

Extending CEA: Facilitating the Debate over Public Outsourcing

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Extending CEA: Facilitating the Debate over Public Outsourcing

Outside of health, few fields have successfully utilized what might become Cost Benefit Analysis' better half, Cost Effectiveness Analysis. Instead of converting everything into monetary terms as is the case in CBA, CEA relies on the inclusion of a quality measure. Too often we are faced with the dilemma of choosing lower costs and poorer quality or higher costs and better quality, needing some way of objectively determining which outcome is preferable. Cost effectiveness analysis offers us a mechanism to estimate the tradeoff between cost and quality.

A problem arises, however, when we are confronted with the daunting task of developing quality measures for the purpose of comparing the cost effectiveness of the public sector with that of the private sector. Quality measures, although difficult to estimate in most scenarios, are easily defined for some activities. For example, we can measure the cost effectiveness of various educational programs by comparing the relative costs to the quality of the students upon completion of a given program. Defining quality measures for other tasks, such as maintenance activities for our transportation infrastructure, is more difficult. And yet these are the tasks most susceptible to public outsourcing.

For this problem, we propose our own remedy – an extension, if you will, of the now widely used and accepted Quality Adjusted Life Years, or QALY. While our suggestion is currently focused on the maintenance activities for departments of transportation, we believe its applicability far exceeds this one department. The method we propose is easily extendable to other agencies wishing to incorporate their own measure of quality into their performance assessment and decision to outsource.

Having failed in previous work to identify one measure of quality for transportation, we developed QuATRA – Quality Adjusted Transportation-Related Activities. QuATRA is essentially an index comprised of four quality criteria that consistently arose in interviews with department of transportation employees and private contractors. The problem is that not all criteria are equally important in every task. We have derived a way in which to obtain unbiased estimates of the importance of these criteria, and then use these measures to develop an index which can be used with objectively collected data to analyze the cost effectiveness of work completed by public employees compared to private contractors. We also clarify the importance of calculating costs corrected for administrative changes due to public outsourcing as opposed to governmental provision. Finally, we propose a basic list of questions that agencies should ask both before a contract is issued and after an activity is completed.

Currently, the trend is still in favor of public outsourcing, but as endeavors fail to prove a wise investment, the momentum may shift. The political climate and not empirical evidence currently influence these decisions. We believe our method of creating a quality index and calculating costs have the potential to change this, introducing an element of objectivity in the decision of public outsourcing.

“Government activity gains its legitimacy through market failure,” (Tresch 1995 p 8)

Scholars in policy and public finance have heard variations of this statement frequently, understanding that the government’s role is essentially to provide those goods and services that a market economy fails to provide sufficiently. And yet, we increasingly find trends of private-sector practices being implemented in the public sector, including the public outsourcing, or the reliance on the private (profit and non-profit) sector to provide services commissioned by the government (Ingraham 1997). In public outsourcing, the government provides the financing and keeps close watch over the workings of the agency contracted to complete the task (Kolderie 1986). In addition to labor being provided by non-government employees, outsourcing also entails the transfer of many managerial responsibilities to the private sector (Ferris and Graddy 1991), thus replacing lower levels of public management, and reshaping the set of managerial skills needed by midlevel managers (DeHoog and Salamon 2002)

Although government outsourcing was documented in the days of the ancient Greeks (Kettl 2000), governments have more recently implemented reforms that favored various privatization efforts¹. These efforts varied in size and scope and were spearheaded by both sides of the political spectrum but always with one goal in mind – to provide more services more efficiently to more satisfied citizens (Kettl 2005). Perceptions of governments are dominated by ideas of inefficiency, which some scholars attribute to the absence of competitive forces (Weimer and Vining 1996). Citizens

¹ Savas (1992) classifies privatization into three major categories – divestment, delegation, and displacement. Delegation includes public outsourcing, the focal point of this paper. It is also important to note that governments were not alone in their privatization movements. NGO’s such as the World Bank and IMF were also encouraging less developed countries to privatize many services.

perceive the market as more dynamic, dependable, and productive, and therefore superior to the public sector in the provision of services (Barnekov and Raffel 1992).

Governments may contract for either the provision of goods for their own usage (procurement contracts) or the provision of services, in which the contracted agency receives payments for providing the services directly to the qualified recipients. Contractors may be either private, for profit firms or non-profit agencies. For some tasks (such as highway maintenance), only for-profit firms are competing for the contracts. (The maintenance goals of the transportation department are usually incongruent with those of the non-profit sector.) Other contracting opportunities, such as the training of women to improve employment opportunities, are typically thought of as non-profit activities. Recently, however, we find a greater number of for-profit agencies also competing for contracts that require services which promote equity and fairness.

The contractor's goals are to maximize profits and reduce costs, in the process saving government money and producing a higher quality product for society². How? Theory stipulates outsourcing will "yield production costs savings by exploiting scale economies, overcoming input rigidities, and capitalizing on managerial and competition-induced efficiency incentives," (Ferris and Graddy 1991).

Public outsourcing occurs at all levels of government. The amount of outsourcing by federal, state, and local governments varies amongst the jurisdictions, and the services provided via contractors vary from construction to social programs (Kettl 1993). Twenty years ago, a report by the International City Management Association estimated that 80% of local governments saved at least 10% of previous outlays with outsourcing efforts.

² It should be noted, however, that not all scholars believe efficiency motivates the decision to outsource. Lane (1995) claims that outsourcing is often due to a lack of personnel, technical ability, and overall capacity, rather than motivated by the benefits of market mechanism (Lane 1995 p 169).

Cost savings appeared as the primary advantage to contracting out according to a separate survey conducted by a consulting firm, Touche Ross (Kettl 1993). And yet more recent empirical evidence documents the growing number of cases in which outsourcing has gone awry (Sclar 2000). Either the cost of service provision exceeds the pre-contract levels or the quality of the service is below that which the government expected (Sclar 2000). While theoretically sound on the surface, public outsourcing has not proven the panacea for which proponents of a more efficient government had hoped.

If outsourcing is intended to improve efficiency, the next step is clearly defining what is meant by the term. Efficient allocation minimizes “the (opportunity) cost of funding, producing, using, and controlling a program,” ((Ross 1988)p. 13). In other words, efficient allocation of resources relies on choosing *pareto superior* allocations based on the *pareto conditions*³ (Tresch 2002). Private-sector, for profit firms are theoretically better able to achieve efficient allocation than the public sector which must consider political ramifications of transferring resources from labor to capital. (In other words, the public sector faces greater input rigidities.) The question arises, although for-profit firms are better able at allocating resources – that’s how they make a profit – how does the profit margin affect the overall cost to the government? And does the motivation of profit affect the performance of for-profit firms hired by the government to complete tasks for the common good?

Decisions to outsource in the private sector originally centered on production costs, although in the 1930’s, the impact of transaction costs entered the equation⁴ (Coase

³ For a thorough description of the Pareto Conditions, see a Public Finance Textbook such as Tresch 2002

⁴ Like the private sector, the public sector must also consider transaction costs when deciding to outsource (Williamson 1997). For a more detailed discussion of the outsourcing, including economic justifications

1937). No longer was the decision to produce a good or service in-house simply a function of easily measured production costs, but economists were beginning to recognize the costs of contracting itself – including the risks each party was willing to assume and at what price. There are administrative costs to overseeing contracts that can easily be overlooked if the purchasing agency views the contracted amount as the complete costs. There are the costs of selecting contractors, the costs of negotiating with each contractor, and the costs of overseeing the work of each contractor. “Transactions entail coordinative effort by actors to the transaction, as well as means for controlling or regulating potential disparities between expectations and actual outcomes (e.g., mutual adjustment in contractual terms, monitoring opportunistic behavior,” (Ross 1988, p 8) Profit-seeking firms may shirk responsibility, either under-performing or under-providing if proper oversight is not maintained (Gomez-Ibanez and Meyer 1993).

Monitoring the work of contractors thus becomes an important consideration in both the decision to outsource and the evaluation of contractors. The government must consider direct costs, indirect costs, and quality in making this decision. In economic terms, we often hear the problem described as a principal-agent problem. That is, the motives of the contractor (for-profit in the case of transportation maintenance) are not aligned with those of the government. Theoretically, there is some optimal amount of oversight the government can choose, considering both the costs of poor performance on the part of the contractor *and* the cost of oversight itself.

Therefore, in evaluating the work of contractors, direct costs are apparent – typically viewed as the cost of the contract. Indirect costs are more difficult because they

and transactions costs incurred in the process, see Prager, Jonas. 1994. Contracting Out Government Services: Lessons from the Private Sector. *Public Administration Review* 54.

include the costs of monitoring, the costs of the bidding process, and even the cost of restructuring government so as to have a group of employees capable of contract management. And this list is by no means comprehensive.

The government must also consider the quality of work, another daunting task. The provision of services to society, whether provided directly or indirectly by government, cannot be judged solely on the same input/output ratios used in the private sector, but must incorporate ideas of effectiveness as well (Hatry and Fisk 1992). It is often the case that the government struggles to define adequate quality measures for its own activities (Poister 1992), much less those activities handed over to the public sector. Many outcome measures have been suggested, including some that are specifically applicable to transportation (Hatry and Fisk 1992), but yet there remains no single measure to help in the decision making process. In other words, what if quality on one measure improves, while another measure suffers? How can we compare all of these possibilities? Cost Effective Analysis provides one method for comparing the performance of the public and private sectors, or even two private contractors, for that matter. And like other performance measures, data collected in the process can assist decision-making, improve government accountability, and improve the performance of public managers and officials (Epstein 1992)

If outsourcing were only assessed by the levels of satisfaction of local administrators, contracting would appear as a successful endeavor. Multiple studies have documented the increasing proportion of local budgets allocated towards contracts and high levels of reported satisfaction by public officials (Savas 1992). The success of outsourcing, however, has varied across a number of domains – the type of work

outsourced, the status of the agent receiving the contract, the scope of the contract, etc. Case studies of contracting efforts abound, and scholars have used sets of examples to support their hypotheses as to why contracts have either failed or succeeded.

The public sector is constantly compared to the private sector, but it is fundamentally different due to the constraints faced by the public sector (Lerner and Wanat 1992). Therefore, when outsourcing is implemented in the public sector, outcomes are not always as theory predicts. Several explanations have arisen in the literature to explain why outsourcing in the public sector does not work as well as its equivalent in the private sector.

Outsourcing does not always remain a competitive process in the public sector, in part due to the difference between the public and private sectors, and contractors increase their power in their relationship with the government when they are able to monopolize a particular good or service (Rainey 1991). Aside from monopolistic power, other interpersonal relationships between a contractor and the government can inhibit the likelihood the government's goals are reached (Sclar 2000). The contractual relationship between two private firms and a private firm and the government are not identical. Two private firms are both interested in maximizing profits. This is not the case with the government which pursues an entirely different set of goals, thereby creating a more complicated relationship between the principal and the agent (Osborne and Gaebler 1992). To the issue of an absence of competitive forces in the public sector, some scholars have responded that it is not *actual* competition, however, that will drive prices to their lowest levels; it is the perception or the threat of competition that can suppress monopolistic pricing (Hakim, Seidenstat, and Bowman 1996).

Savas (1992) suggests that when contracting for services, the government should only contract part of the service provision. This creates competition between those in the public sector providing the service and the contractor – either profit or non-profit. Such competition should improve the productivity of both the government and the contractor (Savas 1977, as cited in Savas 1992). Not only is this option ideal when there are a lack of competitors in the marketplace during the initial bidding process, but this also ensures a competitive atmosphere should the initial contractor(s) evolve into an oligopoly or monopoly.

There are instances in which outsourcing proves cost effective for government. While many have insinuated this is due to paying workers lower wages, others have claimed that this statement is not entirely accurate (Savas 1992). Stevens (1984) as cited by Savas (1992), states that salaries, fringe benefits, and quality of services do not account for cost savings. Differences between the public sector and the contractor arise because the private sector is able to get more work per employee. The private sector provides less time off, uses lower-skilled, less expensive workers, holds managers more accountable for maintenance, has greater freedom within the ranks to hire and fire, bases pay and promotion on incentive structures, is less labor intensive, employs younger employees, and have more employees per supervisor (Stevens 1984 as cited in Savas 1992).

Thus far, the discussion has described public outsourcing – costs to consider, why in theory it works, but in practice, the results are mixed. This next section offers Cost Effective Analysis as one means by which to evaluate public outsourcing initiatives.

COST EFFECTIVE ANALYSIS

Cost Effective Analysis (CEA) is an evaluation tool that requires accurate measures of both cost and quality. Costs can be derived from budgets, although appropriately including both direct and indirect costs can be difficult. But it is the inclusion of a quality measure that is often most difficult. In health research, the solution has been Quality Adjusted Life Years (QALY), a measure which considers both improvements in life longevity and the quality of those increased years, measured in terms of health, mobility, etc. Under CEA, alternatives are compared to one another based on the ratio of the difference in costs and the difference in quality. The formal equation is as follows:

$$\frac{C_A - C_B}{Q_A - Q_B} = \frac{\Delta Cost}{\Delta Quality}$$

Where C_A and C_B are the costs of options A and B respectively, and Q_A and Q_B are the qualities of options A and B respectively.

CEA is most helpful in situations that at first appear uncertain or even ambiguous. For example, if it is known that a private firm provides a better service at a lower cost to the public, the government should outsource without doing an overall evaluation. The opposite is true if it is well established that an outside firm will provide an inferior service for a higher cost to taxpayers. The particular activity should remain in-house. A thorough CEA is unwarranted and the cost of performing such an evaluation unnecessary.. In other words, if it is known ahead of time that CEA would yield a result, such that costs increase while quality decreases or that cost decrease while quality increases, the choice should be apparent to the decision makers. CEA is beneficial to

decision makers when one party can produce the good or service at a lesser expense, but the other agency would do so with a higher level of quality. Thus, CEA is utilized when there is an actual tradeoff between cost and quality, producing a positive number as a result to the above equation.

This is an important aspect in CEA; the positive number clearly forces a decision maker to decide between two important aspects of outsourcing, costs and quality. When analysis is performed according to the ratio described above, the result is the additional cost per additional unit of quality. If comparing several potential contractors, then we would select the one with the lowest ratio, i.e. that option which improves the quality the most for the least additional cost. If we are only comparing one contractor to the government, the government must decide what it is willing to pay for additional quality – regardless of which provider (government or contractor) provides that additional quality for additional cost. With an established threshold equal to the value to society of a one unit increase in quality, an option must be below that threshold for the government to actively pursue that policy.

THE CASE OF TRANSPORTATION

A concise measure of quality – one that is not in monetary terms - is needed for Cost Effective Analysis. For example, we might evaluate a public health department based on the number of patients the department treats in any given day. This quality measure is based on outputs. Measures of quality may also rest on outcomes. For example, researchers may develop a measure of quality for the same scenario, counting not the number of clients, but factoring in the number of cases for which the doctors are able to successfully diagnose (i.e. patients receive proper diagnosis and treatment for

their problems the first time, without having to visit again for the same problem). Ultimately, it is up to the evaluator to establish a firm set of guidelines with which to evaluate quality. So what should be done if you are presented with cost data, but quality data is missing from the set? This is a problem that we faced recently in our own research, and while numerous “solutions” were tossed around by various members of a committee, none seemed ideal.

Questions to Consider

When researchers are hired to examine the potential cost effectiveness of public outsourcing, the following questions should be addressed *a priori*. First, is it possible for the agency to select (or derive, as is the case in our proposal) a universal quality measure? For example, interviews with mid-level managers from one particular agency revealed that response time is a crucial indicator in assessing the quality of the department’s work. In the case of transportation, following cracking or buckling on a road, a traffic control crew is sent immediately to properly warn motorists and block off dangerous sections or stretches of roads. Repair teams arrive on the scene as quickly as possible and perform the work necessary to reopen the road or temporarily divert traffic from the area.

In emergency situations such as the one described above, response time and completion time are important, but for non-emergency activities, are measures of time valid measures of quality? For example, if a plot of land adjacent to a road is in need of mowing but the tall grass poses no safety concern, is the length of time it would take the department of transportation to mow relative to a private contractor really an issue?

Suppose we accept the notion that response time is critical in the evaluation of many maintenance activities. There is still debate as to whether the department of transportation is better able to respond and complete the job as soon as possible. While transportation departments claim they are faster and more efficient, private sector contractors also report the same conclusion. Many contractors in the private sector claim that department of transportation employees are actually slower to respond, are less experienced and less specialized, and have fewer incentives to complete the work in a timely manner up to the correct specifications. Lack of sufficient data has long been recognized as a major problem in evaluating the government's performance (Poister 1992)

We cannot answer whether or not public or private sector employees are quicker or more efficient, but neither do we need to at this point. Rather, we are only asking whether response time and completion time are appropriate criteria with which to evaluate the two sectors. If data were available, it is our suggestion that researchers combine response time and completion time into one measure, although both parts need not be weighted equally depending on the nature of the activity. This measure may satisfy those activities which require immediate attention but is less suited for non-emergency situations.

The second question an agency considering conducting a cost effective analysis should ask itself is whether they allow contractors the flexibility to differentiate the quality of services provided from that level in which the department strives. For example, standards and specifications for transportation departments are very specific. The tasks performed by a transportation department are simply not suitable for workers to

complete half as well as activity standards require. Some workers may take longer to complete a job than others, but in the end, most of the activities are held to high specified standards. If contractors are held to similar standards, then there is little room for improvement in quality above and beyond what is specified for that activity. What we end up with is a dichotomized indicator of quality. A contractor either met or failed to meet the standards as described by the contract. Without varying degrees of quality, CEA becomes irrelevant. With quality held constant, as is possible in this case, the results of CEA are dependent solely on costs.

Suppose it were possible for a contractor to exceed the minimum requirements with regards to quality, the question remains, why would they? Unless a contractor thought providing a service to a department of transportation at a greater level than specified would improve the possibility of a contract being renewed or a contractor selected again from an open bidding process, then there is little incentive to go above and beyond what is required. Likewise, a properly constructed contract would limit the number of tasks that were not performed up to current standards. The possibility of a severe penalty or non-payment for services would deter a contractor from completing tasks that did not meet the standards. Once again, the result is that contractors and departments of transportation are likely to produce final results that are of similar quality, reducing the CEA analysis to a factor of costs comparisons.

Perhaps transportation can borrow from health the idea of QALY, only adapt it to suit its own needs. In other words, the transportation agency can examine rates of depreciation or the length of time before future maintenance is required again. For an activity such as mowing, this may be impractical. Clearly, the length of time between

mows in a performance-based contract is primarily a function of weather and not the quality of work on the previous mow. But if we are talking about activities such as slab replacement or shoulder repair, then the length of time between the current job and further maintenance may serve well as a proxy for the quality of work done the first time. Again though, several problems arise. First, this may require the accumulation of data across several years. Secondly, the decision for maintenance varies and may very well be a function of budget, available crews, and asset management. If these variables change over time, then the length of time between present and future maintenance may not work as a reliable measure of quality, unless we are comparing an activity that was completed under similar circumstances at the same original point in time.

The potential measures of quality thus far are limited in their applicability. Some are more appropriate under emergency situations; others apply to larger scale maintenance activities such as slab replacement. But how can we evaluate the quality of other activities such as mowing, landscaping, and welcome center and rest area maintenance? Perhaps departments of transportation ought to fall back to one of our oldest measures of quality – public opinion. For non-emergency activities, particularly those that appeal more to general aesthetics and relate less to the safety and functioning of our road system, measuring quality may be as simple as surveying those affected or counting the number of complaints.

QuATRA – an answer to QALY

Despite our attempts to identify a single measure for quality, no one measure proves satisfactory. Instead, we have combined the four measures previously

mentioned—response time, completion time, life years, and public opinion—to create an index we refer to as QuATRA, Quality Adjusted Transportation-Related Activities.

$$QuATRA = f(\text{response time, completion time, life years, public opinion})$$

Having specified the relevant variables, we propose the following functional form:

$$QuATRA = \beta_1 \frac{1}{\text{response time}} + \beta_2 \frac{1}{\text{completion time}} + \beta_3 \text{Life Years} + \beta_4 \text{public opinion}$$

Where the β_k 's are restricted such that $\beta_1 + \beta_2 + \beta_3 + \beta_4 = 1$ and $\beta_k > 0$ for all k .

Rather than the standard view of β_k 's that are estimated through regression, the β_k 's serve as weights. While always summing to 1, the β_k 's are factors that change according to the activity of focus. The model requires the inverse of both response time and completion time because as these values increase in magnitude, the resulting quality decreases. For all the β_k 's to remain positive, a quicker response time must translate into a larger number. The metric life years refers to the remaining useful life of the asset or extension of that useful life in years. Finally, public opinion provides the department of transportation with a level of satisfaction as reported by constituents. The following table provides an example of potential values for the β_k 's.

Activity	Variable	Weight
Landscaping	β_1	.2
	β_2	
	β_3	
	β_4	.8
Pothole Repair	β_1	.4
	β_2	.4
	β_3	.1
	β_4	.1
Slab Replacement	β_1	.1
	β_2	.3
	β_3	.5
	β_4	.1

The question remains as to who shall determine these weights. Assuming that quality is independent of administration, we believe either the transportation commissioner, the governing board, or the equivalent should set the weights for each activity accordingly. The concern arises as to whether a conflict of interest exists. In other words, would commissioners or boards partial to either in-house service or outsourcing create weights so as to maximize the probability that their preferred method of service delivery exhibits the higher quality score? While we acknowledge this possibility, we find it unlikely. As stated earlier, most transportation departments lack

empirical data which allows the department to directly compare itself to private firms. Estimates regarding efficiency are usually based on anecdotal evidence, and thus there would be little incentive for the transportation agencies to bias these weights.

If bias were to exist, we expect that it emerges during the data collection. To prevent either the private firms or the transportation department from providing data that is somehow skewed or altered in a way that benefits the particular agent, we suggest that the data is collected by an independent group. This group may itself be a private agency or a division of a governmental agency that is independent from the department of transportation.

The question arises to the capacity of department of transportation databases to accumulate this data for managerial use. Currently, many DOTs are converting to systems such as highway maintenance management systems that, although not initially constructed for data beyond costs and labor effort, these databases provide access for other programs based in the same computer language or a computer language that can be converted. With current technological changes, many DOTs have the capacity to add information to their current databases. However, this is not to say that some DOTs will need to recognize the need for improved data management systems, with quality measurement a possible impetus to this advancement.

Solving Quality, but What about the Costs?

Finally, most of the discussion around CEA has centered on the lack of quality data available in transportation, but there is an important assumption made in our analysis—that the cost data is completely accurate. We must ask a very basic question:

How accurate is the cost data collected by public transportation agencies? If quality is not an issue either because of the problems in measurement or the decision that it does not vary across government and contractor, than accurate measures of cost are essential to a rational decision about outsourcing. Despite using a database that one particular agency thought was well developed in activity based costing, what we discovered was that this particular agency was in fact understating their costs of completing various activities. It is possible that transportation agencies, when calculating costs of particular activities, fail to account for administrative costs, which by all likelihood, are a large proportion of the actual costs. It is also possible that per unit estimates of costs are understated due to a double-counting. Double counting is found when an activity has to be repeated on the same area because in-house crews were unable to satisfactorily complete the job the first time. The costs should be included as a per unit measure, but the area of service should only enter the denominator once. This would increase the cost by two-fold but provides the true and accurate costs of the work activity accomplished.

Conversely, it is also possible that departments of transportation underestimate the administrative costs associated with outsourcing. When contractors submit a bid, their bid is usually viewed as a per unit cost by the department of transportation. Included in this per unit cost are administrative and capital costs of the firm. This is an important point for departments of transportation. The contractors' bids include all costs associated with keeping the firm open, but per-unit estimates, while including the firm's overhead, do not account for the transportation agency's administration costs. These overhead costs should be addressed when a transportation agency is contemplating outsourcing; all administrative and capital costs incurred by the department, including the

required oversight of a particular contract, should be incorporated into the costs estimates. One of the fundamental issues of conducting a proper CEA is that costs, in addition to quality, are accurately measured, and thus far, it appears that transportation departments may still have a way to go in satisfying this aspect due to limited estimating of overhead and oversight costs, despite the adoption of newer database systems.

WHERE DO WE GO FROM HERE?

When public agencies are making the decision to outsource the provision of public services, it must take into account both changes in cost and quality, making CEA an appropriate technique for evaluation. It is then up to the agency or researchers to choose an appropriate measure of quality. While some activities are more suited to the selection of quality criteria, evaluators must be aware that such is not the case for all activities.

Alternate measures of quality that are not calculated in monetary terms may relate to time. As mentioned in the transportation discussion, both response time and time to completion are potential measures of quality. Similarly, a measure of the rate of depreciation, the remaining useful life of the asset or extension of that useful life, may also serve as an acceptable choice. This measure actually differs relatively little from the widely-accepted QALY in health research.

A standard and accurate means of calculating cost is also necessary. CEA is only effective if all relevant costs are included in the equation. Because the bids of contractors already include administrative and capital costs on the contractors' end, the public agency must amend their cost numbers to include administration and capital on the in-house cost

estimates as well as adjust the bids of contractors to include the public agency’s cost of administration.

As noted previously, quality and costs are the major components of a CEA. Our experience leads us to offer a rudimentary example of a simple worksheet to assist in the CEA analysis. This tool would provide needed answers to questions prior to the CEA and enhance the availability of data to perform the analysis. We do not assume this as a complete tool, however we offer it as a suggestive instrument to enhance the decision making process.

Figure 1: Example Worksheet

Before Contract Question	Post Contract Questions
Is there a universal quality measure for this activity? Is this measure well known to both parties?	Is the quality of this activity critical in safety or well-being of the citizenry?
Is the quality measure a function of timing?	Was expected timing of response to activity important?
Is the quality measure based on a specific standard?	Did the contractor meet or fail to meet standards?
Can we measure quality as an output or an outcome?	Was the outcome beneficial to the citizen or is it an output measure?

As the political climate changes and public outsourcing gains momentum, the decision of public officials to contract with private sector and non-profit firms will

become more skewed in favor of non-governmental agencies. At the same time, as certain outsourcing endeavors fail to live up to their expectations of lower costs and improved quality, the momentum may shift back to the government agency. Absent from these shifts in momentum is empirical evidence. This hole, if you will, can be satisfactorily filled through the proper usage of CEA when quality is accurately measured and costs correctly specified. If quality is not currently measured, we argue that our QuATRA measure can assist in the enumeration of quality. At this point in time, decisions regarding outsourcing ought to be made on a case-by-case basis. Once enough evidence is collected, scholars may begin comparing cases of success and failure to develop general rules for government to follow. Until then, we must continue in our attempt to expand the application of CEA. As we increase the number of evaluators developing quality measures and cost accounting techniques, CEA will improve in its ability to provide those in government with accurate evaluations of cost and quality tradeoffs.

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