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Purchase of Service Contracting In the 1990s: Have Expectations Been Met?

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Privatization and purchase of service contracting (POSC) are generally considered to be two of the most important factors that have helped shape the human service system during the 1970s and 1980s (Gilbert, 1983, 1986; Kammerman, 1983; Demone and Gibelman, 1984, 1989; Weddell, 1986; Kettner and Martin, 1985; Termell, 1987; Rein, 1989). Therefore, as we enter the decade of the 1990s, it would seem both appropriate and worthwhile to reflect on the original expectations for privatization and POSC and to assess the extent to which these expectations have been realized.

Early Expectations For Privatization

Long before the concept of privatization became popular, Peter Drucker was extolling its advantages. "The purpose of government," he stated, "is to make fundamental decisions, and to make them effectively. The purpose of government is to focus the political energies of a society. It is to dramatize issues. It is to present choices. The purpose of government, in other words, is to govern" (Drucker, 1969, p. 233). Drucker argued that government should have only a limited role in actual program and service delivery because, he believed, these functions could be better performed by the private sector.

Drucker believed that private enterprise could demand results, while government could not. Private sector employees, he argued, could be held to standards, while public employees enjoyed civil service protection. Publicly delivered programs and services once begun, he maintained, were likely to be continued

regardless of need, efficiency, or effectiveness, while privately delivered programs and services could be terminated if they proved inefficient or ineffective or when needs changed. Finally, he maintained that the private sector rewarded performance, while the public sector rewarded loyalty.

Writing somewhat later, Fitch advanced several additional arguments for believing that the private sector was inherently more efficient than the public sector (Fitch, 1974). First, he maintained that public sector organizations are not subject to the same pressures and demands to produce products and services as are private sector organizations. Consequently, he argued, public sector organizations are more prone to the instinct to survive and grow regardless of need. Second, according to Fitch, the outputs of private sector organizations tend to be clearly defined products and services, while the outputs of public organizations tend to be more nebulous. Third, he argued, the objectives of public sector organizations tend to be defined by government administrators rather than by consumers as in a competitive marketplace.

To summarize, the expectations of these two early privatization advocates were that greater private sector involvement in the delivery of public programs and services would lead to: (1) more emphasis on performance and less emphasis on conducting business-as-usual; (2) more emphasis on rational decision making and less emphasis on political decision making; and (3) more emphasis on accountability and consumer preferences and less emphasis on the preferences of public administrators.

The early privatization advocates represented a clear ideological perspective; the problem is the failure of government organizations to achieve excellence; the solution is the self-correcting mechanisms found in the private sector. The early privatization advocates appeared to believe that all things are possible if only the creative and innovative talents of the private sector are unleashed.

Early Expectations For POSC

The early purchase of service contracting (POSC) advocates were less ideological and more cautious about private sector

involvement in the delivery of publicly financed human services. The early POSC advocates also tended to see contracting as primarily an administrative tool. Two writers, Wedemeyer and Lourie, are representative of the different approach taken by the early POSC advocates.

Wedemeyer (1970), speaking at the first conference on POSC in the human services, suggested that the attractiveness of POSC rested on a number of untested assumptions:

1. that specifically definable end products could be produced, requisitioned and delivered in quantifiable units,
2. that readily available and qualified sources of supply existed to produce the number of units required,
3. that some identifiable and describable policy objectives, outcomes, or purposes existed to which the purchase could be specifically related,
4. that purchasing organizations have the responsibility for providing the means for obtaining the purchased products on behalf of their users (clients), and
5. that measures of performance and quality should be identified, defined, and enforced for the protection of both the purchaser and the client (Wedemeyer, 1970, p. 7).

Speaking at the first national conference on POSC in the human services, Lourie suggested that the widespread use of POSC might well redefine the basic relationships between the public and private human service sectors. Lourie expressed a vision of a more integrated public/private human service sector, but with clearly delineated roles for each sector. "The government has a central role in assuring adequate standards for citizens who need and use social services and in providing reasonable regulations for providers. The voluntary sector has a corresponding obligation to support high standards for public personnel and adequate administrative resources so that the public agency can afford to be less rigid and do its job well" (Lourie, 1979, p. 21).

Lourie went on to outline some basic principles that he believed should govern the use of POSC:

1. public funds should be available on equal terms to all persons in the same circumstances,

2. the services provided by contractors should be clearly defined,
3. government should set service standards and through monitoring hold contractors to the standards, and
4. payments to contractors should be restricted to prior uniformly determined direct costs and whatever indirect costs are appropriate. Equitable and uniform rates should be paid to all contractors rendering essentially the same services (Lourie, 1979, p. 22–23).

To summarize, the expectations of the early POSC advocates were quite different than those of the early privatization advocates. In particular, the private sector was not seen as inherently superior to the public sector and POSC was seen as essentially an administrative tool, not an ideological one. Additionally, some sentiment existed that POSC might lead to greater cooperation between the public and private human service systems.

POSC In the 1990s

In examining POSC practices in the 1990s, we are interested in determining if the perspectives of either the early privatization advocates or the early POSC advocates have come to pass. To examine POSC practices in the 1990s, we conceptualize six major approaches to contracting: (1) the funding and fiscal considerations approach, (2) the political approach, (3) the continuation of business-as-usual approach, (4) the planning and control approach, (5) the service volume approach, and (6) the client outcomes approach. This categorical schema is based on a review of the major national studies of POSC conducted over the last two decades including the authors' own work (Booz-Allen and Hamilton, 1971; Wedel, 1974; Benton, Field and Millar, 1978; Pacific Consultants, 1979; APWA, 1981; Kettner and Martin, 1986).

The Funding & Fiscal Considerations Approach

Early POSC activity was frequently motivated by the desire to maximize the public and private resources available for human services. By combining state funding with "matching

funds" provided by non-profit agencies under POSC contracts, federal Title XX funds could be leveraged. With the advent of the Social Services Block Grant, the matching funds requirement was eliminated along with the fiscal incentive to use POSC. Nevertheless, the widespread use of POSC over the years appears to have resulted in the public and private human services systems becoming more integrated and more financially interdependent. Research suggests that many non-profit human service agencies today are heavily reliant on POSC for their continued existence (e.g., Terrell, 1987). This situation may continue well into the future.

The major objective of the funding and fiscal considerations approach is to use POSC as a mechanism to coordinate and maximize public and private resources for human services.

The Political Approach

A second approach to POSC focuses on being responsive to the political variable. A variety of interest groups tend to emerge around POSC systems (DeHoog, 1986; Kramer and Grossman, 1987; Kettner and Martin, 1989). Advocacy groups, state and local government officials, contractors, unions, and others all have vested interests in who gets what, when, and how as the result of POSC decisions. Kramer and Grossman (1987) suggest that political factors are constantly in a state of tension with technical factors during the POSC decision process. The salience of the political variable in POSC decision making has also been documented in a small number of other studies (e.g., Terrell and Examer, 1984; DeHoog, 1986; Kettner and Martin, 1989).

The major objective of the political approach to POSC is to be responsive to such considerations as power, authority, influence, and the pervasiveness and persuasiveness of various interest groups.

The Business-As-Usual Approach

Most POSC systems have now been in existence for almost two decades. It is possible that many of these POSC systems today have well developed government/contractor relationships that have been strengthened over time. If this is true, then a

shared public/private service delivery system may well be the new human services status quo.

The business-as-usual approach to POSC focuses primarily on the technical aspects of contracting. Infusion of competition or the involvement of new contractors is not an issue. Considerable time and energy is spent on issuing requests for proposals (RFPs), negotiating and awarding contracts, monitoring contractors, and record keeping, but with essentially the same cadre of contractors year-in and year-out.

The major objective of the business-as-usual approach to POSC is to maintain the current pattern of POSC relationships and the stability of the contracting system that has developed over time.

The Planning & Control Approach

Rational planning includes such activities as needs assessments; the allocation of resources based on the identified needs, the establishment of goals and objectives, program design, intervention, monitoring, evaluation, and others (Kettner, Moroney, and Martin, 1990; Kettner and Martin, 1987). The planning and control approach enables government contracting agencies to better respond to changing needs. This approach assumes that contractors will be replaced from time-to-time as needs change and suggests that POSC dollars should not be viewed by contractors as a predictable revenue source.

The major objective of the planning and control approach to POSC is to use contracting to target specifically identified needs as part of an overall human services plan.

The Service Volume Approach

The service volume approach to POSC, as well as the client outcomes approach, to be discussed next, are both forms of performance contracting. The service volume approach can also be thought of as unit cost contracting, efficiency contracting, or output contracting. The service volume approach is also considered a more market oriented process in that a rate of exchange is established for the services provided (Hatry and Durman, 1985; Kettner and Martin, 1990).

The major objective of the service volume approach to POSC is to focus the contractor's attention on efficiency considerations

and on the delivery of units of service (e.g., one hour, one meal, one trip, one encounter, etc.) by tying all, or a portion of, the contractor's compensation to the amount of service actually provided.

The Client Outcomes Approach

Contracting for outcomes represents a further refinement of the performance concept. In the client outcomes approach to POSC, the emphasis on performance shifts from considerations of efficiency to considerations of effectiveness and the impact of services on clients. Contracting for a specified volume of service, such as a series of parent training classes for abusing parents, establishes a clearly defined buyer-seller relationship. Contracting for outcomes, such as improved parent-child relationship and no further reports of abuse, extends the buyer-seller relationship in that the buyer pays only for the results achieved by the seller. As the field of outcome measures has become more developed in recent years, some state human services agencies have begun experimenting with their use (Wedel and Colston, 1987; Kuechler, Velasquez, and White, 1988).

The major objective of the client outcomes approach to POSC is to focus the contractor's attention on the results of service provision through the use of measures of client impact and by tying all, or a portion of, the contractor's compensation to the achievement of client outcomes.

Based upon their major objectives, these six approaches to POSC can be classified as being more reflective of the expectations of either the early privatization advocates or the early POSC advocates:

POSC Approach	More Reflective of Early Expectations for
• Funding & Fiscal Considerations	POSC
• Planning & Controlling the System	POSC
• Business-As-Usual	POSC
• Service Volume	Privatization
• Client Outcomes	Privatization
• Politics & External Pressures	Neutral

To the extent that the POSC approaches being utilized today are more reflective of either the early privatization expectations or the early POSC expectations, we can determine which alternative expectation has come to pass.

The Study

To ascertain the extent to which the six different approaches to POSC are being pursued by the human services today an exploratory study was undertaken in late 1990.

Study Design

The study focused on five programs in ten states. The study was designed to explore POSC practices using the program as the unit of analysis. The five programs selected for study were: (1) alcohol, drug and mental health, (2) child day care, (3) employment and training, (4) residential treatment, and (5) specialized transportation for the physically disabled. These programs were selected because they represent both "soft" services (difficult to define) and "hard" services (clear operational referents).

A purposeful sample of 10 study states was selected from among the 34 states that constitute state administered welfare systems. State supervised/local government administered welfare systems were excluded from the study population due to the potential confounding nature of the level of government variable. Other considerations in state selection included geographical representation and significant involvement in POSC. The ten states ultimately selected were: Arizona, Florida, Kansas, Louisiana, Massachusetts, North Dakota, Washington, West Virginia, Utah, and Vermont.

Implementation of the Study

Mail surveys were sent to the chief program administrators of each of the five programs in the ten study states. The surveys asked program administrators to rate the relative importance of six factors on their POSC decisions. These six POSC decision factors represent operationalizations of the six approaches to POSC identified earlier: (1) funding and fiscal considerations,

(2) politics and external influences, (3) continuation of business-as-usual, (4) planning and controlling the system, (5) contractor performance in achievement of a specified volume of services, and (6) contractor performance in achieving client outcomes.

Survey respondents were asked to rank order the six decision factors according to their relative influence on their programs' overall POSC decisions. Twenty-one useful surveys were received constituting a response rate of 42 percent. Table 1 itemizes the responses by program and by state. Some programs and states are over represented in the sample, others underrepresented. The largest number of program responses (7) are from alcohol, drug, and mental health programs. The largest number of responses from one state is three.

Table 1

Survey Responses by Program & State

Program	No. of Responses	State	No. of Responses
Alcohol, Drug Abuse & Mental Health	7	Arizona	1
		Florida	3
Child Day Care	4	Kansas	3
Employment & Training	4	Louisiana	1
Specialized Transportation	3	Massachusetts	2
Residential Treatment	3	North Dakota	3
		Washington	2
		West Virginia	3
		Utah	1
		Vermont	2
Total Responses	21		21

Data Analysis

Table 2 shows the relative importance of the six POSC decisions factors for all programs combined and for each program individually. The data analysis is first directed toward a discussion of the relative importance of the six POSC decision factors

for all programs combined. With a mean score of 5.01, funding and fiscal considerations is clearly the most important POSC decision factor overall. The other five POSC decision factors are considerably less important being tightly grouped in a range from 3.10 to 3.52. The two privatization oriented approaches (service volume considerations and client outcome considerations) appear to be relatively unimportant in the overall POSC decisions of the five combined programs. Service volume considerations (3.19) ranks fifth only slightly ahead of the least important POSC decision factor, politics and external pressures (3.10). Client outcomes which ranks third is still only marginal in overall importance (3.43).

The discussion of Table 2 now shifts to the relative importance of the six POSC decision factors for each of the five programs individually. Mean scores are again used as the basis for comparison. The discussion focuses first on identifying any patterns in the data. To aid in this analysis, the first and second most important POSC decision factors for each program are set off by brackets. With the brackets serving as visual aids, it is readily apparent that funding and fiscal considerations is also an important POSC decision factor for all five programs individually. Funding and fiscal considerations is either the first or second most important POSC decision factor for all five programs. No other POSC decision factor evidences such a consistently strong influence across all programs.

Other POSC decision factors, however, do evidence strong influence on a program-by-program basis. In particular, client outcomes is the most important POSC decision factors for the two "hard" service programs, employment and training and special transportation. The continuation of business-as-usual approach is also an important POSC decision factors for residential treatment and child day care programs where continuity of care is traditionally an important consideration.

Shifting the data analysis to statistical significance, a one-way analysis of variance (ANOVA) was conducted for each POSC decision factor across all five programs. The purpose of the analysis is to ascertain if differences in the relative importance of POSC decision factors across programs is sufficiently strong to warrant further exploration. The one-way

Table 2
The Relative Importance of DOSC Decision factors for All Programs and for Individual Programs

DOSC Decision Factors	All Programs		Individual Programs						F-test
	X	S.D.	Residential Treatment	Alcohol Drug Mental Health	Employment & Training	Child Day Care	Special Transportation		
Funding & Fiscal Considerations	5.01	1.07	[6.00]	[4.86]	[4.75]	[5.25]	[4.67]	.826	
Planning & Controlling the System	3.52	.98	3.33	[4.00]	3.50	3.00	3.33	.711	
Client Outcomes	3.43	2.11	1.00	3.00	[5.25]	3.00	[5.00]	3.314**	
Business-As-Usual	3.38	1.72	[5.00]	3.14	2.50	[4.25]	2.33	1.713	
Service Volume	3.19	1.60	2.00	2.71	[4.75]	2.75	4.00	2.224*	
Politics & External Pressures	3.10	1.67	3.67	3.29	3.25	2.75	2.33	.272	
(Number of cases)	(21)		(3)	(7)	(4)	(4)	(3)		

*p = .11

**p = .03

ANOVAs prove statistically significant, or approach statistical significance, only for the two privatization oriented POSC decision factors, service volume and client outcomes. For these two POSC decision factors, the variation between programs is greater than the variation within programs. This finding suggests that systematic differences exist in the relative importance that "hard" and "soft" service programs assign to these two privatization oriented POSC decision factors. Service volume and client outcomes appear to be considerably more important in the POSC decisions of the two "hard" service programs, employment and training and specialized transportation, than for the other three "soft" service programs. While the data themselves do not suggest any explanations for this finding, these two "hard" service programs may simply lend themselves more readily to quantification in terms of service volume (e.g., the number of training sessions, the number of trips) and client outcomes (e.g., job placements) than do the other "soft" service programs.

Summary & Conclusion

What then can be said about POSC in the 1990s? Have the expectations of either the early privatization advocates or the early POSC advocates come to pass? While any speculations must be qualified due to the exploratory nature of the research and the small size of the study sample, the data do suggest some conclusions.

The early privatization advocates held expectations for some fairly substantial changes in the way human services would be delivered. Their expectations included more emphasis on performance and less emphasis on politics and conducting business-as-usual. Early POSC advocates had a different set of expectations. Their expectations included more of a focus on the administrative aspects of POSC and a desire to see greater cooperation between the public and private human service sectors. If these descriptions constitute fair characterizations of the early expectations for privatization and POSC, then the former had hopes for a system that would operate much like a market economy while the later hoped for a more of a

partnership arrangement between the public and private human service sectors.

The clear theme that emerges from this study is that overall POSC decision making is dominated by funding and fiscal considerations. The funding and fiscal considerations approach is identified as being more closely associated with the expectations of the early POSC advocates than with the early privatization advocates. Thus, it would appear that at least some of the expectations of the early POSC advocates have been realized.

When the relative importance of POSC decision factors are looked at on a program-by-program basis, however, a different picture emerges. Funding and fiscal considerations is still the most important overall POSC decision factor for the "soft" service programs, but client outcomes becomes the most important POSC decision factor for the "hard" service programs. The client outcomes approach is identified as being more closely associated with the expectations of the early privatization advocates. Thus, it appears that at least some of the expectations of the early privatization advocates have also been realized. While more research is clearly needed to substantiate these findings, it appears that POSC involving "soft" services has developed in accordance with the expectations of the early POSC advocates, while POSC for "hard services" appears to have developed more in accordance with the expectations of the early privatization advocates.

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