

Contracting Out as Administrative Reform*

- Conceptualizing Components and Measuring Dimensions of Contracting

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I. Introduction

Kettl (2000,1) recently observed that, "since the 1980s a global reform movement in public management has been vigorously under way." The scope of the reform ideas and actions has been global, he argued, not only geographically but also in its depth. He notes (2000,1) that: "Governments have used management reform to reshape the role of the state and its relationship with citizens."

Kettl listed six core "characteristics" of the global reform movement: (1) productivity, (2) service organization, (3) decentralization, (4) policy, (5) accountability, and (6) "marketization." A featured part of this last reform is the instrument or tool of contracting (out) by administrative agencies for the delivery of public services. It is a tactic or strategy that has attracted considerable comment and controversy.

This essay focuses on contracting as a tool in the transformation of the delivery of public agency programs and services. It does this by first offering an overview of contracting as an element in the presumed global administrative reform movement. It next sketches a conceptual framework for characterizing the organizational context for understanding contracting by public agencies. This framework identifies two major components framing the context for contracting and then specifies dimensions of the contracting process within each component.

The third and main portion of this essay addresses operationally and empirically selected dimensions of contracting. It does this by presenting data on the uses of the contracting device by nearly 1,000 administrative agencies located within and across the 50 American state governments. These three sections provide the basis for concluding observations that interpret both the findings and consider more generally the implications of contracting as part of the global "transformation of governance" (Kettl 2002).

II. Global Administrative Reform and Contracting for Service Delivery

At first glance the view that the public management revolution is “global” in scope seems persuasive. Certainly Kettl’s exposition of the thesis encompasses many nations. These include references to Australia, Canada, Costa Rica, Denmark, Finland, Iceland, Italy, Japan, Mexico, New Zealand, Poland, Qatar, Singapore, South Africa, South Korea, Sweden, United Kingdom, and the United States.

1. Global Reform?

A closer reading of his 80-page essay, however, reveals a dominant focus on only two nations, New Zealand and the United States, with a secondary emphasis on commonwealth countries (United Kingdom, Australia, and Canada). Kettl was eminently justified in both the scope and content of his global survey, especially given the OECD and other written reports on the dynamics of economic, social, political, and administrative changes occurring across the globe (OECD 1997; Keating 1998). But the numerous nations noted above are more illustrative of countries across the northern hemisphere rather than an approximate representation of all nations. Missing regions are Africa, Eurasia, the Asian subcontinent, and the Middle East. Kettl’s exposition is insightful and instructive but its “global” reach is more accurately a selective set of countries located at various places around the world.

The selective focus employed by Kettl is an inherent limitation associated with the exploration of administrative reform. That constraint applies equally to the empirical analysis we use below. But we, like Kettl, do not extract inferences or advocate reforms applicable to the entire world. Instead we set our empirical analysis in a framework that may inform and instruct interested persons and institutions in other countries and cultures. Administrative reform

may or may not be universal in its scope, character, and content. But if the exposition of the topic is thoughtfully and constructively framed then the information, issues, and implications may be of value to interested individuals and public officials in other national and subnational settings.

2. Contracting as Administrative Reform

Kettl (2000, 38) connects contracting clearly and unequivocally with administrative reform: "Reformers have relied extensively on expanded partnerships with nongovernmental organizations—contractors in the private and nonprofit sectors." He places contracting under the broader category of "marketization," which also parallels and includes privatization—the selling of previous publicly owned enterprises. The basic aim underlying contracting specifically and privatization generally is simple. "Replace traditional bureaucratic command and control mechanisms with market strategies and then rely on these strategies to change the behavior of program managers." (Kettl 2000, 2).

The reference to "program managers" is both important and indicative of how and why contracting is one of the key elements in package of administrative reform tools. Historically, at least in the United States, the original or "old" doctrines of administrative reform placed predominant emphasis on structural (e.g. reorganization) changes as instruments for achieving the four E's of (1) economy, (2) efficiency, (3) effectiveness, and (4) expertise (Light 1997; Wright 2004).

Contemporary administrative reform in America reflects significantly different values, symbols, or slogans, ones that Light (1999) calls "liberation management." Wright (2004) identified five values of this current era of administrative reform: (1) equality, (2) equity, (3) empowerment, (4) evaluation, and (5) entrepreneurialism. Table 1 provides a listing and short characterizations of both classic and contemporary public administration values

(Wright 2004). Two groups of these broad aims (or slogans) highlight the contrasts between the “old” and the “new” public management, particularly the shift from governing and government to governance and networking (Kamensky and Burlin 2004; Stark 2002).

(TABLE 1) Classic and Contemporary Public Administration Values: from Government to Governance

	<i>Classic(“old”) Public Administration</i>	<i>Contemporary(“new”) Public Administration</i>
Government and Governance	Government/governing: the politics/ policy-administration dichotomy	Governance: the organizational world as a seamless web - networks inside, outside, and across organizations
Values	<u>Four (4) E’s</u> 1. Economy: cut costs 2. Efficiency: input-output ratios a. over time b. across organizations 3. Effectiveness: degree of goal attainment 4. Expertise: applied problem-solving (expert “on tap” and sometimes on top)	<u>Five(5) E’s</u> 1. Equality: legal, social, political 2. Equity: essential fairness 3. Empowerment: citizen influence and worker participation 4. Evaluation: performance, results 5. Entrepreneurialism: network governance (proactive management - plan, promote, privatize, publicize)

Elsewhere Stark (2002) has elaborated and synthesized “the features of the new public management.” In all of these expositions the presence and prominence of contracting (or contracting out) is a noteworthy if not essential element or instrument in administrative reform. This discussion serves as a background for moving toward a conceptual understanding of the contracting process as a reform instrument.

III. A Framework for Comprehending Contracting

Two conceptual discussions stimulate this brief and modest effort to frame the options and the decisions made by public agencies to contract for service delivery. The first draws on Downs (1967) and his exposition of Inside Bureaucracy. The second is traceable to Kettl and his more recent (2002) work on The Transformation of Governance. While focused primarily on public administration traditions in the United States Kettl nevertheless posits the significance of networks that transcend boundaries both within as well as beyond bureaucratic organizations.

The title of Downs' book suggests a concentration on inside bureaucracy. His formal exposition, however, incorporates the context or ecological setting in which public organizations are embedded. Early in his discussion of central hypotheses Downs (1967, 2) claims that, "every organization's social functions strongly influence its internal structure and behavior, and vice versa." With this statement, albeit a hypothesis, Downs posits a set of linkages, interactions, and interdependence between external variables and the internal features of organizations, especially public ones.

Two further points merit mention regarding the approach used by Downs. First, his reference to "structure and behavior" is deliberately broad, covering both the formal and informal facets of the organization (i.e., structure) as well as the motivations and actions of organizational members (i.e., individual behavior). Second, Downs was exclusively theoretical in his aim (1967, 1), "...to develop a useful theory of bureaucratic decision making[one that] should enable analysts to predict at least some aspects of bureau behavior accurately, and to incorporate bureaus into a more generalized theory of social decision making--particularly one relevant to democracies."

Kettl (2002) presents a sophisticated analysis of four contrasting American administrative traditions. The tensions between and among these enduring traditions lead to "emerging fuzzy boundary problems" (Kettl 2002, 76). These

blurred boundary problems “compounded public administration’s practical difficulties” (2002, 77) both within and outside American public bureaucracies.

Kettl devotes one chapter to the internal fuzzy boundary relationships and another complete chapter to external ones. While it greatly oversimplifies the depth of his analysis, one way to summarize his approach is an emphasis on the creation of networks that span the boundaries within and between organizations. In this respect he parallels but expands on the internal-external linkages stated by Downs a quarter-century earlier. As if to anticipate our subsequent empirical analysis Kettl (2002, 110) discusses “Networks and Governance” as follows:

These increasing connections among public, private, and nonprofit organizations profoundly disrupt traditional notions of administration. In fact, such inter-organizational relationships epitomize the ultimate “fuzzy boundary” problem. Successfully bridging the boundaries requires different strategies and fresh tactics to ensure effective and responsive programs.

Both Downs and Kettl identify the two clusters or components of the framework for understanding the process of contracting out. Those are (1) the internal component and (2) the external component. Both authors emphasize the connection(s) between the two, with Kettl providing a more expansive and nuanced discussion of “networks of governance” that span multiple boundaries within and among organizations. Within each of the internal and external components it is possible to identify discrete dimensions of the contracting process. These dimensions are listed below. Each dimensional feature is discussed subsequently in connection with the empirical analysis of contracting by administrative agencies in the 50 American state governments.

COMPONENTS AND DIMENSIONS OF CONTRACTING



CONTRACTING BY AMERICAN STATE ADMINISTRATIVE AGENCIES

Contracting out has been a lightning rod term in the field of public management in the United States for more than a decade. Whether offered as a set of organizational practices, proposed as a major reform initiative, or advanced as a means of downsizing (rightsizing) government, contracting has both galvanized and polarized debates in the public policy/management community. It has produced correspondingly intense arguments among practitioners and academics. Missing from most discussions or debates is a broad-based body of information about the actual use of contracting by a comprehensive set of representative public agencies. Apart from selected surveys at the local (municipal) level most public administrative experiences and research involving contracting are anecdotal, case-specific, or otherwise narrowly focused (Siegel, 1999).

The literature is extensive on contracting generally and on purchase-of-services contracting (DeHoog, 1984; Rehfuss, 1989; Kelman, 1990, 2003; DeHoog and Salamon, 2002; Cooper, 2003). The scope and content of the literature on and analyses of contracting are illustrative of the significance of this tool as an instrument of governance. In a comprehensive 22-chapter volume focusing on more than a dozen tools of government (Salamon, 2002), one author (Kelman 2002, 282) observes that, "None of the tools of government discussed in this book is more ubiquitous than contracting." Cooper reinforces the importance of this tool by asserting (2003, 11) that, "It is difficult to think of any aspect of modern life that is not significantly affected by government contracts..." and O'Neill (2002, 2) introduces his book with the statement, "The

nonprofit sector is a major presence in American life.”

Both Kelman (2002) and Cooper (2003) highlight the distinctions between contract purchasing (procurement) and contracting for the delivery of services. Both also emphasize the much larger role that this latter type of contracting plays in state/local government in contrast to the national level. Cooper identifies as well as explains this larger role in the 1990s (2003, 45).

Although state and local governments had always done a good deal of contracting, the level of service contracting increased as governors and state legislatures rushed to downsize the public workforce. Of course, the federal and state legislative service mandates remained. That meant that these governments had to place greater reliance on contractors. Then there was the “new public management” movement, a global phenomenon that emphasized deregulation, decentralization, downsizing, and outsourcing (as contracting came to be known) as key components.

Cooper (2003:60) neatly frames the three-fold or multi-sectoral focus of this essay: “Where service contracts are involved the public administrator can expect to develop relationships with for-profit firms, nonprofit organizations, and other governmental units.”

Our analysis of contracting for service delivery among state agencies fills informational, inferential, and interpretative gaps on this controversial subject. It meets the criteria of broad scope, descriptive focus, representative experience, and user evaluations. It does so by analyzing survey results from more than 1100 state administrative agencies (in 1998) regarding their use of service contracting. These are representative responses from over 3,000 agencies across the fifty states. (Brudney and Wright, 2002; Wright and Cho, 2001). The survey obtains agency head’s reports on and evaluations of practices involving specific dimensions of contracting. These dimensions are: (1) decisionmaking, (2) diversity, (3) density, (4) directionality, and (5) disposition, with the last subdivided into (a) cost effects and (b) service quality effects.

IV. Dimensions of Contracting: Decisionmaking, Diversity, Density, and Directionality

Responses on each of five dimensions are reported in Table 2. The degree to which contracting is employed by state agencies is extensive. Nearly three fourths (73%) of the responding agency heads indicated that their agency decided to use this tool (in 1998). This proportion is roughly comparable to findings from other (and less comprehensive) surveys of state agencies (Apogee, 1992; Auger, 1999; Chi, 1993; Chi and others 2003).

While the scope of contracting decisions across agencies is noteworthy the other dimensions of this tool deserve greater recognition and elaboration. In all instances the discussions (and percentages) are based on the number of agencies (over 800) that reported some use of contracting.

Henry (2002), in a review of privatization and contracting, invented the term "intersectoral administration" to focus attention to the importance of managing across the multiple boundaries among the private, nonprofit, and public sectors.³⁾ It is apparent from the proportions for the diversity dimension that state agencies are extensively engaged in contracting that spans multiple sectors. Approximately 60%, 70%, and 80% of these agencies rely respectively on other governments, nonprofits, and private firms for service delivery purposes. More than two decades ago Salamon (1981) identified the emergence of what he called "third-party government" and how "changing forms of governmental action" required a "rethinking of public management." There are few if any consistent long-term trend data on contracting similar to those displayed in Table 2. But Salamon (1981) and Mosher (1980) were precursors and predictors of what, because of its extent and

3) In several respects Henry's focus on intersectoral administration (ISA) is both comparable to and compatible with the emergence of intergovernmental management, or IGM. See Agranoff, 1986, 1996; Wright, 1990; and Wright and Krane, 1998. We defer to a later date a comparative analysis of ISA and IGM.

(TABLE 2) Dimensions of Contracting for Service Delivery: by State
Administrative Agencies, 1998

<i>DECISIONMAKING: Agency Contracts for Service</i>		
	Delivery	Percentages
Yes		73
No		27
 <i>DIVERSITY: Agencies Contracting with Sectors (N=850)</i>		
Other Governments		61
Non-Profits		71
For-Profits		83
 <i>DENSITY: Percent of Budget allocated by Contracts (N=820)</i>		
10% or less		55
11-20%		15
21-40%		13
Over 40%		17
 <i>DIRECTIONALITY: Increased in Contracting over Last Four</i>		
	Years:	
Other Governments (N=457)		53
Non-Profits (N=527)		61
For-Profits (N=631)		83

DISPOSITION: Cost and Quality Effects

Effects on Service Costs (N=827)

Increased	29
Decreased	34
No Effect	30
Don't Know	7

Effects on Service Quality (N=830)

Improved	49
Decreased	9
No Effect	35
Don't Know	6

Source: Deil S. Wright, *American State Administrators Project (ASAP) Survey*, Odum Institute for Research in Social Science, University of North Carolina at Chapel Hill

diversity, is now suggested as intersectoral administration. More recently Goodsell (2004) examines "the case for bureaucracy" as it involves contracting and other networking tools. He classified these under the inclusive phrase, "dispersed public action" (2004:65-81). Contracting for service delivery underscores the increasingly blurred or fuzzy character of the boundaries between the public, private, and nonprofit sectors in the United States.

With over 70% of all agencies relying on service delivery contracting it is natural to inquire about what types of state organizations reveal higher and lower preferences for using this tool. Three types of line agencies in state government score high in using contracts. The three clusters are (a) income security and social services, (b) health, and (c) transportation. Over 85% of these agencies employ contracting to deliver services. For one category of staff agencies, fiscal units such as budgeting and finance, nearly 80% rely on contracting. Among the agencies that use contracting the least, two stand out. These are criminal justice and regulatory agencies, where less than 65% use contracts.

A third dimension of contracting is labeled density. This indicates the budgetary proportion that is allocated through the contracting process. Table 2 shows that the density of contract usage is quite varied. Over half of all state agencies employing contracts assign 10% or less of their budgets through this instrument. At the other end of the spectrum 17% of the agencies allocate over 40% of their resources through contracts. Substantial additional analysis is needed to determine the aggregate fiscal magnitude of contracting. There are two approaches to aggregation. One is to aggregate based on the absolute budget size of the agency; the other is to aggregate by agency size on a state-by-state basis to estimate contracting density within each of the fifty states.⁴⁾

In place of fiscal magnitudes it is possible to identify those state agencies that allocate the highest and lowest segments of their budgets to contracting. The same three agency clusters demonstrating the greatest use of contracting are also those that channel larger budget shares with this tool. Income security and social service, health, and transportation are the highest density users of contracting. For example, over 75% of all health agencies allocate over 30% of their budgets to service delivery contracts. The comparable proportions for income security/social services and transportation are 40% and 35% of the agencies in the top tier group. State agencies in these three clusters also happen to be among the largest in terms of fiscal outlays. Criminal justice, regulatory, and natural resource agencies are low-density fiscal users of contracts.

Directionality is a fourth distinguishable dimension of contacting. This term refers to trends in the use of contracting. Specifically, over the prior four years how it has changed in terms of usages. Has service contracting been increasing

4) The number of responses from each state as well as their size representativeness is necessary for reliable state aggregation estimates. For some individual states, perhaps 30-35, these estimates are probably feasible with ASAP data, but for 15-20 states where the number of agency respondents is 20 or less the estimates would be questionable. See Wright and Cho, 2001; Brudney and Wright, 2002.

or decreasing? It is evident and significant that across all three sectors there has been increased use of contracting (during the mid-1990s). Slightly more than half the state agencies expanded contract usage with other governments, over 60% increased their use of nonprofits, and a commanding 83% relied more on private firms for service delivery. Privatization has clearly been ascendant among American state administrative agencies.

Cooper (2003:11) identifies contracting as the "300-pound gorilla that cannot be ignored," and references what we call directionality as "the increased pressure for more contracting, even as public agencies have been called on to shrink their size and role." Our findings give empirical support to Cooper's assertion (2003:11) that, "The likelihood that this [contracting] will change back to old modes of service delivery is nonexistent, and there is considerable reason to think that with contemporary political pressures as they are the dependency will grow." Future surveys of national, state, and local agencies will be needed to document trends in the use of this tool.

The direction of contract usage was on a steep rise during the 1990s. What the trend has been in the present decade is indeterminate. It would be surprising if the upward trend was reversed. Support for this comes from the small proportion(s) of agency heads who reported "decreased" usage of contracting during the 1990s. Less than 5% of the respondents indicated a decline in usage for the third-party sectors shown under the directionality dimension. In short, intersectoral administration was on a rather meteoric rise in the 1990s. General impressions, illustrative instances, and continued visibility suggest that it remains at a high level and worthy of continued systematic monitoring and analysis.⁵⁾ In a more recent and limited survey Chi and others (2003) found that roughly one third of 250 state officials reported increased use of privatization over the previous five years.

Before closing this discussion of decisionmaking, diversity, density, and directionality of contracting, three summary points merit mention for emphasis

5) We pursue such an analysis in a replicated survey of state agency heads in 2004.

and later elaboration. First and foremost, service contract usage across the three sectors is widespread and occurs in a near stair-step fashion from (a) other governments, to (b) nonprofits, to (c) private firms. Second, the density or intensity of resources channeled through contracts varies widely across agencies. Many operate at a very modest level (10% or less) but a substantial segment of larger agencies (17%) contract out 30-40% or more of their budgets. Third and equally prominent is the trend, at least in the 1990s, toward greatly increased usage of the contract tool. To the extent that contracting across sectors is a reliable trace indicator of intersectoral administration, governance through networking is a major component of contemporary public management in American state governments.

V. Disposition: A Fifth Dimension of Contracting

Two controversial and contentious issues associated with contracting involve the tool's effects on (a) costs and (b) service quality. These two elements are features of performance contracting and, as Kelman (2002:312) notes, "Improving the quantity and quality of performance monitoring of contracting is the most serious management challenge faced in the use of the contracting tool..." Conclusive and objective evidence on these features is generally rare and sometimes unreliable. Kettl (2000,39) referenced OECD research showing savings ranging from 5% to 50% with typical percentages around 20. Chi and others (2003) reported widely different assessments of cost savings, with 20-30% indicating no cost reductions while nearly one third specified costs reduced by 15% or more. The ASAP survey method (mail questionnaire) was far from an ideal or feasible means to secure firm evidence on cost and quality factors. It was possible, however, to elicit the views of users (agency heads) disposition or judgement toward the costs and quality effects of contracting.

Did agency heads whose units relied on contracts think, "contracting out affected the quality of services your agency delivers to the public?" And how

were the agency heads disposed toward fiscal effects: How has contracting out affected the costs to your agency of delivering services to the public? For both cost and quality questions respondents were offered the alternatives of (a) increased, (b) decreased, or (c) no effect on costs/quality. (A "don't know" response was also available.)

The two lower arrays of percentages in Table 2 display the administrators' dispositions toward cost and quality factors. On the cost component the reported effects are almost evenly divided in thirds. Slightly under 30% indicated increased costs, just over one third reported decreased costs, while a remaining 30% identified no impact on service delivery costs. This spread in the distribution on costs may be one indicator of why controversy abounds over the "savings," or lack thereof, due to contracting. The evaluations or dispositions of state agency heads are deeply divided on the fiscal effects of this tool.

How do agency heads view the service quality effects of contracting? For quality effects on services the disposition distribution is dramatically different. Nearly half (49%) the respondents indicated that service quality increased. Advocates of this tool can point to these results as a feature that receives ringing endorsement. Admittedly, this confirmation, if it can be called that, is subjective rather than firmly measured objective evidence. Also supportive of contracting in a backhanded way is the small proportion (9%) reporting that service quality declined. Aside from the small set of "don't know" respondents, the remaining one-third (35%) of the agency heads rated quality effects as neutral.

With out further analysis by size, type, function, and other agency characteristics it is difficult to offer a singular or summary assessment of the cost and quality effects of contracting. The balance is clearly tilted toward the positive side on service quality considerations. From a cost standpoint, however, there are sharply divergent dispositions offered by state agency heads. These diverse judgments and aggregated results fail to resolve past and present debates over contracting. They, nevertheless, provide a set of informed

judgements about agency-based assessments of this service delivery method.

We carry an analysis of the disposition dimension one step further. A cross-tabulation between the contrasting views on cost and quality effects guides the path we pursue. We start with cost features, which are among the most controversial and around which there is the greatest cleavage. Among respondents who indicate that contracting reduced costs Table 3 shows a noteworthy distribution with regard to quality effects. For 27% of the agency heads (N=735) the contracting instrument was, at one and the same time, judged to reduce costs and improve quality. By contrast, only 2% indicated that cost cuts reduced service quality. Another 9% were of the opinion that quality had remained the same while costs had decreased. Somewhat more than a third of the agency heads, then, saw identifiable positive results from service delivery contracts.

What were the effects on quality among administrators who reported that contracting had neither reduced nor increased costs? A second set of figures in Table 3 reveals the respective responses. The first proportion indicates that while costs did not change more than one in eight (13%) of the agency heads indicated that service quality increased. A somewhat high number (18%) saw no change in quality while a minute proportion (1%) identified a decline in quality. If we add the 13% reporting costs stable and quality up to the earlier tabulation (of 9% and 27%) then nearly half of the agency heads identify contracting as a means of improved service delivery through (a) reduced costs and increased quality, (b) reduced costs and no effect on quality, and (c) costs unchanged but quality enhanced. From a pure subjective standpoint contracting is assessed as enhancing service delivery by a near majority of state agency heads.

(TABLE 3) Contracting By State Administrative Agencies: Cost-Quality Configurations, 1998

	N=	Percentages
COST DECREASED, QUALITY		
Up	197	27
Same	67	9
Down	13	2
COST STABLE, QUALITY		
Up	93	13
Same	131	18
Down	11	1
COST INCREASED, QUALITY		
Up	99	14
Same	75	10
Down	49	7
Total	735	100

Source: Deil S. Wright, *American State Administrators Project (ASAP) Survey*, Odum Institute for Research in Social Science, University of North Carolina at Chapel Hill

The third opinion category on contracting represents the nearly 30% of respondents reporting that this tool resulted in increased costs. When costs increased what were the quality consequences assessed by state administrators? The bottom set of figures in Table 3 discloses their dispositions. For 14% of the agency heads the cost increases due to contracting resulted in enhanced service quality. This "enrichment" cluster was larger than either of the "degraded" groups where costs rose but quality remained the same (10%) or actually declined (7%). Combining the two degraded groups, however, creates a cluster that exceeds the enrichment category. In other words, when administrators saw that contracting produced cost increases the

balance of opinion ran against this tool as an effective or efficient means of service delivery.

What might we conclude from this array of responses tapping the service contracting views of state agency heads? Clearly, this "new public management" tool generates a diverse set of dispositions. The results displayed in Tables 2 and 3 tend to support the metaphor of the "blind men and the elephant." Assessments of contracting depend on where one "touches" this varied and complex phenomenon. Those disposed toward favorable views see contracting as a solid "wall" or foundation for altering costs in a manner that produces positive service quality results. On the other hand, the segment of administrators touching the proverbial elephant on the trunk or the tail view of contracting as either a snake or rope that negates or restricts service quality. The metaphor used here is another way of saying that the effective (or ineffective) use of contracting depends on a variety of factors that hide behind or lie buried below the response patterns exposed and explored in Tables 2 and 3. It is to some of these undisclosed factors that we now turn.

VI. Sector Diversity: Complexity and Specialization

Before taking initial steps toward an analysis of contracting as it relates to intergovernmental relations it is worthwhile to revisit and reflect further on the sector diversity dimension. Sectors, of course, are an essential aspect of a contracting. That is, the "others" with whom the state agencies relate through the contact mechanism are three sectors identified by Cooper (2002) as: (a) private, (b) nonprofit, and (c) other governments. O'Neill (2002:7), in his overview of Nonprofit Nation, observes that "Many theorists now posit four sectors in the U.S. and comparable societies: the household sector, the governments sector, the for-profit or business sector, and the not-for-profit or nonprofit sector."

We bypass the household sector and extract from the other three sectoral interactions two components or facets of the diversity dimension. The first is complexity; the second is labeled specialization. Sector complexity is the absolute number of sectors to which the state agency relates through contracting, that is, none, one, two, or three. Sector specialization indicates the manner in which a state agency targets or concentrates on its contracting toward distinctive combinations of the three sectors.

1. Sector Complexity

To describe and specify the nature of sector complexity it is useful to parse the responses of the nearly 800 agency heads engaged in contracting for service delivery. Omitting agencies that do not contract, what are the permutations and combinations of agency-sector interactions? Table 4 displays frequencies and proportions for the single, dual, and multiple links that these agencies establish for service delivery.

<TABLE 4> The Diversity Dimension of Service Contracting Among State Agencies

	Contract Respondents		All Respondents
	(N)	%	%
<i>Single Sector Contracts</i>			
Other Government	25	3	
Non-Profits	56	7	
Profit (Private) Firms	156	20	
	237	30	20
<i>Dual Sector Contracts</i>			
Other Gov'ts and Non-Profits	67	8	
Other Gov'ts and Profit Firms	74	9	
Non-Profits and Profit Firms	117	15	
	258	33	22
<i>Three Sector Contracts</i>			
Other Gov'ts, Non-Profits and Profit Firms	295	37	25
Sub-Total	790	100	
<i>Not Engaged in Contracting</i>	385		33
Total	1175		100

Source: Deil S. Wright, *American State Administrators Project (ASAP) Survey*, Odum Institute for Research in Social Science, University of North Carolina at Chapel Hill

The complexity variable is simply the numeric for the number of sectors engaged by the different agencies. Among state agencies that contract for service delivery roughly one third employ, respectively, one, two, or three different sectors. The modal category is the cluster of agencies (37%) that engage in service contracting simultaneously with all three sectors. A slightly lower proportion (33%) contract with two sectors and a remaining 30% utilize only a single sector. When the entire set of ASAP respondents are included the proportions drop to 20-25% in each complexity category with one-third outside the contracting arena.

2. Sector Specialization

If complexity is the pure number of sectors with which agencies contract then specialization identifies the distinctive types of sectors used as intermediaries for service delivery. Those sectors constitute, of course, nominal categories. Based on premises about "publicness," however, we posit a crude ordinal scale on which to align the sectors from the most to the least public sector involvement in service delivery (Bozeman, 1987; Rainey, 2003). The listing below, along with the proportions in each category, displays the sector specialization spectrum.

1. Other governments only (3%)
2. Nonprofit only (7%)
3. Other governments and nonprofit (8%)
4. Other governments and profit (9%)
5. Nonprofit and profit (15%)
6. Other governments, nonprofit, and profit (37%)
7. Profit only (20%)

There are varied avenues for exploring and analyzing sector specialization. At this juncture we engage in exposition only and defer explanatory analysis to a later date.

In percentage terms the lowest categories of specialization are for other governments and for nonprofits only. These two together barely reach 10%. Similar proportions are reached by each of the dual combinations of (a) other governments and nonprofits (8%) as well as (b) other governments and profit firms (9%). The joint use of nonprofit and profit firms reaches 15%, while the singular use of profit firms stands at 20%. The three-sector group is the largest category at 37%.

It is obvious from the listing above that when compared to sector complexity, sector specialization contains no small amount of overlap. There is a sufficient

difference, however, to merit analysis by looking at how selected agency characteristics or variables are related to these two different measures of diversity. It is to the connections between intergovernmental relations (Wright, 1988; Krane and Wright, 1998) and the diversity dimension that we now turn.

VII. Intergovernmental Relations (IGR) and Diversity Components

Is the contract diversity dimension associated with IGR? More specifically, among state agencies that contract for service delivery, is sector diversity in contracting linked to the intergovernmental federal aid status of the agencies? Recall that contract diversity is divided into (a) sector complexity and (b) sector specialization. The former is the number (from 1-3) of different sectors with which an agency has contracts while the latter postulates a continuum from exclusively public to chiefly if not exclusively private.

Table 5 presents results based on relating sector complexity to three specific IGR features that define the status of state agencies in relation to federal aid. The column headings represent the sector diversity variable by indicating the number of sectors with which the state agencies have service delivery contracts. The figures in the body of the table are percentages of the agencies in that complexity category. For the agencies engaged in single-sector contracting (N=230) slightly over 60% receive federal aid. The proportions step upward for two sector (79%) and three sector (92%) contracting agencies. Contracting is quite clearly related to the receipt of federal aid. The direction of causality in this association remains to be determined but we might posit that the decision to secure federal funds is more likely to be the casual variable.

(TABLE 5) The Contract Diversity Dimension and Intergovernmental Relations (IGR) :
Sector Complexity and Federal Aid, 1998

FEDERAL AID VARIABLES	SECTOR COMPLEXITY (Number of Sectors with Service Contracts)		
	One (N=230)	Two (N=250)	Three (N=285)
	(Percentages)		
<i>Receipt of Aid</i>	62	79	92
<i>Aid Dependency (over 50%)</i>	20	30	38
<i>Aid Diversity (more than three national agencies)</i>	7	18	30

Source: Deil S. Wright, *American State Administrators Project (ASAP) Survey*,
Odum Institute for Research in Social Science, University of North
Carolina at Chapel Hill

The degree or extent to which an agency's budget is derived from federal funds is the measure of federal aid dependency. For analysis and presentation purposes Table 5 shows percentages for agencies securing 50% or more of their budget from federal aid. Here also the link between sector complexity and aid dependency is clear. Only 20% of the agencies involved in single-sector contracting are heavily dependent on federal aid while this proportion nearly doubles among three-sector contracting agencies.

The final row of figures reveals the relationship between federal aid diversity and sector complexity. Aid diversity is based on the number of different national agencies from which the state agency receives funds. The receipt of funds from more than three agencies measures high aid diversity in Table 5. The aid diversity and sector complexity association is apparent. Less than 10% of single-sector agency contractors secure federal aid from more than three

national agencies. The proportion leaps to 30% among three-sector contracting agencies.

The overall pattern is clear. Greater engagement with federal aid by state agencies is prominently and consistently connected with increased engagement in networking through intersectoral administration. One set of complexities begets another set of complexities. Interdependency in one arena is directly linked to interdependency in the other (IGR) arena. Our basic hypothesis of a positive association between boundary-spanning patterns is confirmed. We explore the implications of this and other findings in our concluding section.

Before transitioning to that section, however, two related and supplementary points need to be made. First, we did not and do not foreclose further analysis and exploration of the sector specialization component of the diversity dimension. Our tabulations of the federal aid variables with the "publicness" spectrum of contracting disclosed no association. It may be that contracting, as this essay's findings reveal, has become so extensive and multidimensional that it lacks differentiation by the type of public-private continuum that supposedly underlies sector specialization (Bozeman, 1987).

The second qualifying or conditional point involves the exploration of IGR variables beyond federal aid. While intergovernmental finance is a major fulcrum on which American state-national interactions have evolved and revolve federal aid is far from claiming a monopoly on such interactions and interdependencies. We did alternative analyses with other IGR variables, e.g., agencies policy shifts resulting from national initiatives, impacts of national devolution on agency discretion. These organizational and institutional variables failed to disclose the slightest hints of positive (or negative) associations. Neither did a cluster of administrator-based measures reveal results that warrant discussion. Illustrative of such individually grounded measures was perceived national fiscal influence, perceived national regulatory influence, agency head preferences on federal aid expansion, and frequency of administrator IGR contacts.

The absence of other clear or consistent relationships is not a surprise. It

appears that intersectoral networks established through the contract tool are grounded primarily in institutional forms or patterns. The anchoring of contracting dimensions in both external and internal settings make it far more likely that organizational rather than individual variables reveal where and how contracting fits into the transformation of governance. Our aim as well as our suggestion is to pursue this avenue in subsequent analyses.

VIII. Concluding Comments

Administrative reform is an economic and socio-political phenomenon approaching world-wide proportions. Reform and its accompanying features have contributed to a transformation from the old to the "new" public administration, from government to governance. The preceding analysis of contracting as an instrument of reform provides the basis for several concluding comments.

1. Findings

The empirical findings on contracting paint a broad picture of the intersectoral, networked, and intergovernmental landscape of American state administration. A representative survey of administrative agencies (in 1998) revealed that more than 70 percent of agencies contracted for the delivery of services. Three sectors were involved as contractees with roughly 60% of the contracting agencies engage in this practice with other governments, 70% with nonprofit organizations, and over 80% with for-profit organizations (Table 2). Thirty percent of the agencies allocated more than one-fifth of their budget (21% or more) to contracting, and contracting reportedly increased over the four years prior to the survey with all three sectors.

Among state agencies contracting for services the single largest percentage (37%) contracted with all three sectors, another third (33%) contracted with two sectors, and the remaining 30% contracted with only one sector (Table 4). Moreover, federal aid variables—receipt of federal aid, aid dependency, and aid diversity—were each clearly and positively associated with the number of sectors with service contracts (Table 5). For state agencies, then, intergovernmental relations and intersectoral administration are strongly and positively related. In short, contracting as an aspect of administrative reform illustrates agency management as process of creating, expanding, and sustaining a network of networks.

2. Observations

We cannot claim that this essay and empirical research confirms the presence of a “new” public administration or a “new public management.” Nor does the research document the “global” character of administrative reform. Our exploration has been confined to a subset of institutions (50 American states), in one nation, at one period (late 1990s). We have offered, however, a template for approaching administrative reform that may contribute to a further and fuller understanding of one of reform’s most prominent features. That feature, of course, is contracting (outsourcing) for service delivery by public agencies.

Contracting has been the dominant feature of privatization which in turn has been a premier element of administration reform in numerous nations. It has also represented a noteworthy tool for governance among many within-country organizations. We have posited the proposition that both internal and external components are the locus and impetus for contracting actions. We additionally articulated specific dimensions within these internal and external components and measured five dimensions of contracting, namely, decision-making, density, directionality, diversity, and disposition.

What are the implications of these findings for the nonprofit or civil society sector? First of all, involvement of nonprofit organizations (NGOs) in service delivery is only one of four major roles or functions of nonprofit entities, the others being civic/political engagement, values and faith, and social entrepreneurships (Frumkin, 2002). Yet Frumkin acknowledges (2002:64) that, "One of the most visible and recognizable functions of the nonprofit and voluntary sector is as a provider of goods and services that fulfills the unmet demands of consumers and clients." With respect to nonprofit administration, the involvement of NGOs in contracting with state government agencies pushes these organizations to become more professional. Strengthening nonprofit administration involves knowledge and skills in personnel, budgeting, accounting evaluation, and management practices. These are most likely drawn or adapted from public and business administration graduate programs (Jennings, 2003, Gronbjerg and O'Sullivan, 2003).

The downside for nonprofits, however, is that their indistinctive character or nature may be lost or compromised as they compete for grants and contracts in a complex mixed economy of service delivery systems (Salamon, 1999). Nonprofits and NGOs in the United States and beyond face the possibility of goal displacement to secure and maintain grant funding, increased bureaucratization of activities and procedures, and a reduced focus on specific or constituency interests that may have given birth to the nonprofit entities. Scholars have long recognized that contracting can lead to "privatizing the public sector" (Savas 1982). Less well-known but equally worthy of study is that contracting can lead to "governmentalizing the nonprofit sector," as nonprofits transform themselves to accommodate government requirements in contractual relationships (Gronbjerg, 1993).

For administration in the American states the increased reliance on contracting emphasizes the increasingly complex role of subnational (state) officials. Frumkin (2002, 72) recently revisited and highlighted this complex context: "The idea of third-party government reflects several American political and economic realities, including, perhaps most significantly, the federal

structure through which power and responsibilities are shared with the states, and, in a similar manner, with private institutions.” Indeed, Nathan (1996) views the nonprofitization movement as a modified form of devolution or decentralization of functions from national (central) to local governments.

State officials are increasingly involved not only with other governments but also with the nonprofit and private sectors. Many scholars have noted and documented the rise of complicated interorganizational service delivery networks in public administration. The implications of this development for accountability, responsiveness, efficiency, effectiveness, and other values of both the old and new public administration merit continuous examination and clarification (Wise, 1990; Rainey, 2003).

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