of the Board/Group?**
- 3. Has the original goal changed?**

##### **B. Composition**

- 4. Who is represented on the Board/Group?**
- 5. Was the composition of the Board/Group strictly defined?**
- 6. Is there a set term of service?**

##### **C. Decision-making and Leadership**

- 7. What is the leadership structure of the group?**
- 8. Are leaders appointed or elected?**
- 9. When presented with a problem or issue, how does the group come to a decision?**

##### **D. Outcomes**

- 10. To whom is the group accountable?**
- 11. Does the group have defined, measurable outcomes?**

**Case Study Questions  
(Keystone County) Advisory Board**

**Section II – For Board**

- 1. How did the monitoring process evolve?**
- 2. How did the additional compliance factors come to be developed?**
- 3. Did a particular incident spark their initiation?**
- 4. Give an example of a situation where the monitoring process prevented a service delivery problem.**
- 5. Give an example of a situation where the monitoring process revealed a hidden or existing problem.**
- 6. Why is this monitoring process effective?**
- 7. What about this monitoring process would you change, add, delete or modify?**
- 8. How does the work of this group illustrate the problems and the possibilities that such groups pose to county administration of outsourcing?**

*Material sent to providers.*

*Note: Because the case study was anonymous, references to the county have been deleted here.*

January 25, 2002

Name  
Address  
City, State, Zip

Dear \_\_\_\_\_ :

Over the past year, \_\_\_\_\_ County has taken part in a statewide study of Outsourcing Arrangements used by Pennsylvania counties. Employment Opportunity & Training Center - EOTC - of Northeastern Pennsylvania, Scranton, is collaborating with the National Center for Public Productivity, headquartered at Rutgers University, Newark, NJ, to conduct the study. I understand that \_\_\_\_\_ has spoken to you about this project and my interest in learning more about \_\_\_\_\_ Advisory Board.

I selected \_\_\_\_\_ County as a result of my initial interview with \_\_\_\_\_, then Director of Human Services. This final phase of my dissertation research is an in-depth interview with County administrators, program providers and consumers of county services. Because you serve on the \_\_\_\_\_ Advisory Board, I am writing to ask for your cooperation and participation in this process.

As local governments strive to provide cost efficient, quality services to citizens, a variety of service delivery options have evolved. In addition to having their own employees provide services, many local governments have established contracts, agreements, partnerships and other arrangements with for-profit and nonprofit corporations. These options for service delivery often are known as Outsourcing of Services. A specific piece of the EOTC-Rutgers research focuses on Outsourcing Arrangements used by the Counties to deliver human service programs.

In order to learn more about the \_\_\_\_\_ Advisory Board's involvement in monitoring performance of outsourcing arrangements, I will be attending the February 2002 Board meeting. In addition, I would like to arrange a time to speak individually with you either after the February Board session or at another, more convenient time. The valuable information you provide about your work in \_\_\_\_\_ County will add to the depth, breath and accuracy of our survey. The results of this research will contribute to the growing body of literature and long-standing interest in what generically have come to be called Public/Private Partnerships.

Be assured that your participation is voluntary and that the information you provide will not be attributed directly to you nor will your name be used. As an individual, you will

remain anonymous. This project has been submitted to the Institutional Review Board, Office of Research and Sponsored Programs, Rutgers University, ASB #3, 3 Rutgers Plaza, New Brunswick, NJ 08901. Phone 732-932-1050.

In order for our study to be successful, the Center for Public Productivity and EOTC need your assistance. If you are willing to participate, please sign and date in the space below. An addressed, stamped envelope is included.

Thank you for your consideration. Your expertise and first-hand experience are important to this project.

Sincerely,

Sharon McCrone  
EOTC Executive Director  
Principal Researcher  
EOTC-Rutgers University  
Study of Outsourcing Arrangements in Pennsylvania counties

Contact information:  
Phone: 570-348-6484  
Fax: 570-348-6492  
Email: shmcc@mindspring.com

=====

**Agreement to participate**

**As a member of \_\_\_\_\_ Advisory Board, I agree to participate in the EOTC-Rutgers University Study of Outsourcing Arrangements in Pennsylvania counties. I understand that my participation is voluntary and confidential.**

**Signed \_\_\_\_\_ Date \_\_\_\_\_**

**Please print your name \_\_\_\_\_**

**Address \_\_\_\_\_**

**Phone \_\_\_\_\_ Email \_\_\_\_\_**

**Please return to: Sharon McCrone  
EOTC Executive Director  
Kane Building - 116 North Washington Ave.  
Scranton, PA 18503**

**Stamped, addressed envelope enclosed.**

**Case Study Questions  
(Keystone County)**

**Section III – For Providers**

- 1. How does *Keystone County's* monitoring process apply to your particular program?**
- 2. Give an example of a situation where the monitoring process prevented a service delivery problem.**
- 3. Give an example of a situation where the monitoring process revealed and addressed an existing or potential problem.**
- 4. Why is this monitoring process effective?**
- 5. What about this monitoring process would you change, add, delete or modify?**
- 6. Do you contract with another county?**
- 7. If yes, does that county have a monitoring process?**
- 8. If yes, how do other monitoring processes compare with *Keystone County's* process?**
- 9. How does the work of this group illustrate the problems and the possibilities that such groups pose to county administration of outsourcing?**

**Case Study Questions  
(Keystone County)**

**Note: For reasons of confidentiality and access to clients,  
the researcher was unable to conduct interviews with clients.**

**Section IV – For Clients**

- 1. How were you referred to the program/service?**
- 2. How long were you involved in the program?**
- 3. Did you and the professional you were seeing develop a plan that would help you measure your progress?**
- 4. If you had a difficulty with or a concern about the program or service, did you know how to get help addressing the concern or solving the difficulty?**
- 5. Did you know the name of a person to contact or a place to go?**
- 6. Have you ever filled out a questionnaire that asked you about your the program/your satisfaction with the service?**
- 7. Did you ever write a thank-you note or letter for the services you received?**
- 8. Did you ever write a letter because you had problems with the program or a staff member?**
- 9. Do you believe you that what you said (or what you would say) about the program/service was used (or would be used) to the program/service better?**