

**New Public Management in Charlotte, North Carolina:
A Case Study of Managed Competition**

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ABSTRACT

The practice and study of public administration has long included questions of efficiency, effectiveness, and economy. In the literature of the last decade, the New Public Management (NPM) movement argues that government should be run like a business and that entrepreneurial-based techniques should be utilized in an effort to enhance government performance. The normative perspective, however, raises counter ideas. The primary purpose of this research is to examine the impact of managed competition, a NPM technique, on four primary study areas including (1) democratic governance, (2) the politics administration dichotomy, (3) organizational effects, and (4) accountability.

The study findings indicate that the economic model has had a significant impact on the four study areas to varying degrees. The theoretical propositions posed in the study center around principal-agent theory, public choice theory, and the market model and aid in reconciling the NPM perspective with normative considerations applicable to local government practice. Examining managed competition allows us to see how Charlotte has evolved in its attempt to meet demands from both perspectives.

To Keith,
for your enduring support, patience, encouragement, understanding, and love -
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CHAPTER ONE

STUDY INTRODUCTION AND IMPLEMENTATION OF NEW PUBLIC MANAGEMENT RESEARCH REVIEW

The practice and study of public administration has long included questions of efficiency, effectiveness, and economy (Pollitt, 2003 and Behn, 2001). In the literature of the last decade, the New Public Management (NPM) movement argues that government should be run like a business and that entrepreneurial-based techniques should be utilized in an effort to enhance government performance (Hughes, 2003, Adams, 2000; Barzelay, 1992; and Osborne and Gaebler, 1992). Some scholars are critical of this approach and contend that such techniques conflict with the traditional role of government and democratic principles (Terry, 1998; Cohen and Eimicke, 1997; and Clay, 1994). The transfer of governmental responsibilities to market based approaches and mechanisms, such as managed competition and privatization, is now at the forefront of public management reform discussions both in academic and agency settings. Andrews and Moynihan (2002) define managed competition as the establishment of competitive bidding, for service provision, between internal (government) providers and external (private) contractors. Privatization is defined as outsourcing or contracting a service to the private sector without allowing the governmental entity to compete (Andrews and Moynihan, 2002 and Reason Foundation, 1998).

The City of Charlotte has been active in managed competition and privatization for over 12 years and has been recognized by the International City Management Association as a city that has successfully applied NPM practices (ICMA, 2003). In Charlotte, the managed competition policy requires adherence to three service delivery goals. First is the goal of

providing the best quality service at the lowest cost, second is a greater focus on performance outcomes, and third is an increased attention to accountability (City of Charlotte, 2000).

The primary purpose of this research is to examine the impact of managed competition, a NPM technique, on four primary study areas including (1) democratic governance, (2) the politics administration dichotomy, (3) organizational effects, and (4) accountability. Hughes' (2003) contention that NPM reform was facilitated by three distinct themes including the continuing attack on the public sector, prevalence of economic theory (including public choice theory and principal-agent theory), and globalization and competition predicts that the case of Charlotte will display certain characteristics in the four study areas. However, counter ideas are present in the literature offer viable alternative considerations from the normative perspective. The normative perspective is grounded in the concepts of democratic values, governance, constitutionalism and the public service ethic. Focused on a concern for the public interest, the prevailing normative perspective in public administration acknowledges the constitutive role of public administrators in governance and stresses the commitment of administrators to public service (Cook, 1996; Wamsley et al., 1996; Wamsley et al., 1990; and Frederickson, 1997).

The way in which we might see evidence of these two perspectives, NPM and normative theory, reconciled or not reconciled within the four study areas, provides insight into one local government's experience. Examining managed competition allows us to see how Charlotte has evolved in its attempt to meet demands from both perspectives. Thus, the experiences of practice can inform our understanding of the context and validity of the current theoretical debate surrounding NPM.

Study Areas and Theoretical Propositions

The four study areas and the theoretical propositions that will guide this dissertation are stated below. The dissertation's focus concerns how ideas compatible with NPM and with normative theory may be reconciled in one case study of the implementation of managed competition in Charlotte, North Carolina.

Democratic Governance

- Public choice theory predicts that the examination of the City of Charlotte should reveal that the public be viewed as customers to be served instead of citizens to be included in the governance process. As a result, normative theory predicts that managed competition will reduce the role of citizens in government.

Politics Administration Dichotomy

- Principal-agent theory predicts that the examination of the City of Charlotte should display a control-based relationship between elected officials and administrative staff based on the separation of politics and administration. This separation should become more ingrained as a result of managed competition. Normative theories concerning the blending politics and administration, however, provide guidelines as to how the two should be brought together.

Organizational Effects

- Principal-agent theory predicts that the examination of the City of Charlotte will demonstrate the development of mechanisms to ensure agent compliance with the desires of the principal. However, normative theory proposes that although these mechanisms are useful tools for internal process management, they do not ensure compliance to the principal's preferences.
- The examination of the City of Charlotte should reveal the market model in the gainsharing incentive program for managed competition. However, normative theory would predict that gainsharing has some negative consequences for the organization and the citizenry.

Accountability

- The examination of the City of Charlotte will demonstrate how the market model has directed the choices and shaped the perceptions of stakeholders in Charlotte's managed competition program to a solitary focus on cost reduction that neglects other values and measures of accountability. Understanding of normative theory and public sector values, however, should demonstrate that

the market model has reduced flexibility in decision-making and defined accountability too narrowly.

Overview of Studies on Contracting and Managed Competition

Overview of Studies on Contracting

Although this study, as shown above, will focus on an examination of the ideas implicit in the processes and procedures surrounding managed competition, the implementation of contracting and managed competition has not gone without examination in the scholarly and practitioner oriented literature. Studies have particularly examined questions concerning the extent of contracting, the cost-effectiveness of contracting, and accountability relationships at the international, national, state, and local levels (Andrews and Moynihan, 2002). Hodge (1998) provides a review of the financial benefits of competitively bidding cleaning, maintenance, and refuse collection services. Boyne (1998) examined the relationship between service contracting and municipal expenditures by looking at five empirical studies (see Miranda, 1994; Stein, 1990; Ferris, 1988; Deacon, 1979; and Sonenblum, Kirlin, and Rise, 1977). Each study found contracting to be positively associated with lower costs. However, since none of the studies addressed service quality, efficiency impacts remain undocumented. Boyne (1998) also points out that variation in political values across municipalities has an impact on the examination of contracting. Further, lack of control for local preferences and the absence of adequate competition in the local market place are noted as limiting factors in the existing empirical research on contracting (Boyne, 1998). The International City County Management Association's 2002-2003 "Profile of Local Government Service Delivery Choices" examines local government contracting. Data published by the International City County Management

Association (ICMA) (2003) for the period 1982-2003 show that public sector service delivery still remains the prevailing choice for service provision in local government (ICMA, 2003).

In addition to the various studies on contracting, privatization studies have been conducted across numerous fields including mental health management (see Connolly and Jones, 2003) and airport management (see Advani and Borins, 2001). Several studies on privatization at the local level are noteworthy. Duman (2003) conducted a study on the City of Indianapolis and the impact of privatization on public service delivery. A quasi-experimental design, using time series analysis to examine the cost of operations and maintenance and the quality of treated wastewater before and after privatization, was conducted in combination with a qualitative review of service delivery arrangements. The study found that privatization in Indianapolis had a positive impact on cost savings while having little impact on service delivery (Duman, 2003).

McCrone (2003) examined contracting at the county level in Pennsylvania in the area of social services. Employing a qualitative case study approach, decision-makers were asked questions such as – why did the local government outsource, how was the private provider selected, how is performance measured and how does performance compare with that of the previous provider (the local government) to determine the impact of contracting on service delivery. The study determined that outsourcing arrangements produced a positive impact (McCrone, 2003).

DeHoog (1990) explored contracting in human services, specifically social services and employment training programs. Employing three theoretical perspectives, the economic perspective of market imperfections, the political perspective of co-optation, and the interdisciplinary perspective of organizational decision-making, contracting was found to produce varying results and implications, depending on the perspective employed (DeHoog,

1990). Finally, Sclar (2000) used local government case studies to provide a critique of the market-based approach to local government contracting. Sclar argues that advocates of privatization should be cautious in the process of privatizing local government services due to the uncertainty of the benefits. Sclar (2000) also contends that contracting in the public sector is difficult and transaction costs can be considerable.

In addition to studies on contracting, NPM has been examined in several other contextual settings. Cohen and Eimicke (2002); and Maesschalck, (2004) examined NPM's impact on ethics while Christensen and Lægreid (2002) have evaluated leadership as it relates to the NPM movement. Organizational commitment (Moon, 2000) and MPA education (Koch, 1999) have also been considered in the context of NPM. Finally, Thompson and Miller (2003) reviewed the relationship between the bureaucracy and business values. The examination of NPM techniques in practice, in addition to contracting and privatization, also includes the area of managed competition.

Empirical studies of managed competition are linked to the abundant literature on privatization (see Kettl, 1993; Pack, 1987; and Savas, 1987). The examination of instances in which services traditionally provided by local governments are subjected to competition has primarily centered on two foci. First, the normative theoretical concerns surrounding the application of entrepreneurial-based techniques to government are addressed in the literature. Second, the question of whether market competition reduces government costs and improves performance is an area of study. For example, Domberger, Meadowcroft, and Thompson (1986) and Savas (1987) have studied refuse collection in the United Kingdom and United States, respectively, and have documented the costs savings produced from market competition.

Overview of Studies on Managed Competition

Managed competition research is available on the experiences of the Australian federal government (see Domberger, Hall, and Skinner, 1995) as well as local governments in the United Kingdom (see Andrews and Moynihan, 2002; Martin, 1997; and Walsh, 1995). Research of managed competition efforts in the United States addresses federal agencies (see U.S. General Accounting Office, 1998), state governments (see Chi and Jasper, 1998), and local governments (see Andrews and Moynihan, 2002 and Martin, 1999). The fundamental issue examined in the existing literature is whether or not the implementation of managed competition has reduced costs and improved efficiency. However, there are some notable exceptions.

Frederickson (1995) examined local government pursuit of the reinvention principle of enterprising government and the notion that public officials should look for opportunities to earn, rather than spend, money. Frederickson (1997) argues that business and government have very different goals; therefore, the techniques of private sector entrepreneurship are inappropriate for government as they often result in unethical behavior by public servants. Frederickson contends that the public sector is being corrupted by unethical behavior at an increasing rate due to the current trend of running government organizations like private businesses (Frederickson, 1997).

Cohen and Eimicke (1997) researched the question of the ethical use of entrepreneurship in government at the local level. Specifically, the managed competition efforts of the City of Indianapolis were examined. Efficacy and ethical issues were raised as areas of concern for entrepreneurial governments.¹

¹ Cohen and Eimicke (1997) also reviewed public ethics literature and developed guidelines for public servants in assessing the prudence and feasibility of adopting NPM techniques. These guidelines include obeying the law, serving the public interest, ensuring thorough analysis, acting with compassion and empathy, and taking personal responsibility for decisions (Cohen and Eimicke, 1997).

Andrews and Moynihan's (2002) research into the success of reform efforts provides some insight into managed competition with a direct emphasis on understanding how it has affected public organizations and public sector efficiency and effectiveness. Andrews and Moynihan (2002) provide a case study analysis of the managed competition efforts of Indianapolis and San Diego. Reducing costs, although the primary measure of success in managed competition, was not the only positive outcome identified in the Indianapolis and San Diego case study. According to Andrews and Moynihan (2002), the competition process also has a positive impact on improved flexibility, internal processes, and capacity. The case study on Indianapolis and San Diego suggests that further empirical study is needed to supplement the understanding of managed competition on outcomes beyond reducing costs (Andrews and Moynihan, 2002).

Managed competition has been implemented in the United Kingdom, Canada, and the United States at the state level (where jurisdictions including Alaska, Colorado, Kansas, Kentucky, Montana, Utah, Virginia, and Massachusetts have comprehensive regulations setting standards for competitive contracting), and in larger cities including Indianapolis, Phoenix, Plano, San Diego, Washington DC, Philadelphia, and Charlotte (Reason Foundation, 2004). Services typically subjected to managed competition include fleet services, water and wastewater treatment plant operations, and refuse collection services (Reason Foundation, 2004).

Managed Competition Programs in Other Cities

Summary of Savings

A review of the literature on managed competition at the local level identified San Diego, Indianapolis, Phoenix, and Philadelphia as cities with well documented managed competition programs (Schachtel and Sahmel, 2000). The City of Charlotte describes the managed

competition process in the 2000 publication “The Charlotte Story: Public Service is Our Business”, “...Phoenix and Indianapolis provided invaluable information on best practices and lessons learned and this information served as groundwork for Charlotte’s competition policy development” (City of Charlotte, 2000, page 69).

Phoenix has gained national and international attention for its competition efforts. Since 1979, Phoenix has held managed competitions that have produced costs savings totaling approximately \$34 million as of 1999 (Schachtel and Sahmel, 2000). Indianapolis began competing against the private sector in 1992 and is often cited as the model to follow for other cities considering the development of a competition program. Approximately 85 functions have been subjected to competition in Indianapolis, through 2000, for a savings of over \$450 (Schachtel and Sahmel, 2000). In 1994, San Diego began implementing a reorganization and cost containment program.² As of the close of 2002, approximately \$117 million in savings has been generated. (Schachtel and Sahmel, 2000). Philadelphia began competing in 1992 and has achieved a savings of approximately \$150 million as of 1998 (Schachtel and Sahmel, 2000). Table 1.1 provides an overview of key points of comparison between Charlotte and the four comparable cities.³ The comparison of the scope and structure of the five competition programs demonstrates that Charlotte’s program is not an aberration but is similar in nature to other programs in the nation that are currently thriving or were once viable.

² San Diego never conducted a true managed competition due to litigation with labor unions. Alternative mechanisms were used to achieve efficiency gains such as re-engineering and optimization. (Andrews and Moynihan, 2002).

³ All of the cities reviewed have labor union involvement in the managed competition program, with the exception of Charlotte. North Carolina is a right to work state and therefore city employees cannot unionize.

Table 1.1 Summary of Managed Competition Programs

City/Year Initiated	Reasons for Competition	Primary Program Goal	Cost Savings	Program Obstacles	Oversight Mechanism
Charlotte (1993)	Fiscal demands, political pressures, public desire to trim government	Best service, lowest cost	\$100 million as of 2004	Fear, time constraints, costing, establishing audit process	PCAC
Phoenix (1979)	Fiscal demands, increasing public desire to trim government	Increased productivity and efficiency	\$34.5 million as of 1999	Fear of unknown	Internal Audit (no separate group in addition to audit staff)
Indianapolis (1992)	\$20 million deficit, fiscal stress, public opinion, Mayor Goldsmith's campaign promises to reduce government waste	Reduced government waste, cost reduction	\$450 million as of 2000	Fear, financial constraints, bureaucracy, apathy	Office of Enterprise Development
San Diego (1994)	Fiscal demands, political pressures, public desire to trim government	Assurance of efficient and effective service delivery	\$117 million as of 2002 (includes one-time, cost avoidance, actual cost savings)	No competitions held due to litigation (efficiencies gained through other means such as re-engineering)	Competition Team
Philadelphia (Early 1990s)	Threat of bankruptcy, \$200 million deficit, junk bond credit rating (see Quehl, 2000)	Improved service delivery and cost savings	\$150 million as of 1998	Bureaucracy, fear of unknown, competing priorities	Mayor's Private Sector Task Force

Sources: Schachtel, Marsha, and Douglas R. Sahmel (2000). *Competitive Governance Strategies For Baltimore City: Lessons from Other Cities*. Prepared for the Baltimore Efficiency and Economy Foundation.

City of Charlotte (2000). "The Charlotte Story: Pubic Service is Our Business."

Andrews, Matthew and Donald Moynihan. 2002. "Why Reforms do not Always have to "Work" to Succeed: A Tale of Two Managed Competition Initiatives." *Public Performance & Management Review*. 25(3): 282-297.

City of Phoenix Public/Private Competitive Process Overview, <http://phoenix.gov/AUDITOR/public1.html>.

City of San Diego. Competition Program. The City of San Diego web site. www.sannet.gov/competition.

The Reason Public Policy Institute. Choosing Which Services to Privatize -- Lessons from Indianapolis. Practices and Strategies, Choosing What to Privatize -- the Indianapolis Experience. Privatization Center Privatization Database. www.privatization.org.

Program Summary - Philadelphia

Philadelphia's most extensive competition efforts took place from 1992-1994 during Edward Rendell's tenure as mayor. The managed competition process resulted in five services remaining under the provision of city forces while forty-seven services were contracted to the private sector. In contrast to the process utilized in Charlotte, Philadelphia does not compete by issuing a RFP to begin the competition. First, the City, as dictated by legal requirement and union contracts, completes an economic analysis to prove that the benefits of contracting are not obtainable under status quo conditions. Then, if a RFP is issued, the union has the opportunity to review the document prior to release. The union can also propose efficiency improvements to improve competitiveness prior to a private bid being awarded. The services competed in Philadelphia include park turf maintenance, nursing home operation and maintenance, museum security, custodial and building maintenance, prison food services, printing, sludge removal, and fleet management auto body work (Schachtel and Sahmel, 2000).

The City of Philadelphia held contract negotiations with the unions and agreed to include the contract requirement that displaced city employees either be moved to vacant positions within the city or be offered the first right of refusal for any job openings with private service providers (Schachtel and Sahmel, 2000). In addition, Mayor Rendell committed to no employee layoffs and established a redeployment office to aid transitioning employees.⁴ Philadelphia encouraged citizen involvement in the competition program and held town hall style meetings with citizens in order to hear concerns and comments about the competition policy. The Mayor's Private Sector Task Force along with City Council, according to Schachtel and Sahmel (2000),

⁴ Within one year of moving to a private contractor for employment, former city employees could return to the city if they so desire (Schachtel and Sahmel, 2000).

requested citizen feedback and made efforts to maintain a dialog with the business community concerning competition efforts.

Program Summary - Phoenix

The managed competition program in Phoenix has been in place for over twenty years. Appendix A provides additional information on the details of the program. In the late 1970s, private firms approached the City of Phoenix concerning their desire to provide service delivery options for the local government. Officials in Phoenix decided to innovate and make improvements from within, using managed competition, instead of pursuing privatization.

The City of Phoenix evaluates services to identify if improvements can be made through managed competition. Before private bids are opened, City operating department bids are evaluated and costs are categorized as either differential costs, or costs no longer incurred if the service is outsourced, and non – differential costs, or costs that will remain if the service is outsourced (Schachtel and Sahmel, 2000).

Similar to the other cities reviewed, citizens are viewed as customers, yet unlike Charlotte and Philadelphia, Phoenix has established no formal transition plan for employees affected by managed competition (Schachtel and Sahmel, 2000).⁵ This presents potentially negative consequences for displaced employees. Some strategies have been put in place to assist employees in making the transition, such as training programs that equip employees for new opportunities. Other than the accommodation for citizens and vendors to suggest that a service be placed up for competition, there is little documented evidence of the specific steps taken to engage the public in the program. Despite this lack of evidence, “Increases in citizen satisfaction and awareness have also occurred in Phoenix because of competition and helped stimulate the city’s quality results movement” (Schachtel and Sahmel, 2000, page 36).

⁵ The Employee Placement Policy for the City of Charlotte is provided in Appendix F.

Program Summary - San Diego

Competition efforts in San Diego developed into more of a re-engineering and optimization based program instead of true managed competition. Litigation issues with labor unions caused this re-direction in focus. Prior to the formalization of the competitiveness effort in San Diego, citizens were viewed as customers (Schachtel and Sahmel, 2000). The City of San Diego claims that entrepreneurial governance yielded savings, improved labor relations, and empowered employees (Schachtel and Sahmel, 2000).

The first step in the process of increasing efficiency in San Diego is the competitive assessment. Then, operating departments are given an opportunity to make changes that would bring performance up to the identified standard before a decision is made regarding the future of the service delivery structure. A Competition Team oversees the program through the use of an annual performance monitoring report (Schachtel and Sahmel, 2000). Similar to Charlotte, San Diego has used the yellow pages test to identify services to examine and has also used a five-year planning schedule.

Services placed under competitive consideration in San Diego include water treatment, wastewater treatment, fleet maintenance, airports, custodial services, dead animal collection, mail and messenger services, park maintenance, street sweeping, land surveying, and water meter reading (Schachtel and Sahmel, 2000). Early in the process, citizens were invited to participate in oversight committees and to develop program strategies (Schachtel and Sahmel, 2000). San Diego's Council policy on competition is provided in Appendix B.

Program Summary - Indianapolis

Mayor Steven Goldsmith's campaign to reduce government waste in Indianapolis received nation and international attention (Andrews and Moynihan, 2002). Mayor Goldsmith

created the Service Efficiency and Lower Taxes for Indianapolis Commission to address efficiency issues. The Office of Enterprise Development was created to oversee the competition program. The municipal model for managed competition and privatization during the 1990s; Indianapolis was used by the City of Charlotte as a blueprint for developing its competition program (City of Charlotte, 2000). Indianapolis views citizens as customers and developed employee transition strategies for dealing with displaced employees (Schachtel and Sahmel, 2000).

Little information is currently available regarding the apparent demise of the program that occurred when Goldsmith left office. Due to the highly publicized and acclaimed nature of Indianapolis' program, attempts to contact City officials concerning the current status of the program were made. These efforts resulted in four conversations where staff members in various areas of the organization had no knowledge of the program. Whether the Indianapolis experience suggests that the strong mayor form government impacts the persistence of competition requires additional study.

In closing, all of the cities reviewed have competition programs that are relatively similar in nature as they all have comparable structures, oversight, costing methodology, bid evaluation processes, and documented procedures for competition process and monitoring (Schachtel and Sahmel, 2000 and City of Charlotte, 2000). This demonstrates that Charlotte is a valid case for examination. A review of competition for residential refuse collection services provides service specific information for examining validity.

Refuse Collection

The City of Charlotte has been competing for residential refuse collection services for approximately ten years (City of Charlotte, 2004). Each year Charlotte's Solid Waste Services

Key Business Unit (KBU) adds approximately 5,000 customers; at the same time, the cost of service delivery is 2.4 percent less than in 1995 (City of Charlotte, 2003). The City is divided into four quadrants that comprise 80 percent (178,000 homes) of the county population (Fleming, 2004).

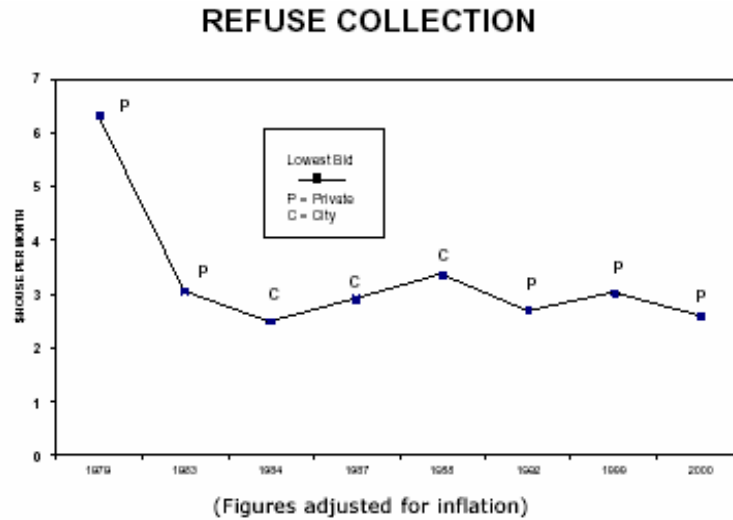
E.S. Savas (2003) discusses the fact that the most studied municipal service, concerning contracting and privatization, is residential solid waste collection.⁶ Savas (2003) points out that the analysis of all the major comparative studies of the service indicate that municipal collection costs are approximately one-third more than contract collection.⁷ This statistic does not include the City of Charlotte or the City of Phoenix.⁸ Figure 1.1 provides historical cost and service provider information for residential refuse collection in Phoenix. Table 1.2 provides cost savings and service provider information for residential refuse collection in Charlotte.

⁶ At least 50 percent of cities and counties in the United States have privatized solid waste services (Fleming, 2004).

⁷ The major comparative studies examined comparable service levels and quality (Savas, 2003).

⁸ Indianapolis has privatized a majority of curbside refuse collection and has saved approximately \$5.1 million as a result. (Schachtel and Sahmel, 2000).

Figure 1.1 Refuse Collection Bid History in Phoenix



Source: City of Phoenix Public/Private Competitive Process Overview,
<http://phoenix.gov/AUDITOR/public1.html>.

Table 1.2 Refuse Collection Bid History in Charlotte

Quadrant	City Bid	Low Private Sector Bid
South (Round 1)	\$6.38 (city benchmark -city not allowed to bid)	\$5.66 (awarded to BFI)
West (Round 1)	\$4.74	\$8.03
East (Round 1)	\$6.28	\$7.71
North	\$5.63	\$8.90
South (Round 2)	\$8.07	\$10.65
West (Round 2)	\$10.34	\$9.07 (awarded to Inland Services, Inc.)
East (Round 2)	\$8.20	\$8.42

Shading indicates contracts awarded to the private sector.

Source: City of Charlotte Solid Waste Services.

San Diego, Indianapolis, Phoenix, and Charlotte conduct full cost accounting of solid waste services (Schachtel and Sahmel, 2000). Phoenix and Charlotte each gather performance feedback from citizens through a centralized call center (Schachtel and Sahmel, 2000). Comprehensive data were not available regarding the number of layoffs that have occurred in each of the comparable cities as a result of managed competition. Charlotte offers to move displaced employees into existing vacancies throughout the organization. Two instances have been documented where employees have opted to leave employment with the City when their jobs have been lost to the private sector (City of Charlotte, 2003).

In summary, this overview of the most pertinent studies of managed competition and case studies comparable to Charlotte leaves us with several observations. First, more research has been conducted on cost savings and instances of service delivery than on other dimensions. Second, Charlotte is similar to several other major cities in its implementation of managed competition. Third, one gap remaining in the studies is a closer examination of the how, why, and resulting impact of implementing managed competition. That gap is where this dissertation hopes to add some insight.

Overview of Chapters

The remainder of this dissertation is organized as follows. Chapter two provides a comprehensive literature review of NPM and a brief review of literature related directly to the four study areas. Chapter three provides a contextual framework for the study. Detailed information on the City of Charlotte, including the management framework, governance structure, the initial setting of the competition agenda, the selection process used to select candidates for competition, and the evolution of the program is discussed. Chapter four presents the study methodology, including a review of the research questions used in the interviews.

Chapters five and six present the study findings. Lastly, chapter seven is a summary and discussion of the research including key insights that conclude the study.

CHAPTER TWO

THEORETICAL FOUNDATIONS

New Public Management (NPM) purports to be designed to “fix the problems of government” such as low public confidence in bureaucracy, waste, poor program design, and performance deficiencies (Pollitt, 2003 and Hood, 1991).⁹ Due to our nation’s strong commitment to individual liberty and freedom, the ongoing doubts that exist concerning government power are not surprising (King and Stivers, 1998). King and Stivers’ (1998, page 9) statement “anger at, and discontent with, the government is also related to people’s perceptions of the ineffectiveness and inefficiency of government policies and services” helps us understand how the NPM movement and its application of private sector techniques and principles have taken hold. Moreover, King, Stivers, and Nank (1998, page 25) contend,

...in response to this legitimation crisis and to charges that government – especially the federal government – is inefficient and wasteful, recent years have witnessed a turn toward making government functions and services more business like, further strengthening the connections between business and government and the disconnections between government and its citizens.

⁹ NPM is both heavily discussed and debated. Although the name is somewhat new, the concept has roots in the long line of U.S. administrative reform efforts including: Brownlow and Hoover Commissions, PPBS, ZBB, MBO, TQM, and reinvention. The concept of applying market and business principles to the public sector, due to its basis in economic theory, is experiencing significant emphasis. This is due to the nation’s commitment to the capitalistic market economy (Kelly, 1998). Globalism and worldwide competition coupled with the current public perception of government as inefficient and wasteful are cited as primary reasons for the desire to apply business principles to governmental entities. The perception of government as inefficient and wasteful is cited as another reason. Reinvention argues that one of the five strategies for “banishing bureaucracy” and reinventing government is to create an entrepreneurial culture (Osborne and Plastrik, 1997). The public sector is characterized as a matter of following the rules, staying out of trouble, doing just enough (“good enough for government work”) and never making a mistake (Osborne and Plastrik, 1997).

This raises questions for public administrators regarding the management of changing responsibilities. The perception that government is exercising illegitimate power and the suggestion that using “proven” business approaches can solve this problem is the heart of the desire to apply the market model to public service.

Generally, the NPM movement can be summarized as containing two central arguments: 1) the market, not the government, is the best allocator of resources; and 2) individuals are the best judges of their own welfare (Hughes, 2003). Blair (2000) discusses how NPM affects the practice of public administration, showing the potential for altering the balance between administrators, political leaders, and the public. Pollitt (2003) states that insight into the threats and advantages of the NPM approach to public administration could possibly be gained from the analysis of the implementation of the movement’s techniques.

Review of the Concept of NPM

NPM argues for a move away from a focus on bureaucratic administration to a more customer-oriented and flexible management style grounded in private sector approaches to service delivery and administration (Aucoin, 1990 and Hood, 1990). Taken further by Osborne and Gaebler (1992), Barzelay (1992), and Thompson and Jones (1994), decentralization to enhance customer service and improve service quality were added to the description of the movement’s character. Becoming more efficient and responsive by using market approaches has become the cornerstone of the movement (Hood, 2002; Kettl, 1997; Eggers and O’Leary, 1995; and Osborne and Gaebler, 1992).

Specific derivatives of the NPM movement, including market driven management and liberation management, apply specifically to the consideration of managed competition. Market driven management advocates the use of private sector techniques and market based strategies,

such as competition, to achieve efficiency and effectiveness. The liberation management concept, though not specifically grounded in market based strategies yet focused on the status and role of the administrator, states that managers, in general, are skilled and committed individuals who, when released from confining organizational structures can have a positive influence on performance (Osborne and Gaebler, 1992).

Theoretical Anchors of NPM

Hood (1991) discusses the origins of NPM as a marriage of two sets of converging ideas (also see Lynn, 1996). The first partner Hood identifies is the new institutional economics, specifically public choice theory and principal-agent theory, derived from the work of Arrow (1963) and Niskanen's theory of bureaucracy (1971). The key doctrines of institutional economics include the disaggregation of public bureaucracies and the use of competition. The concepts of user choice, incentive structures, and transparency define institutional economics and are in contrast to the more traditional understanding of bureaucracy based on hierarchy and the elimination of duplication (Hood, 1991 and Ostrom, 1974).

Thompson and Jones (1994) agree with the idea that NPM is grounded in economics and cite the work of Williamson (1985), Niskanen (1971), Arrow (1963), and Coase (1937) as foundational points of reference. Thompson and Jones (1994) argue that the new institutional economics provides public managers with the tools necessary to handle complex problems. Increasingly, scholars involved in the NPM movement are increasingly turning to institutional economics, specifically public choice and principal-agent ideas, to provide a sounder theoretical base to their work (Kaboolian, 1998).

The second partner, according to Hood, is managerialism. Defined in the tradition of scientific management, professional management is viewed as more important than expertise

(Hood, 1991; Pollitt, 1990; and Merkle, 1980). The central doctrines of managerialism include private sector management techniques, hands-on professional management, and performance measurement (Lynn, 1996). A high level of discretion is seen as key to success in order for managers to have the freedom to function in the pursuit of measured organizational outputs (Hood, 1991).

Public Choice Theory

Public choice theory rejects the assumption that government effectively corrects market failures and proposes that if the public sector, specifically public employees, monopolize service delivery, the outcome is an inefficient and ineffective government (Blais and Dion, 1992 and Boyne, 1998). Correspondingly, public choice theory contends that if contracting is embraced, then pressures from the market lead to improved performance. According to Boyne (1998), proponents of contracting in local government have long been influenced by public choice theory and its arguments (also see Niskanen, 1968, 1971; Downs, 1967; and Tullock, 1965). Savas (1974) noted that since local governments are inherently monopolistic, the practitioners therein are positioned to utilize monopolistic power to their own individual advantage. Efficiency and effectiveness is not often viewed as one of those advantages (Boyne, 1998). Contracting out and managed competition, therefore, can be viewed as means for checking the assumptions of public choice theory against the reality occurring in local governments.

Boyne, in the 1998 article titled “Bureaucratic Theory Meets Reality: Public Choice and Service Contracting in U.S. Local Government” examines the existing evidence purporting that contracting produces increased efficiency in municipal service delivery and the related support this evidence provides for the public choice argument. Boyne (1998) argues that due to the deficiencies in previous statistical testing, including the omission of control variables and

incomplete measures of competition, that contracting has not been empirically proven to produce efficiency improvements. More complete testing is required in order for public choice propositions to be empirically supported. Implications for managerial behavior, thus, remain unclear (Boyne, 1998). Balancing efficiency gains, whatever their degree and prevalence, with losses of equity, citizenship, and accountability is a concern held by many public administration scholars (Boyne, 1998; Halachmi and Holzer, 1993; Kettl, 1993; Hilke, 1992; Voytek, 1991; Donahue, 1989; Wilson, 1989; and Morgan and England, 1988).

Principal-Agent Theory

Principal-agent theory concerns the issue of how to get the public servant (the agent) to act in the best interests of the citizenry, represented by the elected officials (the principal). Principal-agent theorists often discuss the fact that the agent has more informational expertise than the principal, as well as different interests from the principal, as areas of concern. Agency costs, a type of transaction cost, include the costs of monitoring agent performance to ensure compliance to the desires of the principal.

Institutional economics is based on the assumption that human beings are rational utility maximizers (Buchanan, 1978). Rationality is used to pursue an agenda and for justifying actions in terms that appear rational from a particular viewpoint (Williamson, 1985). In the market model, this viewpoint is one centered on the reduction of transaction costs. Moreover, the theory of rational choice argues that humans operate with a purpose, with a goal in mind. Kelly (1998) states that one of the fundamental premises of NPM is that administrators will act rationally to maximize their choices and opportunities to succeed.

The political system is composed of many principal-agent relationships within and between organizations (Worsham, Eisner and Ringquist, 1997). Furthermore, principal-agent

theory proposes that administrative autonomy reduces democratic accountability and representation due to the discretion of administrators that is used in opposition to the desires of elected officials (Worsham et al., 1997). “The same asymmetry of knowledge and information that often necessitates delegation subsequently limits the capacity of principals to monitor and assess the behavior of their agents” (Worsham et al., 1997, page 423). As a result, agents are viewed as being open to shirking and opportunistic behavior that serves them as an individual instead of the principal (Worsham et al, 1997). Transaction cost, is the price it takes for principals to ensure that agents act as the principal wishes. The policy implications of transaction costs include performance monitoring structures and productivity standards. Downs (1967) studied the self-interest of bureaucrats and developed a theory of decision-making. Downs saw a conflict between organizational goals and individual goals which he argues leads to a “leakage of authority” where the agent becomes focused on personal and professional promotion, which includes growth in the organization’s budget (Blanchard et al, 1998). Moreover, Blanchard et al, (1998, page 494) state that since individuals satisfy self-interests through private market transactions, “the behavior of individuals as public employees raises a problem for collective action and the allocation of public goods and services” (also see Buchanan and Tullock, 1965; Niskanen, 1971; and Olson, 1965). In response, the application of market based reforms to government, operating government like a business and utilizing a customer based approach to service delivery, has become a reaction to the principal-agent issue (Blanchard et al., 1998).

The principal-agent presumptions underlying the market approach to government maintain that the bureaucracy is incapable of being efficient due to poor organizational design (Blanchard, 1998). Proponents of the theory argue that inefficiency can be improved if incentives in the public sector are altered to match those present in the marketplace (Blanchard et al, 1998).

Thus, the issue facing the principal is the need to ensure that the government administrator, or agent, is focused on the goals of the citizen and not his own best interest (Arrow, 1985 and Blanchard, 1998).

Breaux, Duncan, Keller, and Morris, (2002) contend that principal-agent theory is an insufficient tool for understanding the relationship between principals and agents due to the complexity of the relationships that exist in practice. By examining the *1996 Personal Responsibility and Work Opportunity Act* in the state of Mississippi, Breaux et al., (2002) tested the theory and found that the decisions the state made, in the area of welfare reform, to privatize portions of the work and add layers of management negatively impacted internal monitoring systems and accountability. Pierre (1995) suggests that market solutions threaten to convert citizenship from a means of political empowerment to one of economic empowerment.

In addition, Worsham et al., (1997) in the article “Assessing the Assumptions: A Critical Analysis of Agency Theory” examine the five major assumptions of the theory and argue that they are too simple and unrealistic. They offer five modified assumptions to balance the political, bureaucratic, and economic forces facing policymakers in the effort to gain political control. The original assumptions and the alternative assumptions are listed in figure 2.1 and provide insight into the comprehensive nature of principal-agent theory when considered in the context of a specific setting and program.

Figure 2.1. Assumptions and Alternative Assumptions of Principal-Agent Theory

1. Assumption: The reductionist fallacy of misplaced methodological individualism: All political phenomena can be modeled on, or reduced to, the individual actors in the market.

 Alternative Assumption: Attempts to influence bureaucratic behavior take place in a setting where institutional arrangements and organizational factors are of prime importance.
2. Assumption: Individuals rationally seek to maximize material returns to themselves. This is the driving motivation of individual action – Elected officials are vote maximizers and Bureaucrats are budget maximizers.

 Alternative Assumption: Individuals are motivated by a variety of factors and interests.
3. Assumption: Individuals act on the basis of complete information – congress and the executive (elected officials) possess complete knowledge of whether bureaucratic activity conforms to their preferences and bureaucrats have complete knowledge of principal preferences.

 Alternative Assumption: Information is a commodity, the availability of which varies over time and across policy areas.
4. Assumption: Political-bureaucratic relationships are at heart a didactic-exchange relationship.

 Alternative Assumption: The political system is characterized by a multiplicity of principal-agent linkages. It is a complex web of interrelationships and activities in which players may be both principals and agents and in which lines of communication and authority are multiple and blurred.
5. Assumption: Politics naturally gravitates toward equilibrium.

 Alternative Assumption: The political-bureaucratic relationship tends toward dis-equilibrium rather than equilibrium.

Source: Worsham, Jeff, Marc Allen Eisner, and Evan Ringquist. 1997. "Assessing the Assumptions: A Critical Analysis of Agency Theory." *Administration and Society*, 28(4): 419-442, reproduced by permission of Sage Publications.

Themes in NPM

Kettl (1997) discusses two varieties of NPM approaches. First is the contracting and incentives or the “make the managers manage” model (utilized in the United Kingdom and New Zealand). Second is the empowerment of managers or the “let the managers manage” model (utilized in Australia and Sweden).¹⁰ The United States has looked at both varieties, yet avoiding any one choice or direction (Kettl, 1997). A mix of reforms and the National Performance Review include the themes of internal deregulation of government agencies, the need to make government more bottom-line driven, the empowerment of lower level employees, competition, and customer service (Kettl, 1997, and Osborne and Plastrik, 1997).¹¹

NPM is characterized as providing an entrepreneurial culture that has a clear purpose characterized by a well-developed strategy, a focus on customers, accountability, and empowerment of employees (Osborne and Plastrik, 1997). According to Hood (1991), the rise of NPM seems to be linked with four other administrative mega trends. Hood lists these trends as the following:

1. attempts to slow down or reverse government growth regarding spending and staffing (Dunsire and Hood 1989);

¹⁰ Several Organisation for Economic Co-operation and Development (OECD) countries began embracing NPM principles and practices in the 1970s (Barzelay, 1992).

¹¹ NPM is based on economic or market standards with an emphasis on entrepreneurial management, customer satisfaction, performance measurement, and competition (Osborne and Gaebler, 1992). NPM resurrects the politics/administration dichotomy as it is grounded in public choice theory and is economically driven by business management principles (Lynn, 1998). John Kamensky, an author of the National Performance Review, commented that NPM is tied to the public choice movement, specifically as it relates to the notion of self-interest (Gore, 1995). The Public Administration’s role is to steer or aid in facilitating bringing the market to bear by creating mechanisms and incentives to achieve policy objectives through non-traditional means such as private and non-profit agencies. Accountability is achieved through the choices government offers to its customers and the response offered concerning individual preferences of services (Lynn, 1998, Osborne and Gaebler, 1992, and Osborne and Plastrik, 1997).

2. the shift toward privatization and away from core government institutions (Hood and Schuppert 1988);
3. the development of automation in the production and distribution of public services; and
4. the development of a more international agenda and intergovernmental cooperation.

According to Hood (1991), NPM has two primary dimensions. First, portability and diffusion are identified as providing for the ability of NPM to solve many different management problems in varied contexts. Political neutrality is the second dimension of NPM. The claim of NPM is to be apolitical with the pursuit of many differing values being possible within the movement's framework because the management systems can adjust to accommodate various political priorities and circumstances (Hood, 1991). Hood summarizes the NPM movement by presenting a group of doctrines. The doctrines originate from varying intellectual sources; therefore, they cannot be applied consistently across varying applications (Hood, 1991). As shown in Table 2.1, Hood's doctrinal components provide an overview of the key characteristics of the NPM movement.

Table 2.1 Hood's Doctrinal Components of NPM

Doctrine	Meaning	Typical Justification
Hands-on professional management	Active, visible control by those free to manage the organization	Accountability requires clear assignment of responsibility – not diffusion of power
Explicit standards and performance measures	Well defined quantifiable goals and targets	Accountability requires clear goals and close examination of objectives
Increased focus on output controls	Resource allocation linked to performance	Focus on results rather than procedures
Dis-aggregation of units	Division of monolithic units into specialized corporate units	Manageable units increase productivity, facilitate contract operations
Competition	Use of term contracts and public tendering procedures	Rivalry and competition lowers costs and raises standards
Private sector management style	Public service ethic is replaced with increased flexibility through private techniques	Private sector tools are proven, should be used in the public sector
Discipline in use of resources	Reduce direct costs, increase discipline in labor force, resist union demands	Do more with less by controlling public sector resource demands

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Source: Hood, Christopher. 1991. "A Public Management for All Seasons." *Public Administration Review*, 69(1): 3-19, reproduced by permission of Blackwell Publishing.

Eight key characteristics that shed further light on the character and value emphasis of the techniques and practices of NPM are as follows. (Pollitt, 2003, page 27).

1. A shift in the focus of management systems and efforts from inputs (and processes towards outputs and outcomes).
2. A shift towards more measurement and quantification, especially in the form of systems of performance indicators and/or explicit standards.
3. A preference for more specialized, lean, flat and autonomous organizational forms rather than large, multi-purpose, hierarchical ministries or departments.
4. A widespread substitution of contracts (or contract-like relationships) for what was previously formal, hierarchical relationships.
5. A wide deployment of market mechanisms for the delivery of public services.
6. An emphasis on service quality and a customer orientation.
7. A broadening and blurring of the frontiers between the public sector and the market sector and the voluntary sector.
8. A shift in value priorities away from universalism, equity, security, and resilience and towards efficiency, and individualism.

Rosenbloom and Kravchuck (2002) state that NPM has demonstrated staying power. deLeon and Denhardt (2000) refer to the NPM as a prevailing movement that is touching all areas of public administration. Eikenberry and Kluver (2004) note how the public sector is increasingly adopting the methods and values of the market to guide policy creation and management. The topic of this dissertation, the adoption of managed competition by Charlotte, is one example. Specifically, managed competition fits within the competition doctrine described by Hood (1991) as it addresses the use of the private sector for service delivery, the separation of policy and administration, and using outputs as a means of measurement and control (Andrews and Moynihan, 2002).

NPM Critics

The continuation and expansion of the reinventing government and NPM movements raise fundamental questions for public administration scholars and practitioners. NPM's goal of

embedding economic values of business and the market into the activities of government is challenged by many critics (Hood, 1991).

Cohen and Eimicke (1997) note that since reinvention places a direct emphasis on entrepreneurship, public administration scholars are critical of the movement for its avoidance of constitutional law and representational democracy. Critics often argue that real entrepreneurs cannot be created in government, that market incentives cannot be substituted for law, and that reinventers undermine public management capacity by eliminating management layers in the effort to empower lower levels of public employees (Moe and Gilmour, 1995 and Schachter, 1995).

Nagel (1997) notes that the debate continues among practitioners and theorists alike concerning NPM. In 1998, the journal “Public Administration Review” held a symposium on leadership, democracy, and public management. NPM was a highly debated topic. Contradictions in the movement (Fox, 1996), the impact of privatization and contracting on democratic governance (McCabe and Vinzant, 1999), and the values inherent to the movement (deLeon and Denhardt, 2000; Frederickson, 1997; and Schachter, 1997) were discussed.

Blair (2000) contends that the source of this debate is the adoption of entrepreneurial management strategies that requires administrators to take calculated risks using business strategies. Proponents see this aspect of NPM as fundamental to the success of the approach (Frant, 1999 and Peters and Pierre, 1998). Opponents of NPM view entrepreneurial practices as a threat to democratic governance (Adams, 2000; Kelly, 1998; and Terry, 1998). We need to examine the characteristics of the techniques being utilized by practitioners in order to gain a better understanding of the implications, and thus inform the debate.

Terry (1998) has attempted to make the field aware of the potential threat of ignoring the constitutional regime values that should guide governance when we turn to a business orientation. In his work on neo-managerialism, Terry (1998) discusses the issues and concerns that NPM brings to the pursuit and achievement of a democratic polity with regard to the practice of public administration. A negative view of human nature, in the context of neo-managerialism, embodies the entrepreneurial management movement. Terry (1998) sees a direct conflict with the promotion and protection of democratic theory in the context of an entrepreneurial tone of government that is market driven and competitively motivated. Moreover, the argument is made that the public choice oriented character of neo-managerialism, as the foundation of entrepreneurialism, brings forth the opportunistic, self-interested, self-serving, and deceitful manager (Terry, 1998).

The impact of the NPM paradigm on democracy and citizenship is of particular concern to public administration scholars (deLeon and Denhardt, 2000; Denhardt and Denhardt, 2000; Box, 1999; King and Stivers, 1998; Terry, 1998; and Eikenberry and Kluver, 2004). Eikenberry and Kluver (2004, page 132) summarize the numerous concerns succinctly,

Central to their argument is a concern that the market-based model of public management, with its emphasis on entrepreneurialism and satisfying individual clients' self-interest, is incompatible with democratic accountability, citizenship, and an emphasis on collective action for the public interest. Furthermore, the market model places little or no value on democratic ideals such as fairness and justice.¹²

¹² The work of Osborne and Plastrik (1997) and Osborne and Gaebler (1992) does not reference justice, equity, participation, leadership, citizens or citizenship.

The concept that public organizations exist to administer the law and that an organization's being (structure, staffing, budget, and purpose) is the product of legal authority is pertinent to this discussion (Eikenberry and Kluver, 2004). Moreover, public administrators are bound by public law and the constitution – and act within the discretion allowed by the law and the ethical constructs of the administrative structure.

Frederickson (1997) argues that business and government have very different goals and therefore the techniques of private sector entrepreneurship are seldom appropriate and often result in unethical behavior for public officials. Frederickson also contends that unethical behavior in government is increasing due to the growing emphasis on managing government organizations like private businesses (Frederickson, 1997). Moe and Gilmour (1995) argue that the market element of NPM is inappropriate due to the fact that the two sectors, public and private, are derived from and based upon completely different legal doctrines.

Williams (2000) contends that NPM makes contradictory prescriptions in the call for a more business-like government while also lacking a complete and historically accurate understanding of public administration (also see Russell and Waste 1998; Coe 1997; Wolf, 1997; Fox 1996; Kobrak 1996; Nathan 1995; and Goodsell 1992). Williams also argues that NPM provides conflicting advice characterized by ambiguity. Williams (2000) goes on to state that if NPM was merely inconsistent and inaccurate, we could simply ignore it. However, NPM dispenses advice that is counter to effective and democratic government and espouses information so misleading that it is deceptive. Thus, he argues, we cannot ignore it (Williams, 2000).

Pollitt (2003) takes this argument further by elaborating on the alternative logics posed by NPM by arguing that there is a contradictory message being presented to public managers.

When the concern over accountability and the primacy of politics, which restricts the manager, intersects with the NPM call for letting the managers manage through the liberation motive, the message becomes mixed (Pollitt, 2003). The demands for increased performance evaluation and stakeholder participation complicate the message even more as now the public entrepreneur is to be both creative and responsive, transparent and measured or audited, while not making any decisions that will affect particular groups without involving those groups in the process (Pollitt, 2003).

The movement away from the public law tradition that has intellectually grounded the field in the past, Moe and Gilmour (1995) argue, has left public administration open to the management principles of a business orientation. The National Performance Review furthered this push to apply business based management principles to the public sector by suggesting that “broken” government can be “fixed” by casting aside red tape, focusing on customer satisfaction, decentralizing authority, and working better and costing less (Moe and Gilmour, 1995).¹³

Critics propose that the market approach does not capture the political considerations prevalent in local government (Heferz and Warner, 2004; Denhardt and Denhardt, 2003; Stark, 2002; Box, 1999; Kaboolian, 1998; Kelly, 1998; Moore, 1995; and O’Looney, 1993). Critics also challenge that the movement has limited value and negative implications for democracy, because it neglects issues such as accountability, the issue of separating politics and administration, the difficulty in attaining social equilibrium among citizens/consumers, and some of the contradictions in trying to run government like a business (Terry, 1998 and Clay, 1994). Despite the heated debate between proponents and critics, the study of the impact on practice is not as intense.

¹³ In response, Moe and Gilmour (1995) offer ten principles as complements to the contemporary management reform concepts in use today to bring the element of public law back to the forefront.

The Normative Perspective

The normative perspective is drawn from several key sources (King and Stivers, 1998; Terry, 1998; Wamsley et al., 1996; Clay, 1994; Wamsley et al., 1990). Primary is the work of the Blacksburg school, sometimes referred to as the Blacksburg Manifesto (Manifesto or Refounding Perspective). The Manifesto is a prescription for a constitutionally based legitimate Public Administration that plays a key role in governance. The original authors of the Manifesto (see Refounding Public Administration, 1990) included Wamsley, Goodsell, Wolf, Rohr, and White. Later in 1996, Refounding Democratic Public Administration was published and added a post-modern context to the refounding discussion as it reframed some aspects of democratic theory in an administrative networked context and reoriented the consideration of the role of the citizen. The Refounding Perspective is grounded in the concept of social equity, bringing values and norms to a central position in theory and practice, placing a focus on wider participation in administration, addressing concerns related to the relationship between knowledge and action, and the examination of the shortcomings of pluralism, positivism, and empiricism, all themes that emerged from Minnowbrook (Evans and Wamsley, 1998 and Wamsley et al., 1990.)

In the Blacksburg argument, the foundational element of legitimacy is the public organization, grounded in constitutional support and oriented around the "agency perspective" as the locus of public-spirited dialogue (Wamsley et al. 1990). The agency is therefore the focal point for public dialogue and the development of policy directions. The refounders maintain that individual morality is socially shaped because social constructs (institutions) develop cultures that shape individual behavior. Further, the refounders argue that institutional structures

determine social outcomes and that individual responsibility is insufficient to ensure a commitment to grounded values. Thus, an institutional responsibility is needed.¹⁴

One of the greatest contributions of the Manifesto to the theory and context of the field is the legitimacy it provides to public administration as unique from business management. The public administrator has the duty to take the public interest into account and is the one part of governance that has the ability to do so. The Manifesto purposes that The Public Administration must be more public and more prescriptive, altering of reality, and improving the work life (Wamsley et al., 1990.) Hence, it must be more normative. The Refounding Perspective is in opposition to institutional economics, public choice theory, behaviorism, and the politics administration dichotomy. The rejection of the capacity of public choice (the market) to advise and solve social problems is a fundamentally important theme of the work. This distinction between public administration and business management cannot be made strongly enough.

The concern for the public interest is a key distinction between The Public Administration and business management. Public interest, as argued by the Refounding authors, is the ideal and is thus a long-term and ongoing process. As the authors demonstrate, public interest is not an analytical tool derived from political science. It is a normative concept. The Public Administrator's duty is to take the public interest into account. The Manifesto raises the level of debate surrounding the instrumental consideration of public administration to the constitutive consideration of The Public Administration (also see Cook, 1996.)¹⁵ The Public Administration is more than an instrumental implementer of policy. It is constitutive in nature

¹⁴ Clay (1994, page 241) states, "A non-institutional perspective tends to emphasize techniques over purpose; fails to recognize a politics-administration continuum rather than a dichotomy; and places an overemphasis on economy efficiency, effectiveness while neglecting the importance of responsiveness, responsibility, and representativeness."

¹⁵ Cook (1996) argues that administration is not merely an instrumental tool given to accomplishing a specific task but that administration is constitutive in nature and function.

with regard to the role in governance under the Refounding Perspective. However, critics of the Manifesto challenge the normative perspective.

White (1990) conducted a deconstruction analysis of the Manifesto and commented specifically on the agency and market contrast. He argues that there is no distinct contrast between the two as the agency is the merely the institutional container for the market. White claims that this is due to the process related aspects of the role of the agency. Golembiewski (1991) proposes that the Refounding Perspective causes polarization - a divide between those “for” government and those “against” it. He also argues that the perspective offers no sense of operationalization or how to go about making the needed changes. Despite these critiques, the normative perspective represents a traditional perspective in public administration that may be reflected in the discourse surrounding managed competition.

Study Areas

A review of literature related to the four study areas, including democratic governance, the politics administration dichotomy, organizational effects, and accountability, yielded numerous articles and a significant amount of information that varied based on context and foci. The most pertinent overarching pieces related to this research are briefly discussed below in order to help frame the discussion of the study findings that follows.

Democratic Governance

Democratic governance, at the most basic level, concerns the linkage between the purpose of government and the preferences of the public. A balancing of self-interest, as advocated by the market model, and the public interest is a primary concern with regard to the matter of democratic governance. Mary Parker Follett’s (1924) treatment of participation and concern for process informs the consideration of democratic governance. The circular response

experience described by Follett places emphasis on the role of the environment and process interaction with regard to the experience of the individual and the process of creative democracy. The consideration of individual preferences in comparison to collective processes is discussed further by King and Stivers (1998).

In Government is Us: Public Administration in an Anti-Government Era, King and Stivers (1998) discuss how government needs to recognize the validity of the individual experiences of the citizenry and act on these when constructing frameworks for understanding and implementing policy and working to ensure democratic governance. The public service focus on structural modifications grounded in partnership development, not expert administration, and citizen involvement, not customer satisfaction, redirects the emphasis from outcomes grounded on efficiency and effectiveness to democratic governance defined by the role of the citizen (King and Stivers, 1998). Self-awareness allows for the acceptance of difference. This, Stivers (1994) argues, is fundamental to an improved public administration centered on democratic governance. Correspondingly, the relationship between the citizen and the administrator is of utmost concern.

According to Stivers (1994), listening promotes accountability as administrators come to view the public as fellow citizens with whom they can engage in a meaningful dialogue. The hearing of neglected voices, engagement in real communication with stakeholders, and openness to emerging perspectives is cited by Stivers as the benefits skillful listening brings to the promotion of active participation and accountability (Stivers, 1994). The manner in which effectiveness is defined influences the administrator's perception of active participation. It can be viewed as either a fundamental imperative, or, as a cost of doing business (Stivers, 1991). Stivers (1994) addresses the role of the administrator in her 1994 article "The Listening

Bureaucrat: Responsiveness in Public Administration.” She argues that the practice of responsiveness, through the development of the ability to listen in a skillful manner, reduces the tension between administrative effectiveness and democratic accountability (Stivers, 1994). Furthermore, active listening promotes administrative effectiveness by helping administrators develop a richer understanding of complex situations (Stivers, 1994). The issue then becomes not whether to respond but to whom and to what extent and in what manner. The way the administrator sees herself, self-awareness, influences the way she views the public. Stivers (1994) argues that responsiveness to citizens begins with listening.

Stivers (1996) contributed to the book Refounding Democratic Public Administration (1996) by bringing the consideration of the citizen to the forefront. Stivers advocates a strong understanding and critique of the citizen role “based on the Aristotelian idea of the citizen as someone who rules and is ruled in turn, who sets aside self-interest in order to share in decision-making in aid of the public good” (Stivers, 1996, page 263). This is in contrast to the liberalism position of the citizen as a consenter of rights, to be governed, to be released from participation in order to pursue self-interests. This model of the citizen de-emphasizes performative and agnostic aspects of democratic politics (Stivers, 1996). The manner in which Charlotte’s managed competition program has impacted the citizen government relationship and the study of perspectives and attitudes of the practitioners will be guided by the democratic governance discussion posed by Stivers (1996).

Politics Administration Dichotomy

The concept of a politics administration dichotomy immediately dismisses the significant impact administrators have through the use of administrative discretion. The politics administration dichotomy concerns the relationship between administrators and political leaders and the

separation of professional administration (implementation of policy) from politics (setting of policy). NPM, though allowing of discretion in the context of being entrepreneurial, it also directs focus on the separation of politics and administrative roles and the control of the agents through performance monitoring and controls.

Price (1941) commented on the policy responsibility of administrative discretion in his article entitled, “The Promotion of the City Manager Plan.” Price (1941, page 578) states, “...public administrators make the greatest contribution to policy and administration without even momentary immunity from political responsibility” (also see Svava, 2001, page 177).

Administrators are charged with implementing policy finalized in the political realm, however, administrators are not isolated from the other aspects of policy formation as they are more than instrumental implementers, they are constitutive participants with an active role in governance (Cook, 1996).

In the article, “The Myth of the Dichotomy: Complementarity of Politics and Administration in the Past and Future of Public Administration,” Svava (2001, page 177) states, “at the same time, the dichotomy idea shields administrators from scrutiny and serves the interests of elected officials who can pass responsibility for unpopular decisions to administrators.” A complementarity model, opposed to the dichotomy model, is offered by Svava as a more accurate conceptualization of the relationships between administrators and elected officials.

The Complementarity concept proposes that elected officials and administrators are separate pieces that come together in a collaborative effort to create and maintain sound governance (Svava, 2001). Svava (2001, page 179) states, “the issue is not whether public administrators are “instrumental or usurpative”—the standard dichotomy versus non-dichotomy

options—but how they are both instrumental and contributors to the political process, that is instrumental and constitutive” (also see Heady 1984, page 408 and Cook, 1996). Svvara (2001, page 180) states,

...the knowledge and values of those who do the ongoing work of government complement the knowledge and values of those who ultimately set the course for government and ensure that it stays on course. The complementarity of politics and administration holds that elected officials and administrators-- both in regular communication with citizen--need and help each other in a partnership for governance...If we continue to accept the simple notion that public administration began as a separate instrumental entity confined to a narrow sphere of activity, we do a disservice to the past, and we run the risk of legitimizing a true dichotomy of policy formation and contracted service delivery.

Svvara (2001) argues that contracting-out breaks the dialogue between elected officials and administrators through the use of contract specifications and compliance reports and thus resembles the dichotomy model.

Hood (2002) indirectly addresses the issue of the politics administration dichotomy in his discussion of the way control is exercised within and over public organizations. Specifically, Hood (2002) examines the way control is exercised in and over public organizations and the reciprocal exchange relationships between public servants and other actors in the political system. Systems for control, favored by reform movements like NPM, include the thermostat arms length control approach and strategic interaction (public service bargaining) (Hood, 2002).

Under the thermostatic control approach, the setting of the policy temperature by elected officials places limits on policy delivery by addressing motive and opportunity, specified policy outcomes, responsibility for achieving outputs, and limiting autonomy (among administrators) in decision-making. The thermostatic control approach is an output-oriented approach to control that regulates risk allocation, responsibility, and reward. Standard setting is linked to negative feedback mechanisms (such as a thermostat) for monitoring, controlling, and motivating for results. The experiences documented in the case of Charlotte will help determine if managed competition has influenced the perceptions of the control relationships surrounding the politics administration dichotomy model.

Organizational Effects

Wamsley (1992) argues that management processes are regularized patterns of both formal and informal activities that work to bring individuals within organizations into an interaction which then leads to a working through or living through the performance or solving of various functions and problems (Clay, 1994). This statement serves to provide a theoretical framework for considering the implementation and impact of managed competition on internal organizational processes. Clay's (1994) presentation of "public-institutional processes" to characterize the functional nature of bureaucratic organizations, describes the regularity, interaction, cyclical nature of activities, and outcome based orientation of internal management processes. The manner in which managed competition may have influenced internal management and operational processes, grounded in the realities and constraints of the provision of public services, is examined by this study.

Accountability

Accountability concerns acting in accordance with the preferences of those to which responsibility is owed. Values play a role in decision-making, for which accountability is owed. For this reason, values and decision-making are included in the consideration of accountability. New Public Management's focus on the ends instead of the means, or the process, requires that accountability be addressed relative to the managed competition program.

Klinger, Nalbandian and Romzek (2002) identify the competing decision-making perspectives of politics, administration, and markets as three different ways of seeing and understanding the decision-making process. Klinger et al., (2002) conducted a case study of foster care reform in Kansas. The primary goal of the reform was to contract out child placements using performance based contracting. The case study determined that the private service provider caused the public sector practitioners to experience difficulties in reconciling competing perspectives, understanding role expectations, and ensuring accountability (Klinger et al., 2002).

Klinger et al., (2002, page 120) contend that administrators typically function within "a web of overlapping accountability relationships: hierarchical, legal, professional, and political." Each of these areas requires a different response or behavioral expectation including compliance to organizational mandates, adherence to external mandates, responsiveness to stakeholders, and adherence to professional judgment and expertise (Klinger et al., 2002, Romzek, 2000, and Romzek and Dubnick, 1987). Diverse and often conflicting expectations are seen in the literature as one result of the traditional understanding of the politics administration dichotomy (Klinger et al., 2002). Market perspectives and competition between the decision-making perspectives complicate the politics administration dichotomy, however inaccurate or incomplete it may be

(Klinger et al., 2002 and Svava, 1998 and 2001). Table 2.2 illustrates how various characteristics are viewed within the different perspectives.

Table 2.2 Competing Decision-Making Perspectives

Characteristic	Politics	Administration	Markets
Source of Control	Elections	Law	Discipline of markets
Activity	Game	Problem solving	Buying and Selling (deal or contract)
Players	Representatives (of citizens and taxpayers)	Experts	Producers (sellers) and consumers (buyers)
Focus	Collective political Decisions	Bureaucratic administrative decisions	Individual decisions and transactions
Conversation	"What did you hear?" Stories	"What do you know?" Reports	"What are you buying or selling?" "What is it Worth?" Contracts
Elements	Intangible: interests and symbols	Tangible: money, information, people, things	Tangible: goods, services, and contracts
Currency	Power (stories)	Knowledge (deeds)	Money, profit, gain
Dynamics	Conflict, compromise, and change	Stability, cooperation, and continuity	Flexibility, exchange

Source: Klinger, Donald, John Nalbandian and Barbara Romzek. 2002. "Politics, Administration, and Markets: Conflicting Expectations and Accountability." *American Review of Public Administration*, 32(2): 117-144, reproduced by permission of Sage Publications.

Dahl and Lindblom (1953) remarked on the role of the market as a third decision-making perspective many years ago and Considine and Lewis (1999) examined the distinctions empirically (Klinger et al., 2002). Kettl (1993) points out that market based service delivery is not necessarily an anti government model. Despite the existence of some anti government values within the model itself, privatization and service contracting increases the reliance on models of economic rationality and competition to promote more effective and efficient public service delivery (Savas, 1987, 2000, Sclar, 2000, and Klinger et al., 2002). Since the market is an expression of the NPM movement, it is important to consider how it is also a decision-making perspective facing administrators (Klinger et al., 2002). If politics and administration are contrasting perspectives between elected officials and administrators (Nalbandian, 1994), and the

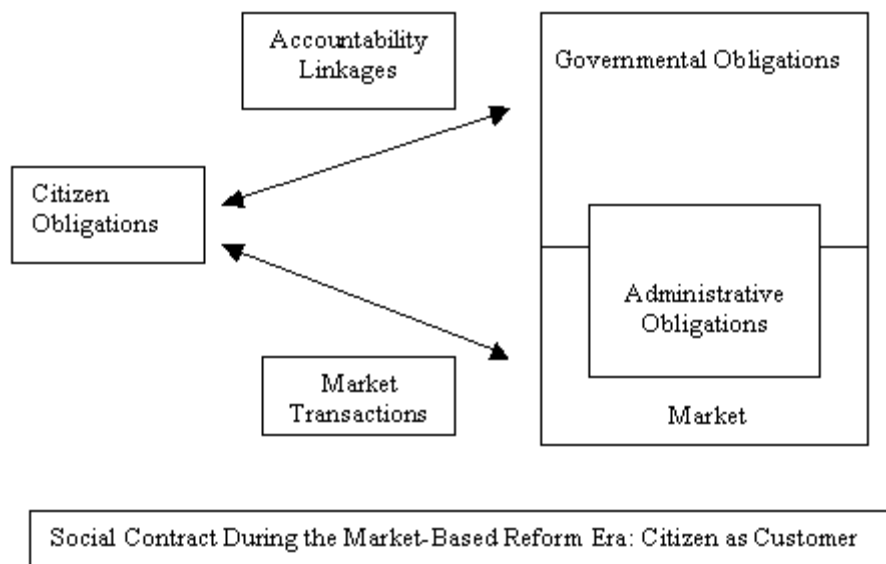
market is a third perspective to be considered, according to Klinger et al., (2002) the context for considering the differing perspectives is grounded in the idea that the source of control is market forces, the key market activity is the contract, the focus of the market is transactional, and the currency of the market is money, or profit and loss. The manner in which administrators approach their work, as interpreters of politics and administration, and how the market-based values, as interjected through the managed competition program, have impacted expectations of accountability, is addressed in the findings portion of this study.¹⁶

As described by Pollitt (2003), democratic values, such as serving the common good versus special interests, professional values, such as impartiality and effectiveness, and general ethical values, such as integrity, honest, and equity all factor into the balancing act played by administrators in local government today. The study of decision-making in public administration is as old as the field of study itself tracing back to Wilson's politics administration dichotomy (Van Wart, 1998). The Wilsonian belief that administrators are able to engage in value-free decisions concerned with only the technical aspects of implementation has long been replaced with a more realistic understanding that administrators do play a role in the policy process at various decision points including which issues should be considered, what goals should be pursued, what alternatives should be considered, and what resulting choices should be made (Van Wart, 1998). Despite the attraction of science, Wilson was broadly concerned, however, with "how the law should be administered" not only with "speed, and without friction" but also with "enlightenment [and] with equity" (Svara, 1998). Van Wart (1998) advocates the consideration of values in the decision-making process and frames the issue by exploring how administrators employ differing value sources.

¹⁶ Under NPM, accountability is ensured in the same manner as in business. The delegation of accountability is encouraged in order to enhance flexibility and decentralization (Pollitt, 2003).

Blanchard, Hinnant, and Wong (1998) argue that market-based reforms alter the traditional conceptualization of the social contract between citizens and government to a “social subcontract” between citizens, government, and private sector interests. Figure 2.1 illustrates the structure of this social contract. Market reforms have altered the relationship between citizens and government that in turn alter accountability arrangements as citizens become customers and relationships become blurred (Blanchard et al., 1998). In the drive to attain the economic efficiency boasted by the market model, are there consequences public administration cannot ignore? The examination of Charlotte’s experiences will aid in addressing this question.

Figure 2.2 Social Contract Structure



Source: Blanchard, Lloyd, Charles Hinnant, and Wilson Wong, 1998. “Market-Based Reforms in Government: Toward a Social Subcontract?” *Administration and Society* 30 (56): 483-512, reproduced by permission of Sage Publications.

Implications

There is an unmet need in the literature. Empirical research is needed on the implementation of managed competition and its impact on democratic governance, the politics

administration dichotomy, organizational effects, and accountability. This study can help meet this need and inform what we understand about NPM.

Practically, we need to examine the impact of implementing managed competition in order to see how findings from the City of Charlotte can inform the academic debate. Examining the lived experience concerning the four study areas that comprise this research are important to consider as public administration addresses the education of practitioners, the constitutive role of the public administrator, the role of the public administrator in governance – our normative responsibility in The Public Administration as it relates to the bottom line of business practice, and the role of the public interest.

Perhaps the largest gap in the literature is an examination of the manner in which the implementation of managed competition relates to and impacts larger considerations, including the four study areas. How can the examination of implementation inform the on going theoretical debate becomes a question for research. As demonstrated, the literature identifies the perceived limitations and theoretical flaws of NPM while also proving insight into the perceived benefits. However, the literature does not provide a great deal of empirical data on the movement's impact in practice. This research is intended to contribute to filling this gap through a case study analysis. This study will go directly to the source, recording, analyzing, and presenting the experiences of public administrators in Charlotte who have been the decision makers, the implementers, and the evaluators of managed competition. This study draws on a resource that is often missing in the discourse - the voices of those who live the real life experiences of public service, elected, volunteer, and practitioner alike. This focus will add a dimension to the whole literature that is not yet fully developed.

NPM emphasizes competition and the introduction of quantitative performance measures to improve efficiency and contain costs (Blair, 2000). The literature indicates that practitioners often blend a wide range of administrative techniques and practices that include private resources and partnership arrangements, networks, contracting, and privatization (Blair, 2000; Nagel, 1997; and Peters and Pierre, 1998). Blair (2000, page 514) states,

...while increased use of NPM undoubtedly affects the practice of public administration, showing the potential for altering the delicate forces balancing administrators, political leaders and the populace, an examination of the nature of these new tools and their roots may be a fruitful and enlightening exercise. Maybe some insight into the threats and advantages of the NPM approach to public administration could be gained from the analysis of NPM tools?

The review of the literature points out several key concerns where more study is needed in order for the impact of NPM in practice to be understood more completely. These concerns are examined in this case study and provide the framework upon which the research questions and the theoretical propositions are constructed. The concerns revealed in the literature guiding this research center around the impact of NPM on practice with specific regard to the role of citizens and administrators in the governance process, the altering of relationships between elected officials, citizens, and administrators, the values inherent in the movement, and the competing perspectives (market, administration, and politics) influencing the decisions and attitudes of administrators.

Thus, the primary purpose of this research is to examine the impact of managed competition, a NPM technique, on the larger themes of democratic governance, the politics administration dichotomy, organizational effects, and accountability. The experiences of practice can enhance the theoretical discourse by addressing the concerns identified in the literature and informing the context and validity of the current theoretical debate. Thus, the primary research question concerns the impact of managed competition on the four primary study areas while the theoretical propositions deal with a broader consideration of the findings and the overall span of the study. The context for the study is reviewed in the next chapter.

CHAPTER THREE

CONTEXT FOR THE STUDY

Understanding the context within which the managed competition program is set is fundamental to the adequate examination of the four study areas. The context of managed competition in Charlotte is divided into three components for the purpose of providing a framework in which to conduct the data analysis and consider the study findings. Council's initial setting of the competition agenda, the selection process used for placing services under competition, and the evolution of the managed competition program, provide the contextual framework for examining Charlotte's program.

Research Site - The City of Charlotte

Established December 11, 1762, the City of Charlotte is approximately 527 square miles with 1,138.5 people per square mile. Demographics for Charlotte, by race, are 67.2% white, 28.6% black, and 4.2% other. The median age for males is 33.6 years and 35.8 years for females (City of Charlotte, 2003). Charlotte is the major city of Mecklenburg County, the largest city in North Carolina. On a regional scale, Charlotte is the largest city for a fifteen county, bi-state region (City of Charlotte, 2003).

Now the 25th largest city in the country, Charlotte has grown from a population of 395,000 in 1990 to approximately 623,000 today. Charlotte's 20 percent growth rate is exceeded only by Phoenix and Las Vegas among cities with a population of a half million or more. Much of Charlotte's recent population growth is due to successive annexations that began in 1991. The city limits expands an average of 6.7 square miles each year, adding an average of 45 miles of streets each year. Charlotte employs 6,066 employees in 14 key business units (City of Charlotte, 2003).

The current political environment in Charlotte is one characterized by a strong business influence. This business elite model of political influence and control is witnessed in the fact that Charlotte views itself as a corporate town, due to the large presence of business in the community and, more importantly, the influence this business presence wields. There are 292 Fortune500 companies with offices in the City. Charlotte is headquarters for Bank of America, Wachovia Corporation, Duke Energy, Nucor Steel, B.F. Goodrich, Coltec, and is a hub city for USAirways. The Charlotte-Douglas International Airport is the 17th busiest in the country. The large concentration of banks and financial institutions makes Charlotte the second largest banking and financial center in the United States (Eagle, 2004 and City of Charlotte, 2000).

The Mayor and City Council have led several initiatives over the last decade that have made connections between government and business in an effort to foster economic development (City of Charlotte, 2000).¹⁷ Establishing these ties between city government and the private sector, according to city staff and publications, is also witnessed in the culture of the organization. The chamber of commerce, and the private sector in general, are viewed as supporting the City in its effort to operate as a business, favoring such practices as managed competition, the use of corporate nomenclature for departments, and the offering of gainsharing pay incentives for employees (City of Charlotte, 2000).

In the early 1990's, the national recession, and limited prospects for future annexation, led to a forecast of flat or decreasing tax revenues. Continued population growth in the city translated into increasing service demands and costs. Combined with a Council mandate for no property tax increase, in 1993, the City Manager made the decision to propose a plan for organizational change to the Council (City of Charlotte, 2000). Designed to proactively

¹⁷ Initiatives include the establishment of public private partnerships with the Chamber of Commerce, Central Piedmont Community College, Wachovia, and Bank of America for the enhancement of service delivery and internal working relationships (City of Charlotte, 2000).

recommend a means of meeting increased service demands of a growing urban area with flat revenue growth and no options for increased revenues, the manager's plan contained three key concepts:

1. Cultural change to focus on strategic thinking and planning;
2. Empowering and holding key business executives accountable through enhanced and formalized performance measurement; and
3. Realignment of human resources, through reorganization and rightsizing to better accomplish Council goals.

Source: City of Charlotte (2000). "The Charlotte Story: Public Service is Our Business."

As in other cities across the nation in the early 1990s, financial pressures and budget constraints forced many governments at all levels to change the way they were operating or "doing business" (Osborne and Gaebler, 1992). In response, using the three concepts listed above, Charlotte restructured, adopted a business-oriented language and structure for the organization, and became known for the successful implementation of a business model (City of Charlotte, 2000). This chapter will provide an overview of the governance structure of the City of Charlotte, in order to provide a context for understanding the City's movement toward New Public Management (NPM) and the adoption of managed competition.

Management Framework

Governance Structure - Council Manager Form of Government

The City of Charlotte operates under the council-manager form of government with an annual operating and capital budget of approximately \$1.8 billion.¹⁸ The City Manager serves at the direction of the part-time Mayor and City Council (Council). Charlotte adopted the council-manager structure in 1929 and is currently served by its tenth City Manager (City of Charlotte, 2000). Since 1946, the last four City Managers have established an average tenure of 12.5 years. Tenure of this level is somewhat unusual for large cities in the United States (City of Charlotte, 2000).

Strategic Thinking and Planning

The City of Charlotte has developed both vision and mission statements that are used to guide the efforts of the organization. The vision statement stresses the desire to be a model of excellence and a platform for economic activity in order to give the City a competitive edge in the marketplace. The mission statement continues this theme by stating a desire to ensure the delivery of quality public services that promote safety, health, and quality of life for all citizens. The vision and mission statements are further reflected in the annual business plan that establishes annual priorities and targets and are provided in Figure 3.1 (Eagle, 2004).

¹⁸ Born out of the turn-of-the-century progressive reform movement, the council-manager form of government has become the most popular form of government in the United States in communities with populations over 5,000. More than 80.4 million individuals live in communities operating under council-manager government (City of Charlotte, 2000). Richard Childs, who worked for over fifty years as a writer, agitator, and promoter of municipal reform, is thought to have contributed the idea of the council-manager form of government to the progressive movement (East, 1965). Childs believed that by adjusting the machinery of government it would be possible to restore the government to the people. The council-manager system combines the political leadership of elected officials with the professional expertise of an appointed administrator. Under the council-manager form, the elected council hires a professional administrator to implement policies (East, 1965). Childs conceptualized the manager in broad terms that recognized the manager's contribution to policy and the overlapping responsibilities that exist between administrators and the elected body (Svara, 1998). Svara (1998) notes that at the end of the Progressive Era, the council-manager structure was acknowledged more for the administrative advantages it supplied than the democratic benefits it provided.

Figure 3.1 City of Charlotte Vision and Mission Statements

Vision

The City of Charlotte will be a model of excellence that puts citizens first. Skilled, motivated employees will be known for providing quality and value in all areas of service. We will be a platform for vital economic activity that gives Charlotte a competitive edge in the marketplace. We will partner with citizens and businesses to make this a community of choice for living, working, and leisure activities.

Mission

The mission of the City of Charlotte is to ensure the delivery of quality public services that promote the safety, health, and quality of life of its citizens. We will identify and respond to community needs and focus on the customer by creating and maintaining effective partnerships, attracting and retaining skilled, motivated employees, and using strategic business planning.

Charlotte adopted the Balanced Scorecard performance measurement tool, developed by Robert Kaplan of Harvard University and used primarily in business and industry, in 1996 as the primary means of monitoring performance. Charlotte has used the Balanced Scorecard tool to communicate strategic priorities and monitor how well it is doing toward meeting the priorities established by City Council and the City Manager. Charlotte adopted core values in the early 1990s that are said to ground and guide the work and service it does. The values include: Quality and Excellence, Accountability, Productivity, Teamwork, Openness, and Personal Development. In 1992, the City Council created “Focus Areas” designed to encapsulate the various areas of attention required within the local government. They include Community Safety, Housing and Neighborhood Development, Restructuring Government, Transportation, and Economic Development (City of Charlotte, 2000). Figure 3.2 provides an overview of the focus areas. Additional detail on the performance measurement efforts in Charlotte is provided in Appendix C.

FIGURE 3.2 OVERVIEW OF CHARLOTTE’S FOCUS AREAS

Community Safety. In 1994, the City Council adopted a five-year community safety plan. That plan has been expanded and combined with housing and neighborhood development initiatives and the implementation of community problem-oriented policing. Therefore, the city considers community safety from the perspective of the livability, stability, and economic viability of a neighborhood—not just the lack or presence of criminal activity.

Housing and Neighborhood Development. This is the City’s comprehensive approach to meeting the economic development and quality of life issues in the neighborhoods and business districts. This includes efforts such as providing adequate code enforcement; developing strategies for affordable housing; and requiring neighborhoods and business districts to take an active role in problem identification and solution development.

Restructuring Government. This initiative started in the early 1990s as an effort to flatten and redesign the city organization and how services are delivered. This effort continues with emphasis on initiatives focusing specifically on service delivery and meeting growing customer needs through innovation. This includes competition and privatization efforts, as well as assessing performance, identifying gaps in service delivery, and recommending process improvements.

Transportation. This initiative is broadly defined as addressing all issues related to transportation opportunities and challenges, including maximizing public transit; implementing and maintaining roads, adopting and implementing land-use policies to support growth and transit goals; and ensuring adequate pedestrian and bicycle connections while meeting stringent federal air quality standards.

Economic Development. This initiative involves sustaining the prosperity and assuring the opportunity for participation by all residents. It also involves a focus on keeping jobs and the tax base in Charlotte by building and maintaining infrastructure, as well as building a skilled and competitive workforce to encourage businesses to locate and remain in Charlotte.

Source: City of Charlotte (2004). Strategic Focus Area Plan.

Charlotte has worked to integrate the Balanced Scorecard into all levels of the organization.¹⁹ Each of the key business units develops a scorecard outlining how they plan to address the focus areas, City Council priorities, and corporate scorecard objectives. The business units determine which corporate objectives they have a direct impact on and develop measures to track their progress in contributing to the achievement of those objectives. Managed Competition is an integral part of the “manage resources” and “run the business” perspectives. In developing their scorecards, the key business units answer a number of key questions, organized around the four perspectives of the Balanced Scorecard (Eagle, 2004).

- *Serve the Customer.* In order to meet the needs of our *customers/citizens*, what are our objectives? How can these objectives be achieved? How is our success best measured?
- *Manage Resources.* In order to succeed *financially*, what are our objectives? How can these objectives be achieved? How is our success best measured?
- *Run the Business.* In order to meet our objectives, what internal processes are required? How can these processes be established? How is our success best measured?
- *Develop Employees.* In order to succeed, what *skills and resources* do we need? How can we obtain and maintain these skills and resources? How is our success best measured?

¹⁹ Charlotte was the first municipality to implement the balanced scorecard. The city hired a consultant and organized a leadership team to guide the balanced scorecard implementation process. Led by staff from the Budget and Evaluation unit, the team used the city’s strategic plan as the foundation for what became known as the corporate scorecard. The city then piloted the new performance measurement system in four business units, each of which developed their own scorecards (City of Charlotte, 2003). Charlotte’s vision statement is validated at the annual City Council retreat, is used to guide the development of focus areas and priorities, which in turn direct the work of the Council committees and focus area cabinets throughout the year. The corporate scorecard includes 16 objectives that connect the focus areas, Council priorities, and individual key business unit scorecards. Council designated smart growth as an umbrella for city strategy, which is why it is shown above the focus areas. Performance measures are used to gauge the city’s progress toward achieving the 16 objectives. Examples of corporate measures include service delivery ratings, the quality of life index, crime rates, and transit ridership. The corporate scorecard has proven to be a useful tool for setting strategic targets and fostering the organizational collaboration necessary to accomplish strategic initiatives (City of Charlotte, 2003).

Business units identify key objectives in the scorecards that link their individual goals to organizational goals and strategy. The role of competition program is reflected on the individual key business unit scorecards with specific detail on program goals and key objectives for the year. Key objectives include specific managed competition projects. The manner in which the organization works to operationalize performance strategy is discussed in Appendix C.

Organizational Change and Transformation

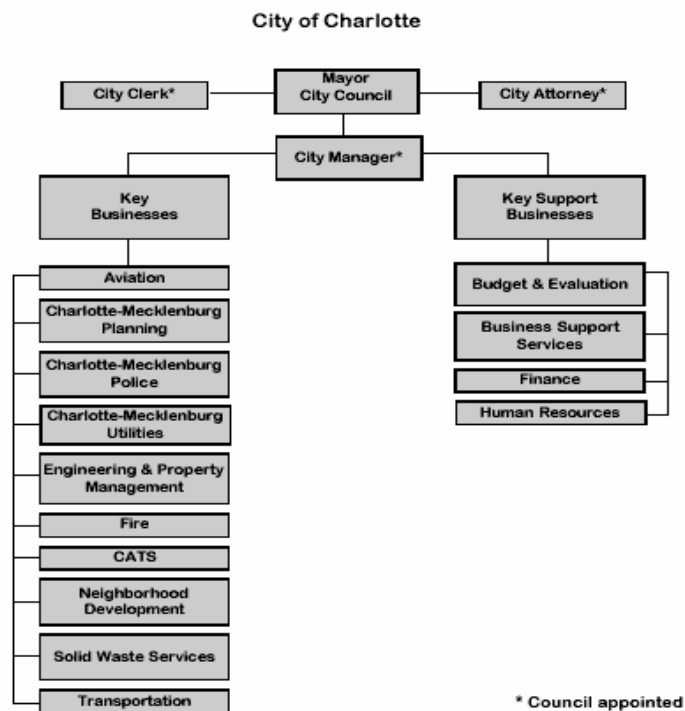
Facilitated by the fiscal crisis facing the State of North Carolina, increasing expenditure demands for public safety resources, and the elected official's desire to not raise property taxes, significant change characterized city government in Charlotte in the early 1990s (City of Charlotte, 2000). Specifically, in 1991, the State of North Carolina withheld \$4.5 million in budgeted revenues from the City of Charlotte. The revenue situation persisted into 1992 when the City was forced to accommodate for another \$9.4 million decrease in revenues from the state (City of Charlotte, 2000). These decreases in State funding and slowdowns in other revenues prompted several steps, including a freeze on hiring; offering all general fund employees time to take unpaid leave or five unpaid holidays; freezing all operating expenses (no out-of-town travel, reduced subscriptions and membership fees); and reducing services, including garbage pick-up and transit schedules (City of Charlotte, 2000). At this same point in time, the Council made the decision to hire 100 additional police officers, with no increase in funding. In response, a reorganization effort began (City of Charlotte, 2000).

Reorganization

In the early 1990s Charlotte rode the first wave of the reinventing government movement. "A Picture of Our Future" was developed in 1993 in an effort to frame the context for considering strategic planning related to the workforce, the government's role in the community,

and service delivery. Appendix D provides additional detail on the “Picture of Our Future” plan. At this same time, the City restructured in an effort to become more customer-focused, results-oriented, decentralized, competitive, and innovative. Charlotte reduced the layers of management and trimmed the number of City departments from 26, reporting to Assistant City Managers, to 14 reporting directly to the City Manager. These newly formed departments were renamed “key businesses.” Ten of the key businesses provide services directly to citizens and the remaining four provide internal support services to the ten service units. An organization chart is shown in Figure 3.3. It was at this time that Charlotte also introduced managed competition and made customer service a focal point for the organization.

Figure 3.3 City of Charlotte Organization Chart



Source: City of Charlotte (2000). “The Charlotte Story: Public Service is Our Business.”

Although the reorganization effort was significant, more action was needed to address the fiscal constraints. Rightsizing then became the next step toward addressing the budgetary limitations facing the City (City of Charlotte, 2000).

Rightsizing

In the past, one of the primary ways Charlotte reduced costs, improved service, and saved tax dollars was through functional consolidation of various Charlotte and Mecklenburg County services (City of Charlotte, 2000). Water and sewer service and land use planning were among the first joint City- County operations. Other consolidations occurred in the 1980s, including Building Standards, Purchasing, Animal Control, Landfills, Emergency Management, Crime Lab, Action Line, First Responder, E-911, Veterans Service, Elections Office, Tax Listings and Tax Collections. The mid-1990s brought the consolidation of Parks and Recreation, and Police Services (City of Charlotte, 2000).

In the late 1970s, Charlotte began outsourcing street resurfacing and by the mid-1980s had started outsourcing business refuse and multi-family refuse collection, janitorial services, golf course management, and ground maintenance. By 1995, Charlotte had awarded approximately \$205 million in service and construction contracts to private sector service providers (City of Charlotte, 2000). Despite this progress, the City needed to do more to close the budget gap (City of Charlotte, 2000).

Prior to rightsizing, the hierarchical structure was complex with multiple layers of management. In an effort to meet the challenges facing government at this time, the rightsizing effort called for the City organization to, within one year, become the following:

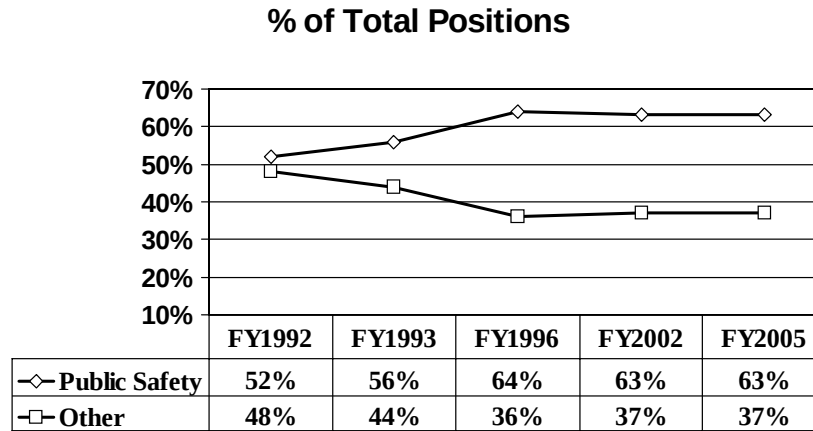
- customer-focused
- decentralized

- competitive with private services
- able to respond quickly to innovation and technology
- results-oriented and innovative at solving problems
- flexible in dealing with citizens
- focused on leadership as opposed to supervision and management

Charlotte took advantage of its strong connection with the corporate community and "borrowed" executives and consultants from the private sector to help with rightsizing effort (City of Charlotte, 2000). According to the publication "The Charlotte Story Public Service is Our Business" (2000), a *Charlotte Observer* editorial stated "though 'rightsizing' may be an ominously annoying bureaucratic term, the City of Charlotte is making it an effective strategy to keep taxes in line and run city government more efficiently. Sluggish revenues have forced the City to find ways to streamlining its operations."

As a result of the changing council priorities (e.g., the 1992 increase police officers in a fixed budget) and the resulting reallocation of resources justified as "rightsizing," since 1992 the number of Police and Fire employees has increased from 52% to 63%. The percent of general fund, non-public safety employees have decreased from 48% to 37% during the same time period. Rightsizing is emphasized in Charlotte as a successful effort to reallocate resources based on transferring positions and resources from lower priority to higher priority areas instead of merely making organization-wide cuts (City of Charlotte, 2004). Figure 3.4 provides detail on the reallocation of funds to support the increase in public safety positions in the mid 1990s.

Figure 3.4 Budget Trends - General Fund
Position Allocations



Source: City of Charlotte (May, 2004). “Fiscal Year 2005 Operating Budget Presentation.”

Implementation of the Managed Competition Program

Charlotte has been competing against the private sector since 1994. A more business-like culture focuses on lowering costs and streamlining operations. Each Key Business Unit (KBU) has a comprehensive five-year competition plan, updated annually, that identifies services to be competitively bid against the private sector as well as services to be outsourced and optimized.²⁰ The stated reasons for embracing managed competition set the stage for evaluating the impact of the program.

Program Setting

A municipality may decide to privatize a service or enter into managed competition with the private sector for varying reasons. Financial pressures, budget constraints, operational problems,

²⁰ Five-year competition plans include a list of services to be bid, estimated budget and number of impacted positions, and background information related to schedule and process (City of Charlotte, 2000).

labor issues, political interest, private sector interest in the purchase of system components, and the desire to “get out of the business” are common reasons. These reasons, however, were not driving factors for Charlotte. Under the philosophy adopted by the City of Charlotte, if a service can be purchased from the private sector, it is a candidate for competition (City of Charlotte, 2000).

In May 1992, a Mayor’s Privatization Taskforce, comprised of citizens, was appointed to study the issue of privatization and the potential activities within the City that could be considered for privatization and competition. The Mayor's Privatization Task Force was asked to review and design a plan to test privatization of services and assets. The Mayor asked the Privatization Task Force to "evaluate services and facilities provided and managed by the City of Charlotte and determine whether they could be delivered more effectively and efficiently by the private sector” (City of Charlotte, 2000). The Task Force reported to the City Council in June 1993, recommending the implementation of a managed competition program. The Task Force stated, “Competition is the primary force that keeps private businesses efficient and focused on customer needs. The City should have to compete and perform in the same manner as demanded for private business to continue performing services” (City of Charlotte, 2000).

Program Philosophy

The competition philosophy in Charlotte is simple – best service, lowest cost.²¹ The managed competition mission statement for the City of Charlotte reads:

In evaluating the most efficient way to provide public services, the

City shall use a competitive process in which private service

²¹ In *Competitive Neutrality: Ensuring a Level Playing Field in Managed Competitions*, (1998) authors from the Reason Foundation of Public Policy argue that because municipalities can borrow capital funds at a lower rate, do not pay taxes, and do not have to earn a profit that the playing field is not level. (O’Connell, 2001). The City of Charlotte views this as an inherent advantage to be utilized in the pursuit of the lowest cost to the taxpayer (City of Charlotte, 2000).

providers are encouraged to compete with City departments for the opportunity to provide such services, and in which the option of delivering services through public employees and departments must be justified through the competitive bidding process. The City shall encourage the provision of public services through contracts with private service providers, wherever this offers the lowest cost, most effective method of service delivery consistent with service level standards and other adopted City policies.

As a part of the competition philosophy, in 1997 the Council adopted an official gainsharing program policy for employees who participate in managed competition projects. The full gainsharing policy is provided in Appendix E. When city employees bid lower than the private sector and then perform the work of the contract for less than the bid amount, they are eligible to and receive a portion of the savings through the gainsharing program. The gainsharing program is discussed in detail in chapter six.

Program Goals

City Council has identified five key goals of the managed competition program and uses these goals in determining the level of oversight and monitoring required by the program as well as the overall impact of the program and the larger competition policy. The goals of the competition effort in Charlotte place an emphasis on making the City competitive and establishing a focus on priorities and resources by outsourcing non-core functions. The adopted competition policy statement is included in Appendix F in the *Competition Guidelines*. The five specific goals of the policy include:

1. The City Council will systematically assess current City services to determine the appropriate level of service to be provided, whether by city forces or by private contract.
2. The City Council will assess the relationship of a service being considered for competition with other Council priorities and policies. Council will use this assessment to determine whether the services will be subject to competitive proposal and in what amount, to determine any special provisions which may need to be included in specifications and to address other council priorities and policies.
3. Current contracts for city services will be reviewed to ensure that existing private and city service providers are being held accountable and are providing effective and efficient services as specified by individual contracts. This review may result in placing a service out for competitive bidding.
4. The City Council will make an assessment of how to best provide a level playing field for the City and all potential private service providers. This assessment will include defining the public values of city services and how those values will be addressed in the proposal process and specifications.
5. Efforts should be made to minimize the impact on current city employees affected by competition. Each competition recommendation should include an assessment of the effect on employees and recommendations for handling any negative impact.

Source: City of Charlotte (1997). "Managed Competition Policy."

Program Guidelines

Formal guidelines for the managed competition program were developed in July 1994 and revised in 1997. The complete set of guidelines is provided in Appendix F. The guidelines, designed to ensure a level playing field, provide details on contracting procedures including costing methodology, Request for Proposals (RFP) development, and cost elimination plan development (City of Charlotte, 1997). In addition to the process guidelines, a departmental guide also exists and functions as a user's guide for KBUs completing in the competition process. The guide includes information on funding, employee relations, contract administration, and public relations. The guide also includes a listing of the steps in the competition process as required by the competing KBUs. These steps range from the determination of the scope of service to internal and external notifications, proposal evaluation, and transition plans. Contracts are classified in terms process requirements according to estimated dollar amount. A services

contracting matrix is also included that outlines the formal steps in the competition process according to contract amount.

Program Oversight

The Privatization Competition Advisory Committee (PCAC), an eleven-member citizen committee appointed by the Mayor and City Council, was established in November 1993 to provide advisory assistance to the City with regard to competition and privatization matters. The PCAC is charged with monitoring the progress of the City in implementing services contracting and with recommending services to be considered for competition and privatization. The committee also reviews requests for proposals (RFPs), costing methodology, and bid processes. The Committee charge is provided in Appendix G. The Committee monitors the fairness of the bidding processes in order to ensure a level playing field (City of Charlotte, 2000).

The Mayor appoints the Committee Chairman and one member while Council appoints the other nine members. Members serve two-year staggered terms and are limited to two consecutive terms. Members are asked as a part of their appointment to consider the interests of citizens, the business community, and current City employees (City of Charlotte 2000). The stated goal for appointments is to comprise the Committee of individuals knowledgeable about management, accounting, human resources, marketing and customer service (City of Charlotte 2000).

The Internal Audit division of the City Manager's office is also charged with a degree of oversight for the competition program. Insurance of a level playing field, accuracy of the City's proposed costs for service delivery, financial reviews of private sector bids, cost validation for gainsharing and financial compliance to the contract or MOU constitute the primary responsibilities of the Internal Audit office relative to monitoring and overseeing the program.

The charter that governs the activities of the Internal Audit office and the fiscal year 2005 audit plan are provided in Appendix G.

Program Context

Understanding the context within which the managed competition is set is required in order to adequately examine the impact of the program on the four research areas and the larger theoretical propositions posed in this study. The context of the program is divided into three components for discussion purposes. Council's initial setting of the competition agenda, the selection process used for placing services under competition, and the evolution of the managed competition program, provide the necessary contextual lens for viewing Charlotte's program.

Initial Program Agenda

Charlotte began to formally embrace the principles of NPM in the early 1990s. In an effort to become more competitive and cost-effective, the Council adopted the phrase "best service, lowest cost" and began using the yellow pages test for considering services for managed competition (City of Charlotte, 1997). Two significant events occurred that helped to facilitate the formalization of the competition program. First, several Council members and senior-level city staff made a trip to Indianapolis to learn more about Mayor Goldsmith's well publicized privatization and competition program. In early policy discussions, Council looked to the Indianapolis experience as the example Charlotte should follow in its attempt to reduce costs through the implementation of NPM techniques (City of Charlotte, 2000). Second, the privatization of one quadrant of residential refuse collection, in 1994, signaled Council's seriousness in making sure staff took the purpose and intent of managed competition seriously. City forces were not allowed to bid on the first quadrant of work and the contract was awarded to Browning-Ferris Industries, Inc (City of Charlotte, 1997). The Council did not allow the City to

participate due to the concern that the city was moving too slowly in conducting a managed competition for the quadrant. The Council then decided to privatize the quadrant in order to proceed with implementing the new policy directive of best service, lowest cost. According to both Council members and City staff interviewed, making a strong statement as to the seriousness of Council's desire for the new policy to be implemented was a primary reason behind the privatization.

Competition Candidates

The general method for determining which services to compete is described by the City in the *Departmental Guide to Privatization and Competition*. Early in the program, Council made a policy decision that public safety services would not be candidates for managed competition. This policy excludes support services such as police and fire administrative and fleet services and animal control services (City of Charlotte, 2000).

When competitions yield cost and productivity savings and lessons can be learned from the process that can be applied to other similar service areas, an optimization may be conducted instead of a competition (City of Charlotte, 2000). Additionally, due to limited time and resources available to conduct multiple competitions simultaneously, when optimization is a viable option and performance measures can be identified and tracked, competition is not employed. Optimizations have been conducted in the areas of street maintenance and water and wastewater treatment plant operation and maintenance. When an optimization project comes to a close, the service is re-introduced to competition in order to sufficiently test the market interest in the service and ensure best service at the lowest cost (City of Charlotte, 2001). According to the Charlotte approach, managed competition cannot be completely abandoned as to ensure efficient and effective services remain the focus (City of Charlotte, 1997).

Finally, when there is no interest from the private sector in bidding on a particular service due to unpredictability or liability issues, another tool may be utilized to ensure efficiency and effectiveness or the best service, lowest cost goal.²² Re-engineering or modified optimizations are employed in these instances (City of Charlotte, 2000).

Program Evolution

The evolution of managed competition in Charlotte is evidenced in the changes that have occurred in the political landscape surrounding the program and the program milestones cited by the City as key elements important for continued progress (City of Charlotte, 2000).

Political Landscape

The political landscape surrounding the managed competition program has evolved considerably over the last ten years. According to the numerous documents provided by the City, the manner in which staff, the public, and citizen committee members interact with Council concerning managed competition has changed significantly (City of Charlotte, 2000). In the early years of the program, private vendors would contact staff directly for information on competition projects and would also contact Council members to lobby for specific services to be placed under competition (City of Charlotte, 2000). The primary example of this lobbying effort occurred with the first Solid Waste Services contract when Council decided to privatize the service without competition from City forces. Examples are also cited by City staff in the Utilities KBU concerning water and wastewater plant competitions (City of Charlotte, 1995). Staff responded to this situation and the threat it posed to the maintenance of a level playing field and developed guidelines for such communications (City of Charlotte, 2000). Private entities interested in bidding on city work are discouraged from contacting Council and staff directly and

²² Water leaks and service repairs, sewer lift station operation and maintenance, and right of way mowing are services that fall into this category of other tools (City of Charlotte, 1998).

are strongly encouraged to follow the communication paths outlined in the official instructions for each project. According to staff, the guidelines have worked well in keeping communications within the official construct so that no one individual or group has an advantage over another. Correspondingly, potential bidder solicitation lists are formed using a documented process to ensure consistency across projects and KBUs. The process includes posting advertisements on the internet, in the local newspaper, and in appropriate trade journals. Determining how much competition exists is accomplished by each individual KBU and the process varies depending on the size and scope of the project. Larger competitions involving more significant amounts of money (over \$100,000) often involve the distribution of a Request for Interest document to private businesses in order to more effectively gauge the level of competition in the market (City of Charlotte, 2000). This practice helps ensure that for competitions involving significant resources to conduct, interest is sufficient to proceed. (City of Charlotte, 1998).

Program Milestones

The key lessons cited by the organization as milestones in the program's evolution provide insight into the character and content of the program as understood by the organization.²³ Milestones are taken directly from "The Charlotte Story, Public Service is Our Business" (2000) and "Managed Competition Best Practices" internal City document (2001) and include:

Formalized Planning

- Five year plans for public/private competition and outsourcing activities currently performed by city workers should be developed and updated annually by employees and managers of all key business units (departments). This practice is viewed as insuring that employees are involved from the first discussion and also creates the opportunity to schedule the activity at the most opportune time to prevent conflicts that result from certain services being bid simultaneously, such as Fleet Maintenance and Solid Waste Collection.

²³ Competition 101 and Competition 201 were offered in the mid 1990s as training opportunities for employees to learn about managed competition (City of Charlotte, 2000).

Costing

- You cannot bid for work unless you know your costs. Competition has forced the city to develop a methodology for determining the total cost of delivering services. This leads employees involved in the competition program, with an understanding of the cost of service delivery, to question the need for and use of resources such as spare equipment, uniforms, crew size, supervisor to crew ratios, and others in an effort to drive their costs down.

Request for Proposals/Contract Development

- To level the playing field, the RFP development process for major projects requires the bidding unit to designate an outside agency (consultant or other city department) to lead the RFP process and to create a firewall between their RFP and city bid teams.
- Early in the process and before completion of the document, a draft of the RFP should be sent to all potential public and private sector bidders for comment. This has proven to be very useful in identifying out problems that could occur before the formal process begins.

Request for Proposals/Contract Language

- When the city started this program, the importance of holding the contractor (whether city or private) to the terms of the contract was identified. A focus on quantifiable performance standards and contract monitoring was initiated. RFPs must include quality assurance programs and customer complaint resolution procedures. The importance of preparing RFPs to describe the results of the work being solicited rather than merely describing the way the job was currently performed is fundamental to success.

Internal Audit

- At the beginning of the competition program, in an effort to increase credibility to costs and performance, the city's Internal Audit Division, was reassigned to the City Manager's office and is involved throughout the competition process, from RFP development to auditing contract performance and cost. The auditor's early involvement provides the opportunity to become more familiar with the service and related resources required to do the work before reviewing the city's bid and auditing the work after award of contract.

Culture

- The single most important achievement of managed competition has been the development of a culture in which government is run like a business. "Focusing on increasing overall accountability for service quality and cost efficiencies supported the change from traditional government to one run more like a business.

Program Scope

Since Charlotte's managed competition program began in 1994, 58 services, with an annual value of \$44.2 million, have faced competition with the private sector. The City has won 48 competition projects, and lost ten. In addition, 67 services, with an annual value of \$27.3 million, have been outsourced to private businesses through the privatization program, seven optimization projects with a total annual value of \$36.5 million have been held and 33 benchmarking projects have been conducted since 1994 with an annual value of \$9.5 million (City of Charlotte, 2001).

The Five-Year Competition Plan for FY2004- FY2008 contained ten managed competition projects with an annual combined value of \$27M, 11 optimization projects with an annual combined value of \$57.4M, and 11 benchmarking and privatization (City of Charlotte, 2005). Charlotte's Five-Year Competition Plan for the current year (FY2005- FY2009) lists eight competition projects valued at \$30 million involving 194 city jobs. Two outsourcing projects are listed at a value of \$4.4 million while seven benchmarking projects are listed that total \$19.7 million annually. No optimization projects are listed in the current plan. Since 1994, City bid units have won 49 of 59 managed competitions and conducted seven optimization projects with a total annual value of \$36.5 million. 33 benchmarking projects have been conducted since 1994 with an annual value of \$9.5 million (City of Charlotte, 2005). The area of residential refuse collection has been under managed competition since the program's inception. As a result, it provides further insight into the evolution and scope of the competition program. Figure 3.5 provides a listing of the key events in this area of competition.

Figure 3.5 Key Events -Residential Refuse Collection

- **Mayor's Privatization Committee Final Report** (June 30, 1993)
Identified sanitation (refuse collection) services as one of seventeen activities that should be considered for full or partial privatization
- **Rollout Refuse Collection Begins** (August, 1994)
Service for all residential customers. This represents a reduction of 157 full time positions, and a savings of \$40 million dollars over ten years
- **Five Year Competition Plans Developed** (December, 1994)
Solid Waste identifies **25% of residential collection** (rollout refuse, recycling, yard waste and bulky items) for public/private competition in FY95
- **Council votes to privatize 25% of residential collection** (January 17, 1995)
To gain private sector experience and to benchmark with the private sector, City Council Privatizes service delivery to 34,000 residential customers
- **25% of Residential Collection awarded to BFI (South Quadrant)** (May 26, 1995)
The BFI bid of \$5.66 per household per month was \$70,000 a year less than the City's benchmark cost estimate. This represents a savings of \$490,000 over the seven-year term of the contract and a reduction of 44 full time positions
- **25% of Residential Collection awarded to City forces (West Quadrant)** (June, 1997)
The city bid was \$4.74 per household per month compared to the lowest private sector bid of \$8.36. This represents an annual savings of \$542,000. During the first 21 months of the MOU, city forces performed the work for \$94,000 under the bid amount. Employees earned approximately \$47,000 in gainsharing.
- **25% of Residential Collection awarded to City forces (East Quadrant)** (April, 1999)
The city bid was \$6.28 per household per month compared to the lowest private sector bid of \$7.71. This represents an annual savings of \$667,000.
- **25% of Residential Collection awarded to City forces (North Quadrant)** (November, 1999)
The city bid was \$5.63 per household per month compared to the lowest private sector bid of \$8.90. This represents an annual savings of \$1,483,000.
- **25% of Residential Collection awarded to City (South Quadrant)** (April, 2000)
The city bid was \$8.07 per household per month compared to the lowest private sector bid of \$10.65. This represents an annual savings of approximately \$1,000,000.

Source: City of Charlotte, (2002). "Overview of Key Dates." Reproduced by permission of the City of Charlotte.

Recent Activity- Residential Refuse Collection

Charlotte's West Quadrant was recently contracted out to Inland Service Corporation. This private company began service on July 1, 2003 for a quarter of the City's residential containerized refuse, recycling, yard waste and bulky waste pickup. The City had the second lowest proposal at \$2.3 million dollars more than the private sector over the initial five-year contract term (City of Charlotte, 2003). Most recently, the East Quadrant contract expired and the area was subjected once more to managed competition. The City bid unit won the bid saving an estimated \$1 million over the five-year initial contract period. The City's competition manager states,

In the recent East Zone competition Solid Waste took the lessons learned in the West Zone that they lost and changed the way they do business. They made significant changes to their equipment, production standards, maintenance schedules, tire contract, personnel services contract and other process improvements.

Typically, performance measures for solid waste collection focus on the amount of refuse collected and the efficiency of the collection process (O'Connell, 2000 and Ammons, 1996). Citizen opinions of street condition after collection, cost per ton collected, and overall customer satisfaction are often identified as outcome measures appropriate for evaluating success in refuse collection (City of Charlotte, 2000 and Ammons, 1996). As evidenced in the study findings, the primary measure of success in refuse collection in Charlotte, under managed competition, is cost. The experiences of residential refuse collection in managed competition shed light on the influence of NPM in practice. The methodology for examining this influence on the four primary study areas follows in the next chapter.

CHAPTER FOUR

METHODOLOGY

The methodology employed for this study is directly reliant on the research questions under consideration and the data available for review. Qualitative methods were employed to implement the research design. The strategy of inquiry employed to study the City of Charlotte's implementation of New Public Management (NPM) techniques and practices is the case study.

Case Study Inquiry

Yin (1994) defines the case study method as an empirical inquiry used to investigate contemporary phenomenon within the real-life context or setting with the use of multiple sources of evidence. Yin (1994) contends that the case study is an all-encompassing research strategy that is defined as an empirical inquiry that investigates a contemporary phenomenon within the context of real life. Yin (1994) goes on to point out that this method is especially appropriate when the boundaries between phenomenon and context are not clearly defined or plainly evident. The research questions required a review of the managed competition implementation in Charlotte and the detailed processes and outcomes associated with the practice. A case study design using qualitative methods allowed for the perceptions, attitudes, assumptions, and interactions to be studied. Stake (1998) identifies the intrinsic case study, the collective case study, and the instrumental case study as categories useful in defining the method of inquiry. According to Stake, an instrumental case study takes a particular case and examines it to provide insight into a specific issue or refinement of theory. The instrumental case study fits the intent of this research. The exploration of the history and implementation of managed competition in Charlotte, active in the practice of NPM techniques, will serve to inform the debate surrounding NPM in the academic setting. Creswell (1998) defines a case study as an exploration of a

“bounded system” over a period of time involving in-depth data collection from multiple sources. Some scholars view the case as an object of study (Stake, 1995). Creswell (1998) contends that the bounded system is bounded by time and place, and it is the case being studied – a program, an event, an activity, or individuals.

The case study approach is inductive in nature due to the fact that the research “begins with specific observations and builds toward general patterns” and “describes the naturally unfolding program processes and impacts” (Patton 1987, page 14). The case study approach assumes that an organization or program must be understood in its entirety or as a whole. Thus, a case study approach is holistic and requires acknowledgement of the dynamics at work within the organization as well as the social, political, and historical framework that has shaped its development over time (Patton 1987). Yin (1994) notes that both inductive observations and theoretical, or deductive, analysis can be conducted using the case study method.

Qualitative Approach

Qualitative methods were employed to study managed competition in Charlotte. Qualitative methods are suitable for the case study approach where the design is “naturalistic” in structure because the goal of the research is to explain occurrences in a program’s natural setting. Capturing the experiences of the participants in their own words through the interview process provided significant insight into their opinions and the value they each place on the different aspects and facets of the program. Using methods to collect quantitative data would not allow for such depth, detail, and understanding as is gained by applying qualitative methods to this particular study. Therefore, several methodologies to triangulate the data collection are utilized and are outlined later in this chapter.

Role of Researcher and Theory

This research endeavor was defined, developed, conducted, and documented entirely by a single researcher, myself. I collected, analyzed, interpreted, and reported all data for the project. My interest in this topic is a result of my academic research interests and my work experience with the City of Charlotte. I spent over eight years in practice with the City managing the competition program for the Utilities Key Business Unit (KBU). As a result, I inherently bring my individual perspective concerning the data and its interpretation. It is important that this relationship be acknowledged. This perspective provides added strength to the study as it provides an ethnographically based acceptable approach to this type of study. The institution and historical knowledge I bring to the consideration of the topic concerning structure, language, and inherent work practices within the context of the competition program strengthen the study. The corresponding limitation of research bias is addressed in the limitations portion of the methodology discussion.

Guiding theories frame the research from two perspectives. First, NPM theories including the market model, principal- agent theory, and public choice theory provide one perspective for addressing the experiences in Charlotte. Second, normative theory is used to frame the research as an alternative logic to the NPM perspective. Although not tested directly against the research for validity, these theories are considered in the context of practice, which serves to inform both the theoretical debate as well as implementation in the organization.

Data Collection Procedures and Process

In an effort to study the implementation of the managed competition program with regard to its impact on the democratic governance, the politics administration dichotomy, organizational effects, and accountability, a combination of techniques for data collection was employed.

Various approaches, including library and archival research, document analysis, and open-ended interviews were employed. A review of the pertinent literature and analysis of the available program documents began the data collection process.

Literature and Document Analysis

The research began with an extensive literature search that included the Public Administration on-line encyclopedia and selected social science indices and databases that contained sources related to contracting out, privatization, and local government management including the Expanded Academic Index ASAP, InfoTrac Onefile, Ingenta, ABI/Inform, SAGE Full Text Collections, and ICPSR. Then, pertinent secondary resources were referenced to supplement and confirm the initial research phase. In order to gain an understanding of the managed competition program in the City of Charlotte, an extensive document review was conducted. Committee presentation and minutes, Council reports, memoranda, contract documents, internal audit reports, and program guidelines were examined. Appendix H provides a listing of documents reviewed. Key words, purpose, audience, intention, and key themes found in the documents were reviewed to determine if underlying values can be identified and if value foci are changing overtime.

The focus of the review was to identify the character and composition of the program environment including history and development, primary stakeholders, levels of stability and consensus, technical aspects, and the existence and nature of underlying assumptions, issues, and perspectives surrounding the program. Information gathered from the written documents was combined with the interviews to formulate a more complete picture of the managed competition program and the multi-dimensional nature of its evolution. The guidelines for services contracting were reviewed in order to determine the basic premise of the program, control

orientations, relationship structures, and process methodology. The primary objective of this analysis was to identify key assumptions and existing implicit theoretical positions.

Interviews

The data for this research is primarily interview data. The data collected were determined by the interview questions developed in accordance with the specific research questions under consideration. Initially, pilot interviews were conducted in order to gauge the effectiveness of the proposed structure and approach for providing insight into the impact of managed competition on the identified service delivery activities. Deliberate and purposeful selection of interviewees in order to best address the research question is a key element of qualitative research (Creswell, 1998). Interview participants were selected based on information from two key informants, also serving as interviewees. In addition, participants were selected based on my knowledge of the City, having worked there for approximately eight years. During the ten-year span of the competition program, many individuals have come in contact with the competitive environment. A significant effort was made to formulate a diverse interview pool that would include individuals with a range of years of exposure to the program and contrasting points of view based on political affiliation, location within the organization, and background. Furthermore, a complete range of perspectives, based on roles served and length of service within the organization, ensured that a more complete view of the managed competition program was possible. Interviews were conducted in person at the interviewee's work place and were open-ended in structure. All of the interviews were held at the Charlotte-Mecklenburg Government Center in the offices of the participants. Two exceptions were made and I traveled to a lunch meeting for one interview and to the interviewee's office for an early morning meeting for the

other. Following the interviews, the results were reviewed to determine any existing patterns. This allowed for an inductive analysis of the interview responses.

Participants were not required to sign a permission form; however each was offered the opportunity to review interview notes prior to their use in this study. None of the participants requested this review. The individual interviews also allowed for the observation of body language, physical setting, and organizational norms, and culture. Site visits and interviews with staff included the City Manager and Assistant City Manager, Key Business Executives, mid-level operations managers, field employees, and administrative staff members. Citizen committee members from the Privatization Competition Advisory Committee (PCAC) and City Council members were also interviewed. Senior and mid level staff from the direct service delivery units most involved in managed competition, Utilities and Solid Waste, were also interviewed. Thirty interviews were conducted ranging in time from 30 minutes to 110 minutes. Appendix I provides a complete listing of interviewees by position title.

The interviews emphasized the participants' experiences and involvement with the managed competition program. The interviews focused on a range of topics that included standardized questions, current issues, implementation concerns, lessons learned, and the objectives of the program. The intent of the interviews was to capture perceptions, understanding, and attitudes and therefore statements were taken at face value. Comments and discussion related to specific facts were cross-referenced across documents and other interviews. Due to the variety of stakeholders and program participants including practitioners, elected officials, and citizen committee members interviewed, a wide range of knowledge and experience concerning the intent and functioning of the program was captured and added to the balance of the information and the validity of the findings. A summation of all of the collected

information and the frequency of related comments was documented. Appendix J provides a summary of all interview responses.

Field notes were utilized to record researcher observations, hunches, outstanding questions, and to document the progress of the data compilation. All field notes were maintained separately from the data being collected in order to preserve its purity for analysis. A continuing effort to maintain thoughtful consideration of the relationship between the research questions under review and the data collected was made. Accurate and detailed documentation, classification, and cross-referencing all of the data collected for over the full course of the study was fundamental to ensuring a complete examination and analysis of the research questions. A structure was developed for recording and tracking the interview data. This format captured general demographic information, key responses by study area, and observations relative to cross matching to available documents and researcher comments.

Again, one advantage of the in-depth case study approach is that managed competition can be viewed in the total context of other actions taken by administrators and elected officials. The content review of the documents and the in-depth interviews examined stakeholder participation, performance evaluation processes, and pertinent decision-making, that relate to service delivery since the inception of managed competition. The written documents provided insight into the processes and procedures of the organization. Each of these methods allowed for the identification and examination of re-occurring patterns in a coherent and coordinated fashion designed to shed light on the multi-faceted aspects of managed competition and its impact.

The primary purpose of this research is to examine how the implementation of managed competition in Charlotte, North Carolina, has impacted the four study areas that can inform the

larger theoretical debate between NPM and normative theory. The analysis of these four areas of inquiry will provide insight into the theoretical propositions.

STUDY AREAS
Democratic Governance
Politics Administration Dichotomy
Organizational Effects
Accountability

Research Questions

The categories of questions listed below were developed for use in the open-ended interviews. The questions were designed to facilitate discussion in the topical areas that related to the impact of managed competition on a variety of areas as identified through the recounting of experiences, processes, interactions, and perceptions. Time allocated to each category, and correspondingly, each individual question varied across the participants based on their unique set of experiences, level of understanding, and role in the organization. The research questions used for data collection are as follows.

BACKGROUND QUESTIONS: IMPLEMENTATION

1. What is your understanding of the managed competition philosophy and program?
2. How do you believe managed competition is understood by city employees?
3. What factors contributed to Charlotte exploring and adopting managed competition as an option for service delivery and a city policy?
4. How did Charlotte study the feasibility of implementing a managed competition program? Who was involved in this process?

STUDY AREA: DEMOCRATIC GOVERNANCE

1. How have efforts to involve stakeholders / citizens changed as a result of implementing managed competition?
2. Who are the stakeholders?
3. How do you believe managed competition is understood by stakeholders?
4. Do stakeholders have more or less voice in service delivery as a result of implementing managed competition?
5. Have new stakeholders been brought to the table since the inception of managed competition?

6. Based on your experiences, have other changes in the way the City relates to the citizenry occurred during the same time period as managed competition?

STUDY AREA: POLITICS ADMINISTRATION DICHOTOMY

1. How do you believe managed competition is understood by Council?
2. Based on your experiences, what is the impact of managed competition on the Council: policy-making and oversight?
3. Are there particular Council decisions concerning managed competition that you believe are noteworthy?

STUDY AREA: ORGANIZATIONAL EFFECTSS AND PERFORMANCE

1. How is the success of managed competition evaluated in Charlotte?
2. Specifically, for managed competition projects, how is service delivery performance measured?
3. Has the evaluation of service delivery performance changed since the inception of managed competition?
4. What criteria/techniques have been established to evaluate the success of managed competition?
5. How do you insure the success of these techniques?
6. Based on your experiences, what obstacles, if any, have you faced with these techniques and how have you dealt with them?
7. Discuss and describe the relationships that exist between operating Key Business Units that are actively participating in managed competitions and support business units.
8. Have you decided to discontinue managed competition in certain areas and if so, why?

BACKGROUND: DECISION-MAKING AND VALUES

1. Describe the decision-making process you employ when deciding to subject a service to managed competition?
2. Do contradictory prescriptions concerning performance expectations exist? If so, how do you deal with them in your decision-making process?
3. In what ways does managed competition draw upon existing approaches and/or change decisions concerning methods of service delivery?
4. Based on your experience, how has decision-making concerning service delivery been impacted by managed competition?
5. Do competing guiding ideas and values exist? If so, do they come to play in your decision-making process, and if so, how do you manage them?
6. Are there key values or leading principles that guide your decision-making processes related to managed competition? If so, can you describe them?

Due to the complex nature of the decision-making process involving managing competing mandates, stakeholder interests, and goals, interview subjects were asked to prioritize the organization's core values. This exercise intended to provide clarity concerning the manner

in which the core values concerning service delivery activities are perceived in the context and environment of managed competition. First hand experience with decision-making was considered intentionally and explicitly in the context of the organization's core values. This deliberate framing of the decision-making process attempted to provide a mechanism for the participants to consider and share their perceptions, assumptions, and experiences in a context directly focused on shedding light on the potential convergence of their own individual values and the stated values of the organization.

7. Please evaluate each of the following statements (taken from the City of Charlotte's core values) in terms of its importance to you in your decision-making process concerning service delivery? Please rank each statement on a scale of 1 to 10 with 10 being very important and 1 being least important.

_____The standards of excellence, which we apply to our service, make a direct and powerful difference in the quality of our jobs and the quality of life in our community.

_____As a public enterprise, we are accountable to our fellow citizens for the dollars we spend and the quality of service we render.

_____We are a business. Our success - the vitality and prosperity of our city – depends on our productivity.

_____Our business serves a diversity of needs and must respond to a multitude of expectations -- our own as well as that of our customers. We can do this successfully and creatively by working together among ourselves and with the public.

_____No one has a corner on ideas or solutions. To grow responsibly and effectively, we must be open to each other and our customers, the citizens.

_____As individual human beings, our potential for making a difference in our business is unlimited. By developing our skills and abilities, we enhance not only our job satisfaction but also the quality of service our city offers.

STUDY AREA: ACCOUNTABILITY

1. What does the term "accountability" mean to you?
2. To whom are you accountable?
3. For what are you accountable?

4. Has either of these changed since the inception of managed competition? If so, how?
5. How is accountability defined and measured in the organization? Please evaluate each item as you see it being used to define and measure accountability in the organization. Rank each item on a scale of 1 to 10 with 10 being very important and 1 being least important:

___ Equity	___ Efficiency
___ Fairness	___ Effectiveness
___ Responsiveness	___ Economy (saving \$)

6. How has the use of these changed since the inception of managed competition?
7. How is accountability ensured in the organization? Please evaluate each item as you see it being used to ensure accountability in the organization. Rank each item on a scale of 1 to 10 with 10 being very important and 1 being least important:

___ Rules/Regulations	___ External Controls
___ Norms	___ Internal Controls
___ Law	___ Professional Standards (such as the ICMA or ASPA code of ethics)

8. How has the use of these changed since the inception of managed competition?

SUPPORTING QUESTIONS: ROLE OF THE PUBLIC ADMINISTRATOR

1. Have you experienced any contradictions in trying to run city government like a business?
2. Based on your experience, do you think public administrators/managers can become entrepreneurs as prescribed by managed competition? If they can, describe any issues you have witnessed or experienced that surround this process. Have you seen any negative consequences to the entrepreneurial aspect of managed competition for local government, for administrators, or overall governance through your experiences with managed competition?
3. How has your role / capacity as an administrator/manager/citizen participant been impacted or influenced by the introduction of market/business approaches to governance?
4. Has the way you delegate tasks been affected by managed competition? If so, how?

Data Analysis

Data analysis techniques in qualitative studies vary since there is no one prescribed method that is the one best way to analyze case study data (Yin, 1994). Although approaches may differ, Creswell (1994) offers guiding principles that lead the researcher through the analysis process. Creswell (1994) recommends a non-linear process for data collection that, ideally, occurs in conjunction with data analysis and the construction of the narrative text. It is also suggested that the interpretation and presentation of data is accomplished with the use of matrices.

Creswell (1994) contends that visually presenting the findings aids in engaging the reader. Matrices serve to introduce and supplement the narrative in a constructive way by also introducing the categorization or coding used to organize the data. These categories are then used in the narrative to discuss the themes and patterns emerging from the data (Marshall and Rossman, 1999). The units of analysis are the revealed ideologies and opinions expressed by the respondents regarding the managed competition program's impact on the four study areas. Matrices were developed to guide the structure and arrangement of the study findings and are provided in Appendix J. Next, the study findings are presented for each of the four study areas.

Triangulation, Validity, Reliability, and Limitations

Concerning data collection and data analysis, Yin (1994) argues that the case study method of inquiry is able to cope with technical information, comprised of variables other than data points. Allowing for the use of multiple data collection methods and analysis techniques, case study analysis provides the ability to triangulate data. The use of triangulation strengthens the research findings and conclusions. Selfe (1985) contends that since methods of indirect observation offer a somewhat incomplete picture of the complex processes under review, the combination of multiple methods should be used to gather data in any one particular study. Cross-checking and verifying

data from multiple sources then can help provide a multidimensional profile of composing activities in a particular setting (Selfe, 1985). Merriam (1988) suggests that checking, verifying and confirming data allows for a funnel-like study design that results in less data gathering in the later phases of the study.

There is no one correct way to verify the results in a qualitative study (Yin, 1994). Unlike quantitative studies, qualitative work does not provide statistical significance findings nor is it capable of producing a confidence factor for ensuring results. Thus, replicating or generalizing results is a concern but not a goal of the qualitative method. Scholars have debated issues of validity and reliability with little agreement on how qualitative results can be best confirmed (Lincoln and Guba, 1985; Kirk and Miller, 1986; Creswell, 1994; and Yin, 1994). Whether results can be deemed merely verifiable and valid or if more attempts to verify the results of scholarly work, using validity and reliability as methodological applications, remains to be seen (Kirk and Miller, 1986 and Yin, 1994). Janesick (1998) cites key factors that are present in scholarly work that help guide the verification process. These factors include validity or accuracy of the findings, reliability or the potential of repeating the research, and ability to generalize the results.

Validity

Validity can be examined using triangulation. To improve validity, all of the data collected were verified through the comparison of all available sources. Extensive effort was made to reconcile conflicting points of information. When reconciliation was not possible, data was not included in the study. A comparison of specific program characteristics and data points in relation to the experiences of comparable cities including Philadelphia, San Diego, Phoenix, and Indianapolis was conducted. This comparison aid in the verification of Charlotte as a

reasonable case that is similar in nature to other competition programs in the nation. This analysis addresses the question as to whether Charlotte is an adequate example of managed competition and thus if the experiences of Charlotte can be useful, in general, for informing the theoretical aspects of the NPM debate. In addition, a review of the managed competition efforts in the area of residential refuse collection provides insight into over ten years of competition experience and the evolution of the technical aspects of the process.

Reliability

Yin (1994) offers several suggestions for addressing the reliability of a qualitative case study. First, the development of a case study protocol is suggested in order to increase the reliability of the research. The protocol served as a guide in structuring and carrying out the research. The protocol can also be used to guide others in repeating this aspect of the study again. The protocol developed for this study includes the objectives of the research, field procedures for data collection, the specific questions under consideration, and the outline describing the format and contents of the case study report.

Yin (1994) also recommends that the results be further validated and reviewed for overall quality by having a reviewer examine the work and give feedback to the researcher concerning approach, conclusions, and completeness. Two reviewers were asked to review this research in order to ensure that differing points of view were available to address the reliability of the research. If these two perspectives each view the research, based on their knowledge and experiences, as reasonable, accurate, and complete, the reliability issue is addressed to a higher degree.

The first reviewer is a former practitioner with the City of Charlotte. He is very familiar with the managed competition program as he was involved with the program in his previous

work in both an operating department and a support department. The second reviewer is an elected official in a neighboring municipality who is familiar with managed competition. The first reviewer was one of the interview participants while the second reviewer was not interviewed.

I met with the reviewers, individually, to discuss the purpose and intent of the study, background on the case, the data collection process, and analysis of the findings. Then, the reviewers were asked to spend time primarily reviewing the study findings. We then met a second time to review their comments and reactions to the research. The first reviewer commented, “it occurs to me that there is more to competition that we stop to realize...your research lays out the details of the program and then places it in a context that asks bigger questions we don’t stop to realize are important, therefore they have not been asked. I wonder how we can take the findings and use them in a meaningful way.” The second reviewer commented that it was interesting to see the program discussed in comprehensive detail and that the consideration of academic theory applied to the program was of particular interest. The fact that many of the questions being posed by the study have never been raised in discussions between practitioners, as she stated was her experience, was “eye-opening.” Each reviewer was asked to comment on whether the data analysis seemed logical. Both reviewers stated that the study “made sense” and “appeared to be generally accurate.”

Limitations

One of the most commonly noted limitations of the case study method is generalizing the findings. The nature of the generalization must be taken into consideration when addressing this limitation. Yin (1994) contends that case studies do not focus on statistical generalization, that is, the analysis of a sample being generalized to a universe or population. Case studies, in

contrast, provide analytic generalization, using a case to represent or generalize to a theory (Yin, 1994). Stake (1995) describes the generalizability of case studies as naturalistic and context specific and accessible to the individual reader. This indicates that case study findings may resonate with a broad audience and thus enable a greater understanding of the issue or case in question (Snow and Anderson, 1991). Thus, the intent of this research is, as described by Yin (1994), analytic generalization intended to inform a wide-ranging audience. The intent and purpose of this research is to inform theory and practice concerning managed competition. My goal is not be the authoritative word on the issue but more importantly to inspire and spawn more research on the subject. Theoretical generalization using only one case requires prudence as further empirical research is needed to confirm the relationship between managed competition and democratic governance, the politics-administration dichotomy, organizational effects, and accountability.

The subjectivity of the researcher is also a potentially limiting factor since, as Caudle (1994) states, the researcher serves as the instrument for data collection. The identification and verification of evidence from multiple and varying sources validates the data and helps to address this limitation (Yin, 1994). In addition, I recognize the bias I bring to this study as a practitioner in the local government under review. However, as an academic, I acknowledge this bias and have made a concerted effort to verify all assumptions and perceptions using the processes advocated by Yin (1994) in order to alleviate my subjectivity as a limitation. Considering the extent to which evidence began to decline in its application and usefulness in the case study helped to ensure the completeness of the data collection effort. An extensive effort to gather pertinent data from interviews and, in particular, organizational documents also help address this issue.

A review of findings from other studies on managed competition further enhances triangulation. A comparison of specific data points concerning the comparable experiences of other cities, both in general concerning overall managed competition programs span and scope, and specifically, with regard to Solid Waste Services residential refuse collection was conducted. Particular attention was given in the presentation of the findings to available technical information, including Requests for Proposals (RFP), contracts, and Memorandums of Understanding (MOU) that represent a specified time frame within the managed competition program.

Another limitation of the case study method is the concern that case studies may either exaggerate or oversimplify a situation, leading to incorrect or invalid conclusions about the reality of the case (Lincoln and Guba, 1985). Careful attention was given to detail and accuracy in data collection, analysis, and reporting help to alleviate this potential problem. Related to the issue of exaggeration and oversimplification, the subjectivity of the researcher is also a potentially limiting factor since, as Caudle (1994) states, the researcher serves as the instrument for data collection. As Caudle (1994) discusses, a remedy for this situation rests in the identification of evidence from the study that validates the data. Thus, all information collected has been validated by a comparison to other data sources. Significant effort was made to fill in all identified gaps and inconsistencies in the information collected. The employment of triangulation improves the internal validity and reliability of the data as it combines various methods and sources to determine corollary and complementary relationships (Caudle 1994). Finally, there is a limitation that results from only reviewing one City. Focusing only on local government service delivery does not address other types of service reviews, such as social services, that may give a different picture of the contracting process and impact. The literature

review included in the study addresses other types of service reviews in order to mitigate the degree of this limitation. From this background in the methodology and with these limitations in mind, we turn now to the findings.

CHAPTER FIVE

FINDINGS FOR DEMOCRATIC GOVERNANCE AND THE POLITICS ADMINISTRATION DICHOTOMY

NPM reform was facilitated by three distinct themes including the continuing attack on the public sector, prevalence of economic theory (including public choice theory, and principal-agent theory), and globalization and competition (Hughes, 2003). Axioms related to these themes would predict that the case of Charlotte will display certain characteristics in the first two study areas of democratic governance and the politics administration dichotomy. However, counter ideas are present in the literature that offer a viable alternative in the normative perspective, that is the ideas of citizen participation, the blending of politics and administration or the constitutive role of the administrator, and democratic values.

The way in which we might see evidence of these two perspectives, NPM and normative theory, reconciled or not reconciled within the four study areas provides insight into one local government's experience in addressing opposing ideas. Examining managed competition allows us to see how Charlotte has evolved in its attempt to meet demands compatible with each perspective.

The potential for altering the relationships between administrators, elected officials, and the public is significant in the managed competition environment. Therefore, an examination of the impact of managed competition on democratic governance and the politics administration dichotomy is needed. Public choice theory defines efficiency, effectiveness, and improved performance primarily in terms of economy and productivity. As a result, citizen participation and input is not a focus of managed competition. However, the theory of democratic governance requires that the role of the citizen be addressed (Stivers, 1994).

Principal-agent theory defines governance relationships between administration and

elected officials in terms of separation and control (Boyne, 1998). As a result, the blending of politics and administration, the constitutive nature of administration, is not easily recognized under managed competition (see Cook, 1996). However, normative theory requires that the role of public administrators in the governance process be considered.

Research Question and Theoretical Propositions – Democratic Governance

As demonstrated in Appendix J, the interview responses to the questions concerning democratic governance provide a significant amount of detail. The data were sorted into categories of relationships for analysis and discussion purposes. Examining the relationships that exist in the managed competition environment provides insight into the impact the program has had on democratic governance.

The data analysis process provided insight into several relationships including: Language on Citizen vs. Customer, Citizen/ Employee, Citizen/Council, Citizen/Privatization Competition Advisory Committee (PCAC), Council/PCAC, Council/Employee, and PCAC/Employee. Varying in strength and depth, the examination of these relationships provides valuable insight into the nature and degree of impact the managed competition program has had on the City of Charlotte and its stakeholders. It is important to note that the relationships described are based on interview findings that do not include the perspective of the citizen. This is a limitation in the consideration of the relationships that requires acknowledgement. Using information gained from the unstructured interviews, each relationship is discussed. Table 5.1 lists the relationships identified and denotes the applicability of each relationship to the two study areas discussed in this chapter.

Table 5.1 Relationships Influenced by Managed Competition

Relationships	Democratic Governance	Politics/Administration Dichotomy
Language on Citizen vs. Customer	X	
Citizen/Employee	X	
Citizen/Council	X	
Citizen/PCAC	X	
Council/PCAC	X	X
Council/Employee		X
PCAC/Employee		X

Democratic Governance

What is the impact of managed competition on democratic governance? The larger context of this research question is illustrated in the theoretical proposition: Public choice theory predicts that the examination of the City of Charlotte should reveal that the public be viewed as customers to be served instead of citizens to be included in the governance process. As a result, the normative theory of democratic governance predicts that managed competition will reduce the role of citizens in government.

Language on Citizen vs. Customer

Before exploring the relationships that characterize democratic governance in Charlotte as they relate to the managed competition program, an acknowledgement of the perspectives concerning whom the organization serves is necessary. Examining the language used within the organization to denote the citizenry provides insight into the prevalence of NPM's influence. Generally, a customer is someone who pays for goods or services, while a citizen can be defined as a person entitled by birth or naturalization to the protection of a nation or nation. This distinction between customer and citizen is important to the consideration of democratic governance and is linked to the perceptions of those involved in the process. Furthermore, if

those being represented by the principal are viewed as customers instead of citizens, does the context of the relationship with the agent change?

A review of the City's official competition documents and interview discussions with middle and senior level staff revealed the use of the word "customer" in the majority of references to the public. Field employees used the term "customer" less often than they used the word citizen. The Privatization Competition Advisory Committee (PCAC) members, in both the unstructured interviews and in the observed PCAC meetings, used citizen and customer interchangeably and with similar frequency. However, the use of the word customer was not recorded in any of the Council member interviews. Likewise, the term customer was not used in the competition discussion observed at the Council meeting. This raises the question as to the degree in which the business mindset and language is engrained at various levels within the organization. Whether the use of the term "customer" is merely rhetoric that is more persistent among the administrative and managerial staff than the elected body and field employees remains to be seen. Further, questions regarding the extent to which each group has embraced the business structure are raised by the language choices of these groups. Box (1999) acknowledges the issue of regarding the public as customers to be serviced, rather than citizens who govern themselves through collective discourse, as a concern for public administration. At the local level, the context of the language may be influenced by the fact that citizens-customer has been a dual idea in local government terminology due to the significant amount of direct service delivery taking place, such as refuse collection.

The case of Charlotte demonstrates that although the context may be different, the outcomes for democratic governance are most related to managed competition's impact on relationships, not the labels assigned to the citizenry. This is due to the lack of a clear discernable connection between the business-based language of NPM and the findings documented in the study. Further study is needed to clarify this particular question as it is not included in the primary scope of this research.

Citizen/Employee Relationship

While senior level managers discussed their roles and relationships with citizens from a broad perspective, the relationships that field employees have with the citizenry was referenced by staff from all levels of the organization. Generally, staff identifies the citizen as a customer who deserves "good" service. This perspective was witnessed in staff comments such as "our motto is "customer service is our business," "we pride ourselves on customer service," "we measure our performance in customer service standards," and "we survey customers to see how we are doing and use this to improve service delivery." Specifically, interactions with citizens concerning service delivery were given as examples of how managed competition has altered existing relationships. For example, one senior level manager stated, "employees must now have a different approach, they must think about what is in the contract, not just what the customer may request when they are in the field. We have to think like a business in order to be competitive."

These comments raise the issue of the need to balance service cost and service quality and flexibility. The necessity of acquiring this balance is punctuated by managed competition. As one mid-level manager stated, "appropriate service standards are the basis for developing contract specifications. Realistically though, everyone's perspective is different when it comes to

serving the citizen, or customer.” Box (1999) contends that in order for public administration to become more responsive to citizen’s needs, practitioners must initiate partnerships between public servants and citizens. Whether a partnership arrangement exists in Charlotte is questionable since citizen input on identifying competition candidates and contract specification development is limited to the PCAC.

Since no direct citizen input is made possible outside of the PCAC model, and no record of media attention to the program is available, it can be proposed that the perceived lack of public awareness concerning the competition program is valid according to the interview responses. Furthermore, as citizens interact with field employees operating under managed competition, active citizenship is inhibited as contract specifications, developed without citizen input, dictate all aspects of service delivery. As referenced by several Solid Waste Services employees including one contract monitor, the citizens are, however, engaged to a degree that represents interest in service delivery quality. Solid Waste Services employees indicated that they believe customers are aware of competition in the privatized quadrant. One Solid Waste Services employee commented, “customers in the west zone being served by Inland use the City as a benchmark or point of reference. When service quality does not match what the City had previously provided them, they hold the City accountable for correcting the private hauler’s issues.” Although active citizenship may not be occurring through participation in structuring the process or in the development of contract specifications, participation may be occurring through service delivery interaction and the setting of benchmark expectations. This first link with the citizens, the field employees, should not be overlooked for the significant impact and contribution it has on democratic governance. Complaints concerning service delivery are handled much the same way as they were prior to competition. Complaints are logged in a

centralized database for resolution tracking. The contract or memorandum of understanding (MOU) requires specific criteria be followed for resolving complaints and monitoring the timing of resolutions.

Citizen/Council Relationship

The Citizen/Council relationship, though implicit in this democratically structured government, proved somewhat difficult to capture on paper. All of the Council members interviewed each referenced a responsibility to taxpayers for containing taxes and controlling costs as a key part of their role. Based on the unstructured interview responses, a majority of Council members characterized this relationship in an economic context. Public choice theory advocates introducing competition in order to control the inefficient monopolistic bureaucracy of local government (Boyne, 1998). Council members focused a great deal of attention in their responses on using competition to control costs, ensure accountability, improve productivity, and achieve a more efficient and effective government. Appendix J provides additional detail on these responses. Specific illustrations of reciprocal relationships, characterized by citizen participation and active citizenship, (see King and Stivers, 1998) were not evidenced in the managed competition discussions with Council members. Council members offered generalized illustrations of citizen interactions without discussing situation specific information. This may be due to a reluctance to share this kind of information with a researcher who is also a local practitioner. It could also be a result of the format of the interview questions.

Observations of three City Council meetings during the research period and four meetings prior to the research period during my work as an employee with the City (1994-2000) provided additional insight into the Citizen/Council relationship.²⁴ Council members relayed few

²⁴ Council awarded residential refuse collection in the East Quadrant to the City bid unit on September 27, 2004.

references to specific citizen interactions and opinions during meeting discussions related to competition. However, the public was a central theme in the comments made in a majority of the Council member interviews. Moreover, the citizenry was referenced in more general terms as those being represented and “protected from inflated costs, high taxes, and inefficient operations.” Thus, regarding specific managed competition projects and competition related issues, Council’s interaction with and consideration of the public was more implicit than explicit.

The Council subcommittee charged with overseeing the competition program is the Restructuring Government Sub-Committee (City of Charlotte, 1997). Regarding the connection with the citizenry, more detail was recorded and insight gained at the subcommittee level than in the full Council setting. Specifically, examples were provided of instances where Council members had talked with their constituents concerning refuse collection issues and the decision to award a quadrant of residential refuse collection services to a private contractor.²⁵ During the full Council discussion to award the East Quadrant to the City in September of 2004, one Council member stated,

...there has been continuous question about whether or not the taxpayers are receiving the proper service they deserve on the west side. I’m aware that the City does the east side, but we have a private company that does the west side, Inland, and there have been a lot of questions with regard to the service there.

²⁵ On September 23, 2002, Inland Services, Inc. was awarded a contract to provide residential garbage collection to the West quadrant of the city. The effective date of this contract was July 1, 2003. The contract is for a five-year period with two one-year extension options. The most recent competition for residential garbage collection was for the East quadrant of the city. The city won the bid. The effective date of this most recent contract is July 1, 2005.

Concerns over interruption of service were voiced reflecting apprehension over private sector service delivery.²⁶ This perspective is in contrast to the public choice theory perspective that government monopolies are inherently inefficient and ineffective and Council's parallel focus on driving costs down, and productivity up, through market pressure. One explanation for this disparate perspective may be fear of change. There still remains, though somewhat surprisingly due to the current anti-government environment, a comfort that seems to come from familiarity and the citizen orientation of public sector service delivery. This was witnessed in one Council member's concern over "getting out of the business", facing non-performance from the private hauler, and then having to "gear up to get back in the business." This focus on service delivery to the public represents the political nature of the relationship Council has with the citizenry, as it pertains to service delivery quality concerns. This focus is separate from the economic relationship that exists with the taxpayer. The dichotomy that can develop between the political and the economic perspectives raises the issue of balancing service cost and service quality. Although the private sector must also balance cost and quality, concern over the intense focus on cost, especially in the early years of the managed competition program, was expressed. The context for decision-making contributes to the consideration of balance and is discussed in detail in the decision-making section of the next chapter.

Citizen/PCAC Relationship

The strongest and most readily documented citizen relationship identified during the data collection and analysis process was the one between the Citizen and the PCAC. The strength of this relationship is evidenced in several different areas. First, the formal charge of the PCAC, provided in Appendix G, references a responsibility to the public. Second, the PCAC members

²⁶ Two Council members and one PCAC member shared this concern when asked about the award of residential garbage collection for the West quadrant of the City to Inland Services, Inc.

used the terms “community” and “the public” frequently in the interviews as they described their role, their understanding of the committee charge, and the nature of their work with the City organization. Further, observations of two committee meetings during the research period and numerous meetings prior to the research period during my work as an employee with the City (1994-2000) indicate a tone indicative of concern for and responsibility to the citizens of the community.²⁷ This tone was captured in comments made by the PCAC interviewees including “...we represent the citizens and they trust our judgment to ensure we have a well run and efficient city...”, “we have to stand up in front of Council and verify for them and those they serve that we are managing their funds appropriately...” and “the citizens look to us to ensure results are what they should be.” One PCAC member gave a personal example of the attention given to the citizen relationship,

As we were reviewing cost tabulation sheets for one of the solid waste bids, we got into a question and answer session with the Solid Waste KBE. We finally came to a resolution on all of the questions and issues. We did the same with the private contractor – it was not that we just did not trust the City numbers. We have a responsibility to make sure things are correct before we make our recommendation to Council. We represent the taxpayers. We are the taxpayers. I believe the committee as a whole has built a relationship with staff now so that trust is not an issue we have to deal with as we work to make sure the taxpayers voice is included in the discussion.

²⁷ September 9, 2004 and October 9, 2003.

The committee members interviewed each commented, either directly or indirectly, that their interest in serving on the PCAC was based on their living in the community and being a taxpayer. Observations made at the committee meetings indicated that a sense of satisfaction exists among the committee members in representing the citizens. By calling on their individual areas of expertise, ranging from law to accountancy to construction, the committee works as a designated principal to ensure proper behavior on behalf of the agents. This is not to say, however, that the relationship between city staff and the committee members is strained. One senior level manager commented,

We have made great progress with the committee and our working relationships. In the beginning, they were very anti-government and pro-privatization. Now, as they learn more about how hard we try and that we do manage professionally and responsibly and that we have embraced competition as a good thing, they trust us more and are an accountability partner.

Though the PCAC members refer to the reason the committee exists as one characterized by “oversight and monitoring of City government contract functions”, they have developed a relationship with staff that appears functional and constructive. It is important to note that since the Mayor and the Council appoints PCAC members, they are typically professionals from the community who are expected, generally, to have more knowledge about local government than the average citizen. One Council member and former PCAC member voiced concern regarding appointments to the committee. Qualifications instead of political relationships should be the basis filling the committee seats, according to this Council member. This perspective is one example of the ways in which the reconciliation of democratic governance and managed

competition can be addressed. Under managed competition, the role of the principal in the principal-agent relationship is one that has been, to a significant degree, delegated from the Council to the PCAC. The impact of this arrangement is discussed further in the next section of this chapter as it relates to the politics administration dichotomy.

The state of Virginia's Commonwealth Competition Council employs a competition model that includes public hearings for early and direct citizen input into the competition process and contract specification development. This model may prove of interest to Charlotte if it chooses to examine and address democratic governance and the importance of the citizen relative to the managed competition program.²⁸ In 1996 the Virginia Competition Council conducted four public hearings in order to gather input from the citizenry. The following questions were posed:

- (1) What program, service, or initiative of state government should be better handled by the private sector? Why?
- (2) Is there a program, service or initiative state government is doing that could be done by the private sector: (a) in a more efficient manner (b) at less cost to the taxpayer (c) that would improve the quality of service (d) or all, or a combination, of the above?
- (3) If so, what is it? For those services that must be provided by state government, what is your suggestion on how to make state government more internally efficient and effective?
- (4) What issues do you see concerning state government competition with the private sector?

Source: Virginia Commonwealth Competition Council website <http://www.vipnet.org/ccs>.

Findings related to the impact of managed competition on the voice of the stakeholders were mixed and no discernable patterns emerged. Interview participants identified the public (also referred to as citizens and customers), private sector bidders, and City employees as stakeholders in the managed competition program. Concerning the increase or decrease in voice,

²⁸ The City of Charlotte's managed competition program provides that draft Request for Proposal documents be circulated to potential bidders so that comments from the private sector review can be considered for inclusion in the final document. Although a form of citizen input, this review is limited with regard to the citizen's role in and contribution to the program.

responses varied. Employees were noted as having both more and less voice. More voice was cited primarily due to the platform managed competition provides work groups for altering internal work processes and structures. Less voice was noted in relation to the increase in directives from management that have resulted from managed competition. The public was noted as having either an increased voice, through the PCAC, or no change in voice. Four of the 30 interview participants felt that the voice of the public had diminished due to managed competition. These respondents, surprisingly, did not cite lack of citizen participation as the reason behind their answers. Respondents commented on the program's concentrated focus on cost and reduced focus on service quality as reasons the voice of the public has diminished.

NPM proponents often discuss the movement's ability to garner citizen support and influence citizen views (Osborne and Gaebler, 1992). Surprisingly, though Charlotte has embraced many NPM principles and approaches, there is little emphasis on gaining citizen support or affecting citizen views.²⁹ As referenced in Appendix J, according to interviews with City staff, PCAC members, and Council members, other than the example of those interested in Solid Waste service quality, the views of Charlotte's citizens are not significantly influenced by managed competition. Moreover, there seems to be little interest in pursuing this issue as a goal for the program. First, the public's understanding of the program is limited. "...There is not much understanding of the program. It is not publicized, even by Council, and the media has never been interested." What is publicized is not the program itself and the money it has saved but what the program makes possible. The savings produced by the program are used to fund other areas of the City including additional police officers and a property tax rate that has not increased since 1987 (City of Charlotte, 2000). As one senior level manager stated, "...the City is viewed as lean and efficient because of the competition program. What is important to the

²⁹ Competition guidelines, process, and guidelines found in Appendix F does not reference citizen participation.

citizens is the end result, not the process we use to get there.” This point was made even clearer when one PCAC member stated, “...although there is a medium level of understanding among some interested groups, understanding is really of the impact on their wallets.” In addition, one Council member discussed the fact that though there is minimal understanding by the public, “...they are generally not familiar with the program but that is ok, they see the benefits through their taxes.”

Research Question and Theoretical Propositions Revisited

The study findings indicate that the impact of managed competition on democratic governance is evidenced in the relationships in and surrounding the city organization. The key findings for democratic governance are presented below.

Key Findings About Democratic Governance in Charlotte

- Citizens are viewed as customers
- The PCAC is used to represent the views of the citizens
- No direct citizen participation in managed competition is occurring
- Understanding of the program is limited in the citizenry

In the context of the managed competition environment, relationships are primarily economic in nature. The findings indicate that the economic model of managed competition is crowding out democratic governance, especially at the contract specification stage of the competition process. The disparity that exists between the intense focus on cost and perceived de-emphasis on service quality is an area of concern that warrants further study. The findings support the theoretical proposition that as predicted by public choice theory, the case of Charlotte reveals that the public be viewed as customers to be served instead of citizens to be included in governance process. The findings also indicate that managed competition does not acknowledge the role of citizens in government, beyond the PCAC, with regard to active participation and

input concerning the selection of services for managed competition and the development of contract specifications for service delivery. The role of the PCAC, in part to represent the citizens as Council's designated principal, somewhat mitigates the impact of this reduced role. However, a committee cannot replace direct citizen participation and meaningful engagement. Thus, managed competition, as predicted by the theory of democratic governance, does reduce the role of citizens in government. Since the PCAC member is neither an elected official nor an administrator, the matter of democratic governance is further complicated.

According to Stivers (1991) regarding the fulfillment of democratic governance, being the legitimate expert with professional expertise is not enough to enable practitioners to deal with policy environments. Since the managed competition environment in Charlotte does not facilitate developing relationships with citizen-customers, the challenge for practitioners is increased. King and Stivers (1998) remind us that it is the experience of the citizens, not the expertise of the administrator that matters most. Administrators are not the "be all - end all" of government but they can still be legitimately political (Stivers, 1996). Under this normative approach, "administrators would be responsible not just for adjudicating among competing claims, though this is an inevitable part of their public obligation, but for creating the conditions under which citizens can construct who they are" (Wamsley et al., 1996, page 273). The theory of democratic governance requires that administrators not only focus on outcomes but also remember the critical importance of relationships in the democratic governance process.

In 1931, Dewey expressed concern over the future of democratic governance and posed the dominant issue as the struggle between the citizenry's control over government in behalf of the welfare and peace of society and, in contrast, control that passes into the hands of small powerful economic groups using the machinery of administration to serve themselves (Box, 1999, and

Campbell, 1996). Citizenship behavior draws on political participation, community involvement, social justice, humanitarianism, voluntarism, and shared responsibilities of individuals (Box 1999, 1998 and Fredrickson 1997). NPM, in contrast, is focused on competition and business practices, effectiveness, and efficiency (Box, 1999; Lynn 1998; Hood, 1991; Perry and Kraemer, 1983). Considering the impact of managed competition on democratic governance, and the relationships that characterize it, could contribute to our understanding of how to reconcile these two perspectives. It is important to apply normative considerations to practice as matters of equity, fairness, the balancing of service cost and service quality, accountability and the public interest are areas of concern in local government, especially in the managed competition environment.

Research Question and Theoretical Propositions – Politics Administration Dichotomy

What is the impact of managed competition on the presence of a politics administration dichotomy? The larger context of this research question is illustrated in the theoretical proposition: Principal-agent theory predicts that the examination of the City of Charlotte should display a control-based relationship between elected officials and administrative staff based on the separation of politics and administration. This separation should become more ingrained as a result of managed competition. Normative theories concerning the blending politics and administration, however, provide guidelines as to how the two should be brought together. Examining the relationships that exist in the managed competition environment provides insight into the impact the program has had on the prevalence of a politics administration dichotomy.

Politics Administration Dichotomy

Employee/Council Relationship and the PCAC Surrogate

A majority of the staff interviews regarding Council and employee interactions revealed that a politics administration dichotomy sentiment was prevalent prior to managed competition. Appendix J provides additional detail supporting this finding. As a result of managed competition, the nature of the dichotomy has changed. The study findings indicate that this change has occurred for two reasons. First, according to the interview responses, as more data has become available and more competitions are conducted, Council has transitioned from a political to a business context when considering competition related decisions. This conclusion is supported by PCAC meeting minutes covering the life of the program and comments from staff involved in the program since its inception. Second, the presence of the PCAC appears to have weakened the persistence of the perceived dichotomy. A majority of senior-level and mid-level staff interview responses characterized the adoption and implementation of the managed competition program as one grounded in the politics administration dichotomy mindset. One mid-level manager commented, “There has always been a separation, it keeps them (Council) safe from criticisms we can take for them.” An administrative staff member stated, “Council is in control and wants to make sure everyone knows that competition is a mechanism to keep us doing what they want.” In addition, comments related to the oversight of the program shed light on how control is perceived. “Oversight for accountability is the greatest change (resulting from the competition program) in how we all relate ...this is the most important change because of the PCAC, not Council.” “I don’t directly interact with Council, just the PCAC.” Finally, a senior-level manager commented, “I present more information to Council on competition matters but it

has not really changed our relationship or interaction. The change (in oversight) has come from working with the PCAC.”

Concerning the impact of managed competition on changes in Council oversight, one Council member stated “...the policy impact is a positive one, we are making better policy decisions that staff can implement in their daily routines.” Staff member comments concerning the impact of oversight included “...impact is more on employees in terms of oversight and control being increased”, “...the impact is in monitoring function, we are reporting and evaluating outcomes more...” and “...the impact is significant but at least the oversight is delegated to the PCAC.” Managed competition, according to three senior level staff members, has reinforced the separation. Staff sees the PCAC as “a tool for ensuring that implementation is done correctly and that policy stays with the policy makers on Council.” This is an example of the steering versus rowing distinction stressed by NPM. One staff member indirectly acknowledged how policy development and implementation collide as one mid-level staff member commented “the negative policy impact (of managed competition) is that they (senior-level management) see the program as fixed due to politics, which causes an inability to change the policy despite the evolution of the program in specific service areas.” This particular practitioner went on to discuss how competition has outlived its effectiveness in some areas where improving efficiency and effectiveness could be best accomplished using other tools, such as benchmarking, re-engineering or optimization.³⁰ This is very important and a key indicator of dichotomy: the loss of ability of administrators to help shape policy. The loss of ability of

30 Optimizations have taken the place of some competition projects when there is no competition from the private sector. Areas include fire hydrant repair, water service renewals, and right of way mowing. Transportation and Utilities have also optimized some areas by using lessons learned from competition and applying them to other areas without involving the private sector. A gainsharing program exists for optimizations that provides compensation at a reduced rate from the competition gainsharing program. (City of Charlotte, 2000).

administrators to help shape policy was evidenced concerning the overall managed competition policy, particularly in discussions concerning the continued application of the policy to areas better suited to optimization or benchmarking.

The ability to use other tools, she states, is needed “because of the nature of some services, that are either unpredictable [emergency work such as water main breaks] or filled with liability issues, [such as wastewater lift station operation and maintenance] causes a lack of competition and require other means for best ensuring best service, lowest cost.” Often, she described, “...decisions (to compete) are political not administrative, no matter what the impact on service delivery, internal operations, or what the best tool to ensure good operations might be.” Related to this perspective, a PCAC member noted “I understand that staff has a hard job educating us and Council and sharing their expertise to guide and influence policy while staying in their official roles.” This statement indicates the recognition of the existence of the dichotomy sentiment within the organization while also demonstrating an awareness regarding the constitutive role of staff. The role of the PCAC, based on comments from staff and Committee members, is described best as a bridge between elected officials and administrators. According to interviews with staff and PCAC members, the PCAC is viewed as being cognizant of the role staff plays in policy matters despite the political control of the competition agenda referenced by several staff members.

The deepening of a politics administration dichotomy sentiment, facilitated by managed competition, called forth the evolution of a mechanism, the PCAC, to relieve the dichotomous tension. Therefore, the blending of politics and administration that is the reality of public administration is recognized in the managed competition environment through the PCAC mechanism that links the two spheres in a productive manner. Although the implementation of

managed competition has solidified the feelings of separation between politics and administration, the separation is less problematic due to the presence of the PCAC. The interaction between elected officials and administrators is funneled through the PCAC in a manner that facilitates a shared dialog.

In summary, Council and staff see a distinct and consistent separation between politics and administration due largely to the structure, procedures, and goals of the managed competition program. While it can be proposed that the PCAC acknowledges a blending of politics and administration, the citizen committee has been delegated the role of the principal in managed competition projects. Thus, the PCAC's awareness of how policy formulation and implementation blend together holds significance for considering the impact of managed competition on internal relationships. The nature of the employee/Council relationship significantly informs our understanding of the employee/ PCAC relationship as well as the Council/PCAC relationship.

Employee/PCAC Relationship

Staff commented multiple times on the PCAC and the relationship that has evolved between staff and the Committee.³¹ As mentioned in the previous discussion concerning the Citizen/PCAC relationship, working relationships between staff and the PCAC have continued to improve over time.³² Moreover, the mere existence of the Committee is viewed as the most significant change resulting from managed competition, affecting internal relationships, accountability, and organizational effects.³³ As one staff member commented, "...the

³¹ Six instances were captured in the interview discussions.

³² Two senior level staff members are assigned as staff liaisons with the PCAC. These practitioners, an Assistant City Manager and a Key Business Executive, work directly with the committee on a regular basis. According to these liaisons, this relationship has helped staff build credibility with the committee and assisted in strengthening the positive tone of the committee.

³³ The subcommittee structure of the PCAC is also noted as a key change impacting organizational effects. According to staff, the assignment of a three to four member subcommittee to focus solely on a single Key Business

establishment of the PCAC for oversight and the decision to privatize the first quadrant of residential refuse collection are Council's most noteworthy and organization altering decisions made concerning competition."

Council/PCAC Relationship

As previously discussed, the Council's relationship with the PCAC is based on the delegation of oversight. One Council member affirmed this by stating, "the program is only as good as the people on the Committee (PCAC)." The PCAC enjoys a great deal of credibility with Council and according to one PCAC member, "...trust has grown over time. Council is very busy and does not have time to get into the details of monitoring. That is why we are here, why they created this committee." Thus, the PCAC is an extension of the Council as it is charged with overseeing the managed competition program's implementation. In light of the nature of the role of the PCAC, Hood's thermostatic control approach is applicable to Charlotte as the PCAC serves as the Council's thermostat for controlling the managed competition program (Hood, 2002). During comments made at a February 25, 2002 Council presentation the PCAC chairman stated,

KBUs have accepted the concepts of privatization and competition as goals and view this as being more responsive to their customers, the taxpayers. While there remain issues from time to time as to how potential competition services should be grouped, or whether certain City services should be competed for in the private sector, there is no challenge or question as to what the objectives of the

Unit's execution of the competition plan facilitates a greater understanding and appreciation of operations and costs for both parties.

PCAC are, or whether competition or privatization are beneficial to the City.

Research Question and Theoretical Propositions Revisited

The key findings revolving around the idea of the relationship between politics and administration include the following.

Key Findings in Charlotte Regarding Politics and Administration

- The deepening of a politics administration dichotomy sentiment, facilitated by managed competition, called forth the evolution of a mechanism, the PCAC, to relieve the dichotomous tension
- The PCAC is the designated principal in the principal-agent relationship
- The PCAC generally acknowledges the blending of politics and administration

The study findings indicate that although the economic model has shifted attention to the instrumental implementation of efficient and effective service delivery, a consideration of the constitutive nature of administration is made, not through elected officials, but through the PCAC. The findings support the theoretical proposition that as predicted by principal-agent theory, a control-based relationship between elected officials and administrative staff, based on the separation of politics and administration, exists. However, the proposition that this separation is more ingrained as a result of managed competition is not supported. The study findings indicate the contrary by showing that the politics administration dichotomy sentiment is de-emphasized due to the presence and role of the PCAC, a mechanism born out of the managed competition program and destined to evolve out of the necessity to acknowledge the connection between politics and administration. The contention that principal-agent theory is an insufficient tool for understanding the relationship between principals and agents due to the complexity of

the relationships that exist in practice applies to the case of Charlotte and the complexity that characterizes the relationships between principals and agents (Breaux et al., 2002). A critique of principal-agent theory may be warranted in cases where, unlike the theory assumes, more than one voice may be speaking as the principal as is the case with the PCAC and the Council.

NPM resurrects the politics administration dichotomy and the rational model, which grounds the movement's focus on efficiency (Pollitt, 2003, and Hood, 2002). As Pollitt (2003) states, the alternative logics posed by NPM results in a contradictory message for public managers. In Charlotte, the concern over accountability and the primacy of politics out weighs the NPM call for letting the managers manage through the liberation motive. In "Running Government Like a Business: Implications for Public Administration Theory and Practice", Box (1999) discusses the drive to run government like a business. "It seems to degrade the commitment to public service, reducing it to technical-instrumental market functions...(Box, 1999, page 19)." The removal of substantive policy questions from the administrative arena and the revival of the politics administration dichotomy brought about by the NPM movement, Box (1999) contends, must be considered as it impacts the scope and purpose of government and the role of the practitioner. Theories concerning the blending politics and administration, as purposed by Svara, inherently recognize the constitutive role of the public administrator in governance. The larger context of the complementarity nature of politics and administration must be considered as it takes the consideration of relationships from the instrumental consideration of public administration to the constitutive consideration of public administrators providing direct service delivery to the citizens at the local government level. Next, the study findings related to organizational effects and accountability are presented.

The break in the constitutive relationship is substantiated by the statement of staff that the managed competition policy is politically fixed, even when it is not appropriate. Rather than setting the broader goal of reducing costs and giving staff latitudes in methods used and change in method over time, the means to an end has become the end itself. Administrative feedback is redirected to the PCAC rather than going to the council. These conditions do more closely approximate dichotomy.

CHAPTER SIX

FINDINGS FOR ORGANIZATIONAL EFFECTS AND ACCOUNTABILITY

Axioms related to NPM themes would predict that the case of Charlotte would display certain characteristics in the final two study areas of organizational effects and accountability. However, counter ideas are present in the literature that offer a viable alternative in the normative perspective concerning principal-agent relationships, the market model, and the public service ethic.

Research Question and Theoretical Propositions – Organizational effects

What is the impact of managed competition on organizational effects? The larger context of this research question is illustrated in the theoretical proposition: Principal-agent theory predicts that the examination of the City of Charlotte will demonstrate the development of mechanisms to ensure agent compliance with the principal's desires. However, normative theory proposes that although these mechanisms are useful tools for organizational effects management, they do not ensure compliance with the principal's preferences. In addition, the examination of the City of Charlotte should reveal the market model in the gainsharing incentive program for managed competition. However, normative theory would predict that gainsharing has some negative consequences for the organization and the citizenry. Examining the specific mechanisms at work in the managed competition environment provides insight into the impact the program has had on organizational effects.

Organizational effects

Four areas of significant impact on organizational effects were identified. The formalization of a costing methodology, the development of a monitoring program, internal

discord between competing Key Business Units (KBUs) and support units, and the implementation of a gainsharing program are areas in which the managed competition program has influenced organizational effects. The process for allocating overhead costs to City bids was the first area of impact identified.

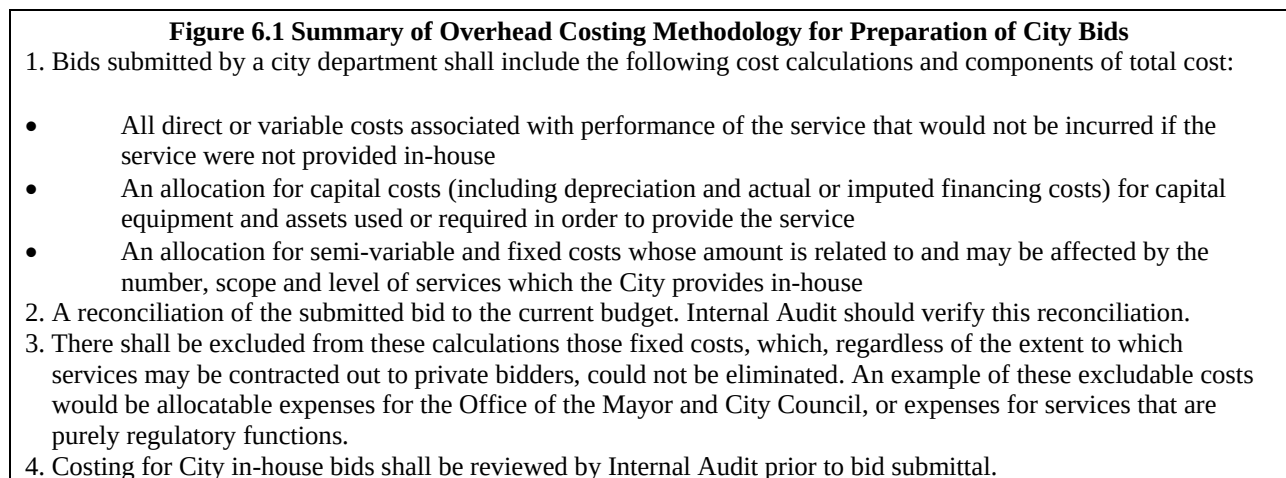
Overhead Costing Methodology

Determining overhead costs is one step in the development process for City bids. Prior to managed competition, overhead was calculated for the purpose of allocating internal costs for internal budget reporting. However, according to interview responses, managed competition brought significant scrutiny to the allocation process. As a result, the methodology was formalized to include more detailed and stringent instructions for allocating overhead costs.³⁴ This tightening of the methodology was in response to the need to more accurately determine the fully burdened cost of services subjected to managed competition. Overhead includes support costs at the division, key business unit and city level. Examples of overhead costs include payroll functions, human resources, clerical staff, technology support, and building and facility costs as well as equipment depreciation. Contract monitoring costs nor bid preparation costs are included in managed competition bids.

The Privatization Competition Advisory Committee (PCAC) has been directly involved in the on-going review of overhead costs and according to a current Council member who is also a former member of the PCAC, the methodology for determining overhead costs is the most difficult aspect of the competition. He went on to state that he has found no evidence that the City's numbers are contrived and that he believes that the competition program has provided

³⁴ Uses for overhead cost calculations other than competition bids include user fees, zoning fees, engineering fees, and benchmarking (City of Charlotte, 2002).

credibility to the City’s costing process.³⁵ The issue of distinguishing “fixed or non go-away” costs was also raised as an area of concern. Several interviewees commented on the issue of identifying these costs that remain or do not go away if the City loses a bid. For example, if a quadrant of refuse collection service is lost to the private sector, it is not significant enough to eliminate costs in support areas such as payroll and human resources. However, if the City were to lose multiple bids, there would come a point when costs in support areas could be reduced. Based on interview comments and committee minutes, the PCAC has struggled for years with the issue of allocating fixed or non go-away costs to City bids. One Council member commented that it would be acceptable to him for private contractors to use the same methodology in allocating overhead to a bid as the City does, which is to allocate only a portion of non go-away costs to the bid, opposed to the full amount. Figure 6.1 provides a summary of the overhead costing methodology developed in Charlotte.



Source: City of Charlotte internal presentation on costing (February, 1998).

³⁵ The Cost Accounting Standards Board, Statements on Management Accounting (SMA), and Federal Guidelines (OMB Circulars) were consulted in the development of the overhead allocation process (City of Charlotte, 2002). Coopers & Lybrand reviewed the overhead costing methodology in 1995. The review stated that more traceability of overhead costs and definitive cost information for KBUs to help support bid analysis would be gained from the City’s increased focus on costing methodology.

A somewhat unanticipated yet very important study finding related to organizational effects concerns strained internal relationships between operating KBUs and support business units. During interview discussions regarding the overhead costing methodology, eight participants commented on internal strain that has resulted from the implementation of managed competition.

Despite the interviewees comments indicating that the relationships between KBUs are sometimes strained, “The Charlotte Story: Public Service is Our Business” (2000) publication states,

Some of the four support key businesses (Finance, Human Resources, Budget and Evaluation, and Business Support Services) have established new working relationships with the nine³⁶ key businesses. Some support business units, such as Business Support Service’s fleet maintenance division, are entering into formal service agreements with key businesses they serve. All recognize their individual and collective contributions to the “overhead costs” of a particular service and other City key businesses increased expectations for customer service.

According to one mid-level manager, conflicts have arisen due to the “disparity between the competition culture of operating departments and the non-competition cultures of support departments.” A senior level manager identified the allocation of overhead as an area of concern

³⁶ Prior to 2002, nine key business units existed. In 2002, Transit was added as a separate KBU taking the total number to ten (City of Charlotte, 2004).

due the “...rising cost of internal support units and the related impact they have on our competitiveness.” Another senior level manager commented on the conflict that arises when operating KBUs question the charges they receive from internal service providers. Two operations staff members pointed out that operating KBUs are often greeted with a lack of understanding from support units concerning the competitive climate and need to control costs. The PCAC has begun to address situations where a support unit’s cost of service impacts the competitiveness of an operating KBU. The following excerpt from a February 2002 PCAC presentation to Council illustrates this point.

In reviewing several KBUs in our sub-committee work, it was noticed that KBUs were categorizing costs for services provided by the City to that unit, that is, services provided by another KBU, as “uncontrollable”. It seems to the PCAC that there should not be situations where any such costs are deemed “uncontrollable”, and therefore, are viewed by the KBU as a given. This issue initially came up in connection with City MIS costs incurred by KBUs, but we anticipate that this issue will come up in a number of other contexts.³⁷ If the City wants its KBUs to think and operate more like businesses, then they need to be able to influence and have some control over all of their costs, and not exclude those provided by the City.

³⁷ The City of Phoenix implemented an improved management information system that has reportedly provided efficiency and outcome indicators not found in governmental accounting systems (Schachtel and Sahmel, 2000).

The Solid Waste Services KBU, in conjunction with the Equipment Services support unit, has attempted to address this issue by developing a service agreement that stipulates expectations related to service delivery quality and associated cost. As one staff member commented, “...since equipment costs are a substantial part of the cost to provide solid waste services, our working relationship with our equipment maintenance supplier has a direct influence on whether we (the City) win these bids.” Thus, the study findings indicate that managed competition has raised internal issues that are being addressed in the same market context from which they were created.

Mid-level managers and senior level managers indicated that the way they spend their time has been impacted by managed competition. The costing methodology for overhead costs was noted by six interviewees as significantly impacting them by increasing the time they devote to cost accounting. In addition, comments such as “...due to the time constraints I face due to competition requirements of reporting and monitoring, I have had to delegate my customer service responsibilities” and “I spend more time on employee relations and communications than before competition” indicate that competition has influenced organizational effects in various ways. The monitoring process implemented as a result of managed competition, however, was noted most often as having an impact on the daily work of administrators.

Monitoring

Under managed competition, according to interview participants and City documents, the evaluation of success is determined by the cost of service provision, financial measures, and productivity measures. One senior-level manager defined the evaluation of success as, “...getting competition from private sector ...being competitive and saving money.” Council members characterize success in terms of providing efficient and effective services tested against the

private sector. This perspective contrasts with the majority of mid-level manager and field employee perspectives of success based on customer service complaints and service delivery issues.

A Memorandum of Understanding (MOU) serves as the official contract between the City and the City bid unit. The MOU formalizes the contract specifications and the gainsharing plan for the project (Eagle, 1997). According to official city documents, monitoring is viewed as significantly changing the organization's ability to track costs and make changes in operations that, as a result, provide the ability to function more like a business (City of Charlotte, 2000). According to the interviews, the monitoring program is the primary tool used to insure success while the Internal Audit unit, the PCAC, the Restructuring Government Council Sub-committee, and the Council oversee performance to insure compliance (City of Charlotte, 2000).³⁸ Details on monitoring techniques and criteria are provided in Appendix K. An official monitoring report constitutes the methodology for tracking performance and ensuring success in the managed competition program (City of Charlotte, 2000). Monthly monitoring reports are prepared by the operating KBUs and reviewed by Internal Audit who then reports to the PCAC, who in turn reports to Council (City of Charlotte, 2000).³⁹ Lack of detailed financial information, time constraints, and fear of retribution were each cited by interviewees as obstacles to the monitoring process. The PCAC has discussed the concern over lack of financial information, "if

³⁸ Contract units provide comprehensive monthly, quarterly and year-to-date reports in a format developed by the financial contract compliance officer. The reporting format follows closely the line item detail of the City's operating budget format. The reporting is completed in detailed financial spreadsheets with accompanying narrative and a full accounting of all expenditures, overhead costs, and operations and maintenance activities. Operational problems or situations are fully documented and a detailed forecast of work for the upcoming month is included. All deliverables, including specialized reports, inventories and contractual services information as required by the RFP, are part of the written report. On a monthly basis, comparisons are made of report totals and individual line items to cost center information in the City's general ledger system. Discrepancies are investigated and resolved. (Eagle, 1997).

³⁹ The Internal Audit manager stated that competition audits comprise approximately 80% of Internal Audit's workload.

KBUs are expected by the taxpayers to operate more like businesses, they need the management information tools to make business-like decisions” (City of Charlotte, 2002). The fund accounting structure required by North Carolina state law is not conducive to conducting detailed the cost accounting required by the managed competition program. Therefore, operating units have created spreadsheets that track costs for competition projects in a level of detail that is not possible with the City’s accounting system. This is a concern of the PCAC.

MOU compliance is another monitoring issue that has received attention over the last three years. When a KBU working under a competition MOU incurs costs above the bid amount, concerned is warranted (City of Charlotte, 2002). This issue first surfaced in connection with Solid Waste Services in 1998. Due to the number of MOUs in place between the City and City bid units; staff and the PCAC anticipated that the issue would become more prevalent over time (City of Charlotte, 2002). According to a PCAC member, “In reviewing the cost overruns that Solid Waste has incurred, the PCAC struggled for nearly six months with what response is appropriate...the issue for the PCAC is what general principles can be derived from this situation that will be applicable to other KBUs and their contracts with the City.” As a result, staff worked with the PCAC to develop the “Procedure for Cure of a Key Business Unit Failure to Achieve Bid Terms under a Managed Competition Agreement”. The complete procedure for cure agreement is provided in Appendix L. Concerning the development of the procedure for cure agreement, the PCAC has taken a hands-on approach and stated the following in a presentation to Council in 2002,

There are a variety of actions the City can take if a KBU fails to cure its non-performance under a contract. This ranges from not permitting the KBU to bid on future competitions, to recovering

deficits or losses from future gainsharing, to suspending gain sharing for that contract, to adding the deficit or loss to future bids by that KBU. But there is also a broad range of factors that bear on what remedy might be appropriate, and the PCAC has discovered that it is difficult to make a judgment up front without doing a fair amount of investigation as to what caused the KBU to incur costs above the contracted amount. At the end of the day, the only firm conclusion is that the appropriate City action needs to be a business-like decision as to what is best for the taxpayers, that is, what results in the best service at the lowest cost.

The procedure for cure agreement has been utilized twice since its development. Meter Reading and Solid Waste Services have experienced performance issues and were each put into the cure process. In both cases, cure was achieved according to the agreement and contract operations with the City bid units continued.

Gainsharing

The gainsharing program provides an employee incentive for city bid units that exceed performance and budget targets (Eagle, 1997). Under the gainsharing program, any operational savings below the bid amount at the end of the quarter are shared equally with employees in the bid unit. One half of the savings remains with the bid unit in a reserve account, available for use in operations as the unit's employees determine is needed. Distribution of incentives to the employees is made quarterly with half of the total amount due being reserved for year-end distribution (Eagle, 1997). Figure 6.2 provides an example of how gainsharing works.

Figure 6.2 Gainsharing Example

	Bid	=	\$1,000,000	~	Annual
	Bid	=	250,000	~	Quarter
	Actual	=	<u>240,000</u>	~	Quarter
	Savings	=	\$10,000		
	50%	=	5,000	~	Bid Unit
*	25%	=	2,500	~	Employee Reserve (paid at year end)
*	25%	=	2,500	~	Employees
*	Per Employee	=	250	~	ten (10) Employees

Source: City of Charlotte Managed Competition Overview, 2002.

Gainsharing experiences shared by interview participants provide insight into both the perceived benefits and the problems with the program. Interviewees commented in twelve instances that the gainsharing program has produced a changed approach to work among field employees. A mid-level manager commented on the positive impact by describing how employees are "...doing everything from turning the lights off when they leave a room to working out new shift schedules to eliminate overtime."

The wastewater lift station contract was mentioned in interviews with mid-level management staff and administration staff as an example of problematic issues that can emerge from gainsharing. Placed up for managed competition in 1997 by the Utilities KBU, a five-year contract (three initial years with two one year renewal options) was awarded to the City bid unit. There were no private sector bidders for the contract (City of Charlotte, 2003). Interviewees expressed concern that the field employees working within this area have made decisions in their daily work to maneuver within the MOU to enhance gainsharing payments, not to serve the best interest of the City.

The wastewater lift station MOU stipulates that any one equipment maintenance repair job that exceeds \$2,500 is considered a pass thru cost and the City, not the contract unit, is responsible for this cost. Repair jobs under the \$2,500 threshold are to be estimated in included

in the bid (City of Charlotte, 1997). As a result of this contract structure, decisions to delay maintenance work until the cost crosses the threshold amount could positively impact the amount of gainsharing payments to employees while negatively impacting the organization and the citizenry. Gainsharing may bring the consequences of market incentives to the public service arena. The private sector principle that the profit-making incentive produces improved performance, as dictated by NPM, is not supported in this particular example of gainsharing if public sector employees are making decisions based on self-interest and not the best interest of the principal and more importantly the public interest.

Principal-agent theory is concerned with ensuring that the agents act on behalf of the principal's best interest and not in self-interest to benefit themselves, as would be their natural tendency (Blanchard et al., 1998). Principal-agent presumptions underling the market approach to government hold that the bureaucracy is incapable of being efficient due to poor organizational design (Blanchard et al., 1998). Proponents of the theory argue that inefficiency can be improved if incentives in the public sector are altered to match those present in the marketplace (Blanchard et al., 1998). However, the study findings demonstrate that the gainsharing program has the potential to undermine NPM's intention to use private sector incentives to encourage the public sector entrepreneurship and improved performance by sacrificing public sector stewardship in favor of self-interest.

Interview participants also indicated other concerns related to gainsharing. Jealousy was noted as a concern between units that work closely together when one area has been subjected to competition and one area has not, and therefore, one group earns gainsharing and the other is not eligible despite equal performance levels. As one senior-level manager noted, "...other workers see competition employees as prima donnas." Gainsharing in Charlotte illustrates positive and

negative aspects to be considered. While gainsharing reflects some positive aspects, the negative implications for public service are not as apparent in the NPM model. The need to reconcile the monetary incentive of gainsharing with accountability for ethical professional norms of behavior and responsible service delivery must be addressed. We do not yet have an answer as to the full impact of gainsharing in the public sector. More study is required before we can determine the full impact and consequences of the gainsharing incentive on local government organizations.

Research Question and Theoretical Propositions Revisited

The impact of managed competition on organizational effects is observed in the overhead costing, monitoring, and gainsharing mechanisms discussed. In addition, an impact on internal working relationships and cultures is also apparent. Key findings are discussed below.

Key Findings in Charlotte Regarding Organizational effects

- Formalization of a methodology for overhead allocation resulted from managed competition
- Managed competition required the development of a detailed monitoring program to measure financial and performance results
- Discord between internal cultures (Operating Key Business Units and Support Business Units) has resulted from the managed competition environment
- The private sector incentive of gainsharing has positive and negative consequences

The theoretical proposition that principal-agent theory predicts that the examination of Charlotte should demonstrate the development of mechanisms to ensure agent compliance with the principal's desires is partially supported. The formalization of the overhead costing methodology is a management practice that seems to have improved the level of cost information available to the City. However, there is no evidence that the methodology directly ensures compliance with the principal's desires. The detailed monitoring program and procedure for cure agreement have been established to ensure a high level of oversight and control that does demonstrate an effort to ensure that the principal's desires concerning performance. The study

findings indicate that the market model is revealed in the development of a gainsharing program for managed competition. The findings support the proposition that gainsharing has potentially negative consequences for the organization and the citizenry. However, positive results from the gainsharing program are noted as well.

Peters (1996) argues that that entrepreneurialism is the main focus of the market model. According to normative theory, public managers are public servants that derive legitimacy from those they govern (Diver, 1982). Entrepreneurial manipulation of this relationship is a threat to democratic governance (Diver, 1982, and Terry, 1998). The emphasis on private gain, manipulation, and rule breaking derived from the entrepreneurial mindset is a threat to the citizenry (Terry, 1998). Self-interest outweighs the public interest under the market model when public entrepreneurs face private sector incentives. Terry (1998) argues that the public choice oriented character of neo-managerialism, as the foundation of entrepreneurialism, brings forth the opportunistic, self-interested, self-serving, and deceitful manager. Normative theory requires that we re-examine the narrow view of human behavior inherent in the entrepreneurial model and acknowledge the intent and nature of our public servants as “trustworthy ethical agents who administer the public’s business with the common good in mind” (Terry, 1998, page 198; also see Wamsley et al., 1990). Thus, mechanisms resulting from managed competition, such as the monitoring program and gainsharing, require careful analysis to determine compliance with principal preferences. In the normative perspective compliance is not ensured merely through organizational effects and programs but through a public service ethic grounded in a commitment to the citizenry and democratic principles.

Research Question and Theoretical Propositions –Accountability

What is the impact of managed competition on accountability? The larger context of this research question is illustrated in the theoretical proposition: The examination of the City of Charlotte will demonstrate how the market model has directed the choices and shaped the perceptions of stakeholders in Charlotte’s managed competition program to a solitary focus on cost reduction that neglects other values and measures of accountability. Understanding of normative theory and public sector values, however, should demonstrate that the market model has reduced flexibility in decision-making and defined accountability too narrowly.

Decision-Making

Interview responses concerning the impact of competition on decision-making centered around the development of five-year competition plans and the adoption of formal competition guidelines. Staff, Council members, and PCAC members discussed these documents as tools that extend Council’s competition policy into the decision-making process.

Study findings related to changes that have occurred in decision-making due to managed competition, and the degree to which individuals draw from existing approaches, indicate that the character of decision-making has shifted to an economic focus. This is evidenced in seventeen different participant comments including “...we focus more on teamwork for productivity and outcomes of service delivery decisions in the field versus pleasing the customer”, “the culture for decision making is different, we think more in terms of contract specifications for (making) customer service decisions”, and “employees are concerned about the impact of decisions on gainsharing payouts.”

Some view this shift in decision-making as a positive change. One PCAC member commented, “staff considers all decisions in competition areas in terms of how it impacts

performance and gainsharing...more thought is given in decisions as to consequences.” Council members believe that cost is more of a consideration in service delivery and that service delivery is now understood in a business context as a result of managed competition.

Values

Each interview participant was asked to rank the City’s core values in the context of decision-making and the managed competition program. Accountability was selected overwhelmingly (24 out of 30) as the most important core value. The remaining core values were evenly spread in the ranking. The complete ranking results are provided in Appendix J. Quality and excellence was mentioned by three staff members during the ranking process as a value that is discussed, yet, “compromised for cost savings.” This, yet again, raises the issue of balancing cost and service quality when the public sector becomes a competitor under the managed competition model.

Although four interview participants specifically noted accountability as a value that outweighs all other values, overall the responses concerning guiding values that may or may not govern each individual’s involvement in the program covered a wide range. This may be due to the broad range of interviewee backgrounds included in the study. Specific comments included “each situation is different and there is a hierarchy of values that come into play in each one”, “quality and productivity sometimes clash but we work around it”, and “it is difficult to be open and team oriented when you are under the stress of competition.” The concern for balance was expressed as it relates to the values that guide decisions concerning quality and cost, morale and relationships with Council members, and conflicting perspectives of program participants (multiple levels of staff, committee members, and elected officials). One PCAC member

commented, "...being considerate of the position staff is in while balancing our role with the goals of the program is important."

Accountability

When asked the meaning of accountability, responses from staff members clustered around the theme of responsiveness, service delivery, and contract specifications. Council members and PCAC members cited cost containment and efficient and effective operations in their definitions of accountability. One Council member noted that the competition program has given elected officials a window into the detail of costing and operations beyond what is normally seen from staff. Generally, practitioners stated that they feel accountable to a variety of individuals and groups, ranging from immediate supervisors, their KBE, the City Manager, the PCAC, Council, and the public. Two senior level managers and one field supervisor noted fellow employees as a group to which they feel accountable. One senior level manager stated that she feels accountable to employees as she "represents and protects the interests of the workforce with the PCAC and Council." PCAC members and Council members responded to the same question by identifying the public, often referred to as the taxpayers, as the primary group to which they feel accountable. Consistently, PCAC members feel most accountable for the competition program while Council feels most accountable for ensuring service delivery at the lowest possible cost. Although the economic model characterizes the mindset of a majority of those involved in the program, practitioners seem to be maintaining a public sector perspective more oriented toward a focus on responsiveness and equity.

Practitioners stated that they feel accountable for results defined as performance standards, outcomes, contract requirements, and reduced costs. The delivery of quality customer

service was noted in 14 out of 30 interviews as an area of concern related to the competition-induced environment of cost reductions. One mid-level manager commented,

Although Council wants the best service at the lowest cost, we focus the most on lowest cost and less on the quality of the service. Maybe we should revise the slogan to be best service at the most responsible cost to help ensure that we don't lose focus on the fact that best service, if that is really what they mean, sometimes costs a little more.

Another staff member, when asked whether contradictory prescriptions in performance expectations existed, stated, "the very highest level of customer service is expected, however, costs are expected to be the lowest possible. Sometimes, this combination is not possible."

When asked to discuss changes in accountability since the inception of the managed competition program, awareness emerged as a theme throughout a majority of the interview responses. Accountability for performance standards, contract specifications, outcomes, costs savings, and efficiency and effectiveness was discussed in the context of heightened awareness resulting from the stringent monitoring program and the more formalized structure for evaluating performance results under managed competition.

When asked to rank the definitions of accountability, there was no distinct disparity between the responses of staff, PCAC members, and Council. Appendix J provides the complete ranking totals. Several staff members noted no significant change in the use of the ranked accountability definitions while others interviewed, including PCAC members and Council

members, made reference to a shift toward more emphasis on economy and efficiency as a result of managed competition.

Staff members consistently commented on an increased focus on the “bottom line” and less emphasis on responsiveness and fairness with regard to changes in accountability foci. The tenor of this perspective is also evident in the findings related to democratic governance. In contrast, Council members noted a positive change, the increased focus on cost, as an enhancement to accountability as a result of managed competition. When asked to rank the mechanisms for ensuring accountability, the law, external controls, and internal controls were consistently selected as the most important. Multiple references by interviewees to the monitoring program support the ranking of internal controls as the primary mechanism used to ensure accountability. It is important to remember, as one middle-level manager commented, “the City is always accountable for the service delivery despite what the contract says. We are responsible.”

Many models of accountability exist (e.g., see Behn (2001) and Romzek and Dubnick (1987)), that focus either on internal accountability that is related to hierarchy or professional standards, or, external accountability that is related to political and legal forces, including citizens. Charlotte’s overt concentration on accountability for cost containment, although accompanied by a concern for responsive service delivery, indicates that accountability relationships in Charlotte, under managed competition, are political in nature. As several staff members indicated, “...productivity is emphasized to ensure that contract specifications are met and that gainsharing is earned,” and “...the City focuses more on productivity first and quality second.” The overwhelming focus on accountability as economic outcome, versus accountability

as a process of service to the citizenry, confirms that the concern over balancing cost and service delivery quality is valid.

Research Question and Theoretical Propositions Revisited

The study findings indicate that the impact of managed competition on accountability is characterized by the infusion of the economic mindset to the local government. These findings are summarized as follows.

Key Findings in Charlotte on Accountability

- | |
|---|
| <ul style="list-style-type: none">• Balancing service quality and cost containment is strained under managed competition• Accountability is the core value most prevalent for those involved in the competition program• Accountability is primarily defined as economy in the managed competition environment• The context for decision making has changed to an economic focus |
|---|

The proposition that the market model has directed and shaped the decisions and perceptions of participants in the managed competition program is partially supported. The Council's competition guidelines were found to be a key determinant in decision-making. While stakeholder perceptions were found to be economic in nature with a distinct focus on cost reduction, the proposition that this focus is solitary to the degree that it creates a situation where other values and measures of accountability are neglected is not supported. The obvious concern expressed by interview respondents for balancing cost and service delivery and protecting service quality indicates that the market model has not caused the emphasis on service to the citizenry to be clouded to the degree that cost is the singular focus of staff. Thus, other values and measures of accountability, though overshadowed, are not completely neglected. Normative theory provides insight into the danger an overt economic focus can hold for public servants. Although the findings do not adequately address whether the market model has reduced

flexibility in decision-making, the findings do indicate that the context for decision-making has changed. The findings also indicate that accountability is narrowly defined in economic terms. The new decision-making context is characterized by the economic mindset and places limits on administrative discretion with regard to decision-making concerning service delivery structure and approach.⁴⁰ As normative theory suggests, over-reliance on instrumental techniques based solely on market model principles impedes the constitutive role of administration (Van Wart, 1998). Since administrators do play a role in the policy process at various decision points, including what goals should be pursued, what alternatives should be considered, and what resulting choices should be made, the limitation of administrative discretion is an impact of managed competition that warrants further review (Van Wart, 1998). The implications for public service, in the normative sense, are important to the protection of democratic governance and the common good due to the public administrator's responsibility at the local level to consider matters of equity, fairness, the balancing of service cost and service quality, accountability and the public interest.

Pollitt's (2003) statement that democratic values, professional values, and general ethical values factor into the balancing act played by administrators in local government today is evident in the case of Charlotte. The concerns expressed by administrators in Charlotte regarding the extreme emphasis on economic definitions of accountability demonstrate how NPM has revived

⁴⁰ Public servants are charged with the task of making important decisions that relate to policy development, implementation, and evaluation. A degree of power is associated with this charge as individual discretion is exercised in the decision-making process. Administrative discretion provides for the direct use of individual judgment regarding the operations of the government. Consequently, the ethical use of administrative discretion is of utmost importance. Administrative discretion begins where the law ends. The complex nature and character of administrative discretion in the American civil service can be further characterized by considering the decisions that fall within the infamous gray area that exists between a clear decision and one that is unclear, narrow, or limited in options with regard to legal constraints. Administrators at all levels of the civil service are faced with discretionary decisions. No matter the position held in the hierarchy of an organization, the power to decide, and thus exercise discretion, resides in all levels of administration (Rohr, 1998).

the rational focus on economy, efficiency, and effectiveness to a level that exceeds the attention given to representativeness, responsiveness, and responsibility. One Council member noted, “Because of devolution and growth in Charlotte, we are forced to be as efficient as we can be while delivering the high quality services the citizens come to expect.”

Although few contradictory prescriptions concerning the application of the business model to the local government were noted in the interviews, one PCAC member did state, “...often it is difficult for staff to act like a private business when they are a public entity with everything being open to review. Government can only go so far in being business like.” Council members mentioned no contradictions and staff commented, “...Empowerment for performance results is discussed yet often in the field, staff is still treated as public sector employees burdened with red tape.” Finally one mid-level manager stated, “Mixed messages sometimes get sent to employees due to the nature of business approaches being applied to public service.” Thus, as Box (1999) states “...market like techniques may become problematic when they overwhelm values traditionally associated with the public sector and with public service.” The managerial values of NPM are rooted in public administration’s past and are thriving once again as a result of the implementation of managed competition. Characterizing decision-making and accountability in primarily economic terms under the guise of the market model raises significant normative concerns for the democratic delivery of services to the citizenry. The following chapter offers a discussion of the key insights produced by the study.

CHAPTER SEVEN

SUMMARY AND DISCUSSION

The primary purpose of this research is to examine the impact of managed competition, a NPM technique, on four primary study areas including democratic governance, the politics administration dichotomy, organizational effects, and accountability. Theories underpinning NPM reform include economic theory, specifically, public choice theory and principal-agent theory, predict that the case of Charlotte will display certain characteristics in the four study areas. However, normative theory offers viable alternative considerations for examining the four study areas as well. The way in which we can see evidence of these two perspectives, NPM and normative theory, reconciled and conflicting in the City of Charlotte informs the on-going theoretical debate through the experiences of practice. Examining managed competition allows us to see how Charlotte has evolved in its attempt to meet demands compatible with both perspectives.

Democratic Governance

The study findings support the theoretical proposition that as predicted by public choice theory, the case of Charlotte reveals that the public be viewed as customers to be served instead of citizens to be included in governance process. The findings also indicate that managed competition does not acknowledge the role of citizens in government, beyond the PCAC, in the selection of services for managed competition and the development of contract specifications. The manner in which effectiveness is defined influences the administrator's perception of active participation (Stivers, 1991). The concept of effectiveness based in economics is grounded in our history and taught as the rational norm. The facilitation and expression of social values is compromised when the main line of thought is centered on minimizing costs and maximizing

productivity. Moreover, the intrinsic value of administration is lessened when the focus on participation and relationships is reduced. Managed competition, grounded by public choice theory reveals, in the case of Charlotte, that procedures based on productivity and efficiency generally overshadow relationships, the direct role of the citizen, and the importance of participation. Further, although the demands for increased performance evaluation are present, the ideal of stakeholder participation is not of significant concern as attention is centered on rational results that are cost oriented.

Politics Administration Dichotomy

The study findings support the theoretical proposition that as predicted by principal-agent theory, a control-based relationship between elected officials and administrative staff, based on the separation of politics and administration, exists. However, the proposition that this separation is more ingrained as a result of managed competition is not supported. The study findings indicate the contrary by showing that the politics administration dichotomy sentiment is de-emphasized due to the presence and role of the PCAC. The study findings indicate that although the economic model has shifted attention to the instrumental implementation of efficient and effective service delivery, a consideration of the constitutive nature of administration is made, not through elected officials, but through the PCAC.

Organizational Effects

The theoretical proposition that principal-agent theory predicts that the examination of Charlotte should demonstrate the development of mechanisms to ensure agent compliance with the principal's desires is partially supported. The impact of managed competition on organizational effects was observed in the overhead costing, monitoring, and gainsharing

mechanisms identified. In addition, an impact on internal working relationships and cultures was also recognized.

The formalization of the overhead costing methodology is a management practice that seems to have improved the level of cost information available to the City. The purpose of the overhead allocation process is to distribute general and administrative overhead to all operating Key Business Units (KBUs) in order to determine the full cost of providing City services. According to the City audit staff and KBU administrative staff, although the allocation method was in place prior to managed competition, it has become more formalized since cost has become the predominant determinant of survival in the competition setting. However, there is no evidence that the overhead methodology directly ensures compliance with the principal's desires. The detailed monitoring program and procedure for cure agreement have been established to ensure a high level of oversight and control that does demonstrate an effort to ensure compliance with the principal's desires. The study findings also reveal the market model in the gainsharing program for managed competition. The findings support the proposition that gainsharing has potentially negative consequences however; positive results from the gainsharing program were also recorded.

Accountability

The study findings indicate that the impact of managed competition on accountability is characterized by the infusion of the economic mindset. The proposition that the market model has directed and shaped the decisions and perceptions of participants in the managed competition program is partially supported by the study findings. While stakeholder perceptions were found to be economic in nature, characterized by a distinct focus on cost reduction, the proposition that this focus is solitary to the degree that it creates a situation where other values and measures of

accountability are neglected is not supported. Instead, a concern for service quality and the public service ethic were significantly expressed. While the context for decision-making has changed as a result of managed competition, the findings also indicate that accountability is narrowly defined in economic terms. In summary, people tell the story of managed competition. People have relationships, utilize mechanisms, and possess perspectives that reveal and illustrate how managed competition has made an impact. Contemplation of this impact can inform theory and practice.

Key Insights

Several key insights identified throughout the course of this study warrant discussion. These insights are framed in the context of the mid-level administrator as it has become clear to me that this level of the organization experiences and witnesses the majority of the impact from managed competition. Serving as the link between line employees and senior-level administrators, mid-level administrators appear to be most engaged in both service delivery to the citizens and interaction with the organization's leadership.

The obstacles facing mid-level managers are remarkable.⁴¹ Within the managed competition environment, mid-level managers face decision-making that is often influenced by politics, a tendency to focus on outputs instead of outcomes, and an overall climate that favors entrepreneurship and focus on the "bottom line" versus stewardship and the value of service delivery quality. However, as a result of managed competition, mid-level managers have experienced some benefit with regard to flexibility in the use of savings. Changes to the

⁴¹ Box (1999, page 27) states ... "at the conceptual level of the size of government, the economic view is that, when it will be to their benefit, individuals, groups, politicians, and bureaucrats seek to maximize their gains in the public market by competing with others for the benefits offered by collective action" (Downs, 1957, Niskanen, 1971, Olson, 1965, B). The tension I sensed and observed in the body language and comments of the practitioners in Charlotte concerning the tenor of the competition program portrays a side effect, a lack of trust, of the economic view applied to public organizations that Box describes.

budgetary procedures in Charlotte now allow for areas under competition agreements to reserve funds left at the end of the fiscal year instead of being reverted back to the General Fund. The City allows bid units to use these funds as they see fit, usually for training, technology, and equipment needs not included in the existing contract budget (City of Charlotte, 1997). Abels (2004) discusses how middle managers work to orient policy toward service equity and democratic responsiveness while simultaneously being instructed to focus on a financial model that emphasizes cost containment and the reduction of general tax rates. Abels (2004) goes on to point out that the current shift from the traditional values of equity and democratic responsiveness to the NPM orientation of entrepreneurialism is causing middle managers to face contrasting management theories. Although the contrast was not as evident in Charlotte as may have been predicted, this idea warrants further investigation.

Finally, the tone of some City documents in describing the success of the program is noteworthy. The City identifies the development of business plans, new work schedules, increased training, and emphasis on skills development as improvements that managed competition has prompted. Although these items were not identified in the interview process, they are reflected in official City publications. Specifically, the City describes the success of the managed competition program in the following manner in the 2000 publication, “The Charlotte Story: Public Service is our Business,” by stating, “the single most important achievement of managed competition has been the development of a culture in which government is run like a business (City of Charlotte, 2000, page 64).” This publication goes on to discuss the three measures used to determine success in competition as (1) cost savings, (2) the ability to fund high-priority service areas and new growth without new taxes, and (3) the establishment and

implementation of five-year competition plans in all Key Business Units (City of Charlotte, 2000).

These measures of success, as indicated in the study findings, are void of consideration for citizen participation and any explicit concern for service delivery quality. I contend that balance is needed to enlarge the focus of cost savings, which is valid and necessary, to include the consideration of democratic governance, responsiveness, and a broader definition of accountability. Recalling the four comparable cities with competition experience, San Diego, Indianapolis, Phoenix, and Philadelphia reminds us that the case of Charlotte is a valid example of the managed competition experience. While Phoenix has gained national and international attention for its competition efforts since the 1970s to the present, Indianapolis, once held up as the model of excellence for managed competition, has demonstrated that not all programs have staying power. San Diego, in comparison, began implementing a reorganization and cost containment program in lieu of managed competition due to the constraints placed on the City by litigation with unions. Philadelphia represents a moderately successful program when considered in the context of the other cities examined. Again, the comparison of the scope and structure of the five competition programs demonstrates that Charlotte's program is not an aberration but is similar in nature to other programs in the nation that are currently thriving or were once viable. Therefore, examining Charlotte's experiences with attention to the impact of managed competition on the broad theoretical issues posed by this study is a valid area of study that opens up the consideration of questions not currently considered to any significant extent in the existing body of research.

Admittedly, the City acknowledges that managed competition has shortcomings, such as of lack of acceptance and questions concerning the essential role of government. Recognizing that the essential role of government is an issue under the NPM model is the first step toward achieving the balance I recommend.

Application to Public Administration

The Normative Perspective

The normative perspective is conspicuously missing in the case of Charlotte, specifically concerning the managed competition program. We need to inform and balance the teachings and practice of NPM concepts. I submit that there is an internal threat to the field, and the City of Charlotte and those like it, if the significance and importance of democratic governance and the constitutive role of administration is not acknowledged in conjunction with the market oriented focus on the “bottom-line.”

Application to Practice

Van Wart (1998) discusses three paradigms of public administration that aid in understanding how different mindsets are at work in practice. The weak administration paradigm (traditional – control the bureaucracy as mere implementers), the strong administration paradigm (the Blacksburg Manifesto perspective with a focus on the role of the administrator in governance and decision-making with public organizations as repositories of the state), and the mixed administration paradigm (the NPM perspective that dilutes the difference between the private and public sectors) denote the different schools of thought (Van Wart, 1998). I propose that the strong administration paradigm needs more focus in MPA programs. The distinction of The Public Administration from business management needs to be more directly emphasized. As discussed previously, Terry (1998) has attempted to make the field aware of the internal

danger of ignoring the constitutional regime values that should guide governance when we turn to a business orientation.

Engaging Practitioners

In addition to an emphasis on normative considerations, the importance of the public interest advocated by the Manifesto needs to be delivered to practitioners in a more meaningful way. Stakeholders need to be viewed as vital participants, not just interests to pacify. I do not know what this delivery should look like, yet I contend that it is much needed. The agency oriented perspective as a locus of public-spirited dialog could aid in this effort, whatever packaging it may require.

Practitioners need and seek ways to understand their work and make it more meaningful. Speaking from experience as a practitioner, the NPM environment does not support this need. Moreover, if The Public Administration is a calling, as I believe it is, attention must be focused on the normative aspect of governance that is so often ignored in the business minded municipality such as Charlotte that without acknowledgement of the impact, calls citizens “customers” and states as its motto *Public Service is our Business*. Possibly the concepts of the Manifesto could be delivered to practitioners via case studies or interactive debates that raise the important issues using a language with which they identify.

In summary, I believe that the mixed administration paradigm of the market model seems to be taking over - even over the weak administration paradigm. This belief is based on my experiences in education, practice, and particularly on this research. Thus, we at least need to get the perspective in front of those who need to see it so that the strong administration paradigm is represented. If efficiency and effectiveness is undermined by a lack of equity and lack of meaningful public participation, the result is poor governance.

Engaging Citizens

King and Stivers (1998) attempt to offer practical suggestions for how administrators can involve citizens in a meaningful and productive manner in government work.⁴² However, they do not go far enough to explore the issues surrounding the practicality or implementation possibilities for such involvement. This is a concern for the administrator. The focus on interaction and citizen participation are discarded when the rational model, thriving in NPM techniques, overrides them. Professional expertise and efficiency often, due to rational tendencies, take precedence over the role of the citizen. Nevertheless, the goal of the administrator regarding collaborative participation and partnership with the citizenry should not be on how to get the public to agree with the plan or approach of the agency (King and Stivers, 1998). Instead, it should be on how to work to create and facilitate an environment that supports the ongoing development, growth, and connection of all involved, practitioners, politicians, and citizens alike.

Thinking of the role of the administrator as a balancer of expertise and collaboration that listens well and views the citizen as a co-habitant of a shared public space, in partnership for the good of the whole, requires much more than informational lesson in democratic principles (King and Stivers, 1998).⁴³ It requires a transformation, a self-realization of the role of identity in the practice of public administration. Wamsley and Wolf (1996) provide a reminder that as citizens

⁴² King and Stivers (1998) state that building relationships between citizens, administrators, and politicians is a long-term commitment and that democratic government directly and regularly engages citizens and practitioners in dialogue.

⁴³ Regarding implications for the field, Stivers' raising of the issue of listening is fundamentally important. Hard and complex issues must first be raised before theory can be studied and practice can be informed. These constraints are summarized succinctly by the Paideia Consulting Group (1995) as typical roadblocks to communication. These roadblocks include the following concerns: ordering and commanding tones can produce fear, resistance, and retaliatory behavior; warning and threatening causes resentment and anger or in contrast, submissiveness; moralizing and preaching connotes a lack of trust; advising and giving solutions in some instances causes dependency and prevents full contemplation of the problem and the consideration of alternative solutions; persuading with logic and arguing can provoke defensive positioning and feelings of inferiority and inadequacy; and diverting, sarcasm, and withdrawal can limit openness and implies avoidance.

are served, The Public Administration is taking part with them in constituting ourselves as a nation.

The intrinsic constitutive value of administration can be weakened when the focus on values, participation, and relationships is reduced in favor of the “bottom-line.” This recognition helps to uncover the intrinsic value inherent in administration as it draws attention to formative or constitutive activities. These activities include participation, value building, equity maintenance, and relationship development. Public administration is not merely an instrumental tool as it serves to facilitate and shape norms and values through daily service to society (Cook, 1996 and Wamsley et al., 1990).

Future Study

The literature identifies the perceived limitations and theoretical flaws of NPM while also proving insight into the perceived benefits. However, the literature does not provide a great deal of empirical data on the movement’s impact in practice. The goal of this research is to fill a portion of this gap. The origins, theoretical underpinnings, purposes, and impacts of NPM are all diverse. Conducting empirical research on the impact of NPM techniques can serve to inform the discourse surrounding theory and practice. Several issues emerged as areas that require additional study in order to expand our understanding of the impact of NPM in practice and the effort to reconcile NPM principles with normative foundations. These areas include:

- the use of business language in the public sector – citizen or customer;
- the development of internal coping mechanisms in the NPM environment – designated principals, such as the PCAC;
- the use of gainsharing in the public sector – public servant motivation; and

- the normative perspective in practice – balancing cost and quality with the values of democratic governance.
- Competition in Council-manager governments and strong Mayor governments
- The mono-centric governmental setting and the polycentric setting – a consideration of Waldo's (1948) contention that the Council-manger form is the only true form of mono-centric government.

I believe that practitioners need and seek ways to understand their work and make it more meaningful. If Public Administration is a calling, as I believe it is, attention and consideration should be given to the evaluation of the relationship between reform practices and service delivery related activities. It is imperative that we don't forget our role in governance and the public service ethic that keeps us true to our calling to serve. Frederickson (1997) contends that the spirit of public administration must develop a theory of the public based on an expanded conceptualization of citizenship that goes beyond public choice theory and the customer service orientation. Perhaps reviewing some of the ideas from the Refounding would bring a balance between service cost and service quality as demonstrated in Charlotte and inspire a vital normative dialogue in the field.

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CITY OF PHOENIX PUBLIC/PRIVATE COMPETITIVE PROPOSAL PROCESS

BACKGROUND

The City of Phoenix has received national and international recognition as a well managed city. One of the reasons the City has won this recognition is the City's public/private competitive proposal process. City departments and private contractors compete in a public bid situation to determine who can best provide services to customers. The process was invented by the City of Phoenix in 1979 and it has been used in the fourteen service areas indicated below. Refuse collection has received the most recognition.

CITY OF PHOENIX COMPETITIVE PROPOSAL PROCESS TYPES OF SERVICES EVALUATED

Refuse Collection	Landscape Maintenance
Billing Services	Senior Housing Management
Street Sweeping	Ambulance Service
Public Defender	Landfill Operation
Street Repair	Instrumentation Maintenance
Data Entry	Insecticide Painting
Fuel Distribution	Solid Waste Transfer Hauling

BENEFITS OF THE PROCESS

There are very few expectations more widely held than that government, in general, is inefficient. However, the City of Phoenix is an exception. Citizens and employees have come to expect the City of Phoenix to provide efficient government and good government. That high expectation is due in large part to the public/private competitive process.

The focus on performance in service areas that have gone through this process is also significant. Discussions of unit costs, customer complaints, down time and other production line events occur with sustained interest and energy. There is no need to build bureaucratic reporting, regulatory and oversight devices.

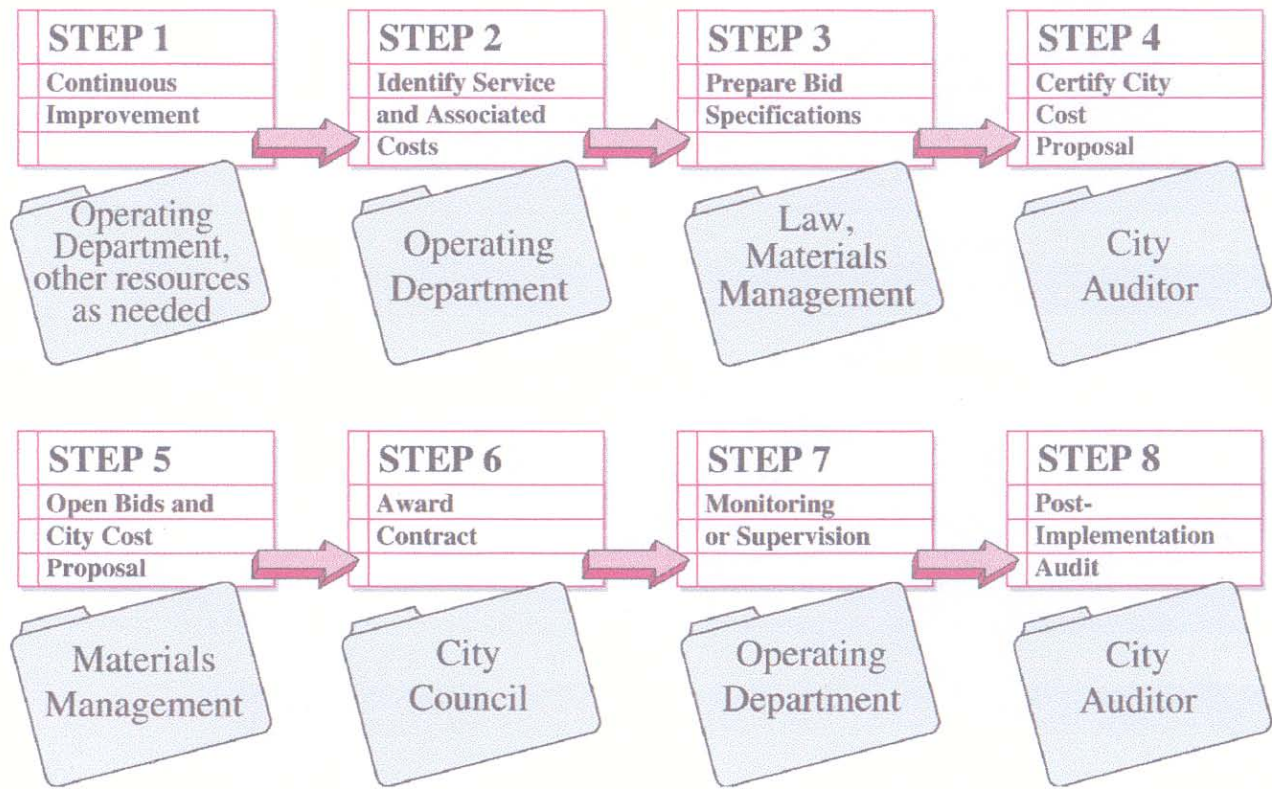
Another tangible benefit of the process is cost reduction and service level improvement. Since beginning the process in 1979, the City has saved over \$41.8 million, as detailed in the chart on the next page.

As customer expectations increase and resources diminish, reliance on monopoly power is not likely to be a survival strategy for service delivery. The development of the public/private competitive process is a strategic advantage in the evolving market place of government service delivery. This process challenges us to find the effective use of competition and cooperation in the same manner as a private firm.

STEPS IN THE PROCESS

In general, the public/private competitive process is similar to a traditional competitive proposal situation, except that a proposal from City operating departments and a post-implementation audit process have been included. The steps and responsibilities during this process are presented in summary form in the chart below. A more detailed operating procedure follows.

PUBLIC/PRIVATE COMPETITIVE PROCESS OVERVIEW



CITY OF SAN DIEGO, CALIFORNIA
COUNCIL POLICY

CURRENT

SUBJECT: COMPETITION PROGRAM
POLICY NO.: 000-30
EFFECTIVE DATE: June 27, 1994

BACKGROUND:

In an environment of limited revenues and increasing demand for services, the City of San Diego must ensure to maximize use of its resources. It is the desire of the City Council to evaluate the City's service delivery program to determine the best model for providing selected services based upon cost efficiency and effectiveness, customer service and maintenance of essential public services.

GOAL/PURPOSE:

To insure that the City of San Diego is competitive and provides and maintains the highest quality service for the optimum cost to residents, businesses, tourists and visitors.

POLICY:

It is the policy of the City of San Diego to deliver services through the most effective and efficient means available. The Competition Program is one process the City plans to use in an effort to achieve this policy.

In order to insure that services are competitive, the City will:

- 1) benchmark its performance in selected service areas against other providers (public, private or non-profit) of comparable services,
- 2) analyze performance measures,
- 3) evaluate how the City could become more competitive and implement changes,
- 4) evaluate alternative service delivery models, determine the most appropriate model (based on criteria specified herein) which ensures the maintenance of an essential public service, and
- 5) implement changes based on the results of the process.

This policy is not intended to apply to all service areas provided by the City. Where applied, it is intended to insure the best expenditure of funds for the service provided. It is the responsibility of the City Manager, annually, along with the Proposed Budget, to identify and recommend the City Council those service areas which should be candidates for evaluation and consideration for alternative service delivery models.

CITY OF SAN DIEGO, CALIFORNIA
COUNCIL POLICY

CURRENT

The Competition Program is being implemented in a phased manner, with the first phase being a pilot program. This will allow for evaluation of the process, program implementation and modifications to the policy and processes as necessary.

POLICY PROVISIONS:

1. The City of San Diego is committed to providing the highest quality service, at the specified level, for the lowest cost to taxpayers.
2. The City Manager will annually submit a two year plan, with the Proposed Budget, to the City Council which identifies services to either study or implement alternative means of delivery.
3. For alternative means of service delivery, the potential providers include but are not limited to, the City, private services, volunteers, inter-agency agreements, public/private partnerships, and non-profit agencies.
4. As a guideline, the City will directly deliver those basic public services where effectiveness and efficiency is equivalent to or greater than alternative means and where the potential savings for an outside service provider are less than ten percent (10%) for the same level of service. Variations may occur depending on the Circumstances and the size of the contract.
5. The City will directly provide essential public safety including basic police protection and fire suppression.
6. The City may propose to provide services that are currently provided contractually. The City may propose to provide basic government services to other governmental agencies if there is a benefit to the City and the taxpayers.
7. The City will benchmark its services performance against other providers of comparable services.
8. Departments will be given an opportunity to develop and implement efficiency and effectiveness improvements in their operation before the bidding process begins.
9. Before the City contracts out some or all of an essential or mandated service, a plan for service interruption will be considered.
10. The City will make every reasonable effort to assure continuing employment for its employee when change is contemplated in the model of service delivery.
11. Service delivery options will be evaluated using uniform criteria plus specific criteria related to the service.

**CITY OF SAN DIEGO, CALIFORNIA
COUNCIL POLICY**

CURRENT

12. An advisory Panel will include private sector leaders with operating, financing and contracting expertise, who will be appointed by the City Manager. The Panel will also include ex-officio members from the City Manager's Office and labor organizations representing City of San Diego employees. The Advisory Panel will assist in the implementation stages of the Program, and act as a sounding board for alternative service delivery endeavors. Panel activities may include but are not limited to:

Participation in the identification of City services and programs to be considered for competition

Participation in proposal review and evaluation (Labor representatives will not participate in this activity)

Participation in the evaluation of this Program, including periodic reports to the City Council regarding progress and accomplishments of the Program

13. An internal advisory committee called the Competition Committee, will address three subject areas of policy, process and employee development. The members of this Committee will include managerial appointed City employees and representatives from the City's labor organizations.
14. All contracts for services are subject to all current and future applicable federal, state and local laws, regulations and the Charter of the City of San Diego.
15. Where City Capital is invested in equipment, real property or other capital assets, the City shall evaluate the appropriate measures, such as retaining ownership to insure the ability to resume operations in the case of default, changed circumstances, or high price proposals.
16. Every service considered for competitive bidding must be evaluated for potential cost savings versus impact on the public good, especially in the areas of reliability, safety, public health, employee compensation, economic benefit and potential liability. Cost savings alone will not be the determining factor. Real improvements to efficiency will also be considered.

PROGRAM CONSIDERATIONS

TIMING & NUMBER:

The number of programs and services to be evaluated annually will be determined by evaluation of the capacity of the City to administer multiple processes and an estimate of the net financial value to be accrued.

In identifying programs for potential alternative service delivery, the City may perform an evaluation to consider offering entire programs or portions of programs for competitive proposal.

CITY OF SAN DIEGO, CALIFORNIA
COUNCIL POLICY

CURRENT

COST SAVINGS:

Cost comparison evaluations will be required. Proposals for service delivery will be prepared by both the City and alternative service providers based on the scope of work outlined in the Request for Proposals issued by the City.

The City will utilize reliable information pertaining to performance and work load standards and costs is comparing public and private service options. Cost savings alone will not be the only consideration in a decision to change the model of delivering services. For example, the ability of the City to guarantee a consistent level of quality, and uninterrupted provision of essential public services will also be considered in the evaluation.

The basis for comparison of proposal costs may vary by the type of service. The City will detail the basis for comparison, including but not limited to the elements of overhead, costs of administering and monitoring contracts, transition costs and liability estimates in the Request for Proposals.

QUALITY OF SERVICES:

In addition to cost savings, comparisons of City versus alternative models for providing services must indicate that quality of service can be maintained or improved without increasing costs. This may be accomplished by specific performance standards and financial penalties for non-performance. Service level specifications will be included in the Request for Proposals and used to establish the level of service.

ABILITY TO GUARANTEE SERVICE:

There must be reliable service providers available or a strong likelihood that they can be developed within an acceptable time frame. Private providers will be required to maintain predetermined levels of responsiveness. However, providers must be prepared to respond to increased service demands or changing service needs quickly and effectively, if directed by the City. Additionally, private providers should demonstrate the capability to provide continuous service.

DIVERSITY OF WORK FORCE:

Service providers will be encouraged to make efforts to the extent permitted by law to ensure that their work force reflects the ethnic and gender makeup of the available work force in the community at large throughout the life of the contract.

PROPOSAL EVALUATION:

Responsive proposals will be evaluated based upon "best practices" criteria including but not limited to value analysis and an assessment of proposers ability to perform the work with the resources detailed in the proposal.

CITY OF SAN DIEGO, CALIFORNIA
COUNCIL POLICY

CURRENT

EMPLOYEE STATUS:

The City will make a good faith effort to offer, or have offered, employment to any City employee who may be impacted by the competitive bidding process. Employees will retain their layoff rights as defined under the Civil Service System.

Where alternative service delivery results in a reduction in force, alternatives to address the status of City employees may include but are not limited to: reduction through attrition, transfer, hiring of qualified employees by a new provider, training, cross-training, or lay-off. Every effort will be made to assist public employees in transition situations.

CITY BID FOR NON-CITY SERVICES:

In area where City forces are consistently productive and cost effective and it is of benefit to the City/taxpayers or a regional benefit, the City Manager has the option to bid on provision of those same services to other governmental agencies.

HISTORY:

Adopted by Resolution R-284169 06/27/1994

Overview of Performance Measurement and Operationalizing Strategy in Charlotte

Responding to public calls for greater accountability and efficiency, governments at all levels are now using performance measurement in one form or another. However, establishing an effective system for setting priorities, allocating scarce resources based on those priorities, and measuring outcomes is an ongoing challenge for most governments, including Charlotte. The evolution of strategy development and performance measurement in the City of Charlotte, with an emphasis on the lessons learned from nearly ten years of using the balanced scorecard model characterizes the management framework of the City today.

Developed for the private sector in an effort to balance measures of organizational performance between financial results and other critical success factors, the balanced scorecard has been adapted for the public sector by a number of local governments. From implementing and using the scorecard to the most recent challenge of linking strategy to resource allocation, Charlotte's efforts are characterized by a focus on continuous improvement

In 1990, the City Council participated in a strategic visioning exercise to establish consensus on the strategic themes that would guide goal setting, performance measurement, and resource allocation. After a series of follow-up workshops, the City Council settled on five themes, which they called "focus areas: (1) community safety, (2) housing and neighborhood development, (3) restructuring government, (4) transportation, and (5) economic development. The City Council also outlined broad objectives for each focus area. The focus areas have remained virtually unchanged since 1990.

The City Council went a step further by creating institutional mechanisms to ensure that the objectives for each focus area would be met. City Council committees are structured around the focus areas. At the staff level, focus area cabinets were established to ensure that the City Council's priorities are being implemented. Comprised of senior managers whose units directly affect one of the focus areas, the cabinets meet at least once a month to discuss progress toward strategic outcomes. The work of the focus area cabinets has created positive changes in organizational culture. City business units now think more strategically, and their activities are better aligned with the priorities of the City Council. The cabinets play an active role in the policy process; not only are they responsible for developing a strategic plan for their focus area, but they also draft or review policy items before they are presented to the City Council for consideration.

Since 1990, when it first identified the five focus areas, the City Council has held an annual priority-setting retreat. Prior to the retreat, a professional facilitator interviews the members of the City Council and makes a list of their goals and concerns. From this list, the Council identifies the top priorities for the next budget year, organized by focus area. The focus area cabinets develop performance measures for each focus area based on the direction of the City Council. These measures are then consolidated into a strategic focus area plan that is approved by the City Council.

Charlotte has learned a lot about strategic planning over the last 10 years. The city's experience with the balance scorecard suggests that there are two primary keys to making this approach work in a government setting. First, strategy must be supported. Consistent support of senior management is particularly critical, but there must be

support for the effort at all levels of the organization. Second, strategy must be operationalized. The best strategy benefits no one unless it is put into action. The implementation of the managed competition program is one key tool used by the city to operationalize strategy.

Organizational support for strategy development and implementation is fundamental to success. This support must reach from the governing body and the chief executive through the entire organization. Strategy can and should become institutionalized within the culture of the organization to the point that it becomes part and parcel of how you operate, as opposed to an add-on that most people expect will eventually go away. For this to happen, the organization must invest in people, technology, and research. Finally, to ensure that strategy remains a visible priority for the organization as a whole and a meaningful exercise for all levels of the organization, staff at all levels should be recruited to champion the effort and to make the most of the scorecard tool.

For organizational strategy to reach the operations level, where it gets translated into tangible results, employees need to be able to see how their daily activities contribute to the accomplishment of overall strategy. One method Charlotte is using to strengthen this relationship is to link employee performance evaluations and compensation to the achievement of key business unit scorecard goals. The scorecard framework is that it directly connects the City's focus areas and corporate objectives to each of the key business units.

Taken from the October 2004 *Government Finance Review* article "The Origins and Evolution of Charlotte's Corporate Scorecard" by Kim S. Eagle.

A Picture of Our Future (1993)

What might the City's services and workforce look like in the next four years? A group of employees and managers developed the following picture in a first attempt to answer those questions. It is a picture created after conducting an environmental scan in which they examined the trends and expectations of our political leaders, citizens, and city employees. By examining these current trends and projecting them into the future, we have a guide for setting work plans and budgets.

Role of Government in the Community	Service Delivery	Workforce
■ City/County government will be consolidated or additional functions of City/County government will be consolidated. ■ Government will be addressing community problems through partnership arrangements and by brokering services, placing less emphasis on new government programs as solutions to problems. ■ Government will be a platform for economic development.	■ Government will be competitive in cost and quality with the private sector for services provided by city employees. ■ All city services which are available in the private sector will be put up for competitive bid. ■ There will be fewer city employees providing direct services to citizens, except for public safety. ■ There will be no new property taxes for new or expanded services. ■ Funding for some services will be discontinued in order to create savings for priority areas or to balance the budget.	■ The ratio of Police and Fire employees to all other employees will continue to grow. ■ Competition will change the way in which the city manages human resource issues: • Increased use of temporaries with few or no benefits • Benefits tailored to occupational groups and driven by competition • Non-traditional work routines • More contract managers ■ Management of human resources will be focused on workforce preparedness: • More business and problem-solving skills • Technology-oriented • Literacy • Cross training

Source: The Charlotte Story: Public Service is Our Business (2000). Reproduced by permission of the City of Charlotte.



FY98

**PAY AND BENEFITS
RECOMMENDATION REPORT**

COMPETITION-BASED GAINSHARING PLAN

- Recommend establishment of a Competition-Based Gainsharing Plan which will reward employees when the City has successfully competed against the private sector and is able to perform the work for less than our successful bid amount.

Adopted by City Council on June 23, 1997
as a part of the FY98 Budget Ordinance

Note: This is an exert from the report

COMPETITION-BASED GAINSHARING PLAN

Purpose of Proposed Plan

Competition-Based Gainsharing is an incentive program which will be self-funded from savings achieved against 1) competitively-bid projects when the City is the low bidder; or 2) "optimization" projects. "Optimization" is the application of benchmark standards (work processes, staffing, quality, etc.) developed during a successful competitive bid process to other similarly situated organizational units which have not competed. Due to a need to reflect the unique nature of City services/business units, a number of individualized plans may be developed under the broad heading of Competition-Based Gainsharing; however, all plans must meet the design characteristics and limitations set forth below.

Competition-Based Gainsharing is consistent with our Human Resources Philosophy, congruent with other incentive plans, and encourages continuous improvement by the City organization. By providing monetary incentives to the employees who achieved the savings, the proposed plan will motivate employees to develop better and more efficient methods of performing work. This will make the City more competitive and save taxpayer dollars.

Under the proposed plan, City Council will delegate authority to the City Manager for approval of gainsharing plans which meet the plan design cited below.

Process and Assessment

- Work is identified for competitive bid or for optimization.

Competitive Bid

- For work which is competitively bid, if the City submits the low bid and is awarded the contract, the organizational unit that won the bid would submit a gainsharing plan proposal to the City Manager for approval. If the plan is approved by the City Manager, as set forth below, the unit would become eligible to participate in the Competition-Based Gainsharing Plan.
- If the unit completes the work for less than the bid amount, up to one-half of the difference between the contract amount and the final actual cost may be shared with employees. The total payout to an employee, excluding payments attributable to overtime, may not exceed 25% of the employee's base rate of pay during the contract period.

Optimization Projects

- If the Key Business Executive (KBE) applies the principles of optimization to an organizational unit, the KBE may submit a gainsharing plan proposal to the City Manager for approval. If the plan is approved by the City Manager, as set forth below, the unit to which the benchmark standards are applied would become eligible to participate in the Competition-Based Gainsharing Plan.
- If the unit completes the work for less than the benchmark amount (usually expressed in unit costs), up to one-third of the difference between the benchmark amount and the final actual cost may be shared with employees. The total payout to an employee, excluding payments attributable to overtime, may not exceed 17% of the employee's base rate of pay during the applicable period.

Development of Plans/Approval

- Each Key Business Executive will develop the plan(s) to be used in their business unit, including plan structure, quality standards, how decisions will be made about the amount to be paid to each employee, etc.
- All plans, whether competitively-bid or for optimization projects, will require the prior approval of the City Manager. Each plan should outline the following:
 - Specifications for the bid/project, including a Memorandum of Understanding outlining organizational roles/responsibilities/expectations
 - Process for determining cost savings, including audit process
 - Performance and quality standards which must be met and how these will impact payouts, including whether there will be penalties on an individual or team basis
 - Whether there will be the potential for bonus awards for significantly exceeding standards and what those amounts would be. Any bonus awards must not result in the total payout to employees exceeding 50% or 33% of the savings for competitive-bid or optimization projects, respectively
 - How payout decisions will be made:
 - Minimum savings which must be achieved before a payout will be made;
 - Percentage amounts to be paid;
 - Frequency of payouts, including whether partial payouts will be made during the year with a final payout at the end of the year.
 - Eligibility requirements to participate in plan:
 - Who/what level of employees will be eligible (for example, will managers, support staff or administrative staff be eligible?);
 - How long must the employee be in the unit to be eligible;
 - Whether temporary employees are eligible;
 - Performance levels that must be met to be eligible (for example, must be

- at Meets Basic or higher level to be eligible);
- Disposition of employee shares when an employee does not meet quality, attendance, etc. standards.
- How impact of incentive pay on overtime pay will be addressed.
- The Key Business Executive's decision on payout is final and not grievable.

Disposition of Savings Not Awarded to Employees

- The portion of the savings not paid to employees will be retained in a contingency fund in the business unit to cover possible contract/optimization cost overruns, purchase of new technology, employee training, etc. At the end of the contract period, remaining funds in the contingency fund will be returned to the appropriate fund (General Fund or enterprise fund).

City of Charlotte

Privatization / Competition Advisory Committee

Guidelines For Services Contracting

Adopted by City Council July 25, 1994
Revised September 8, 1997

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CITY COUNCIL POLICY FOR SERVICES CONTRACTING

The City Council will evaluate whether an individual city service should be considered a "public" or "private" service. If the council determines that a service is a public service (involving a City-wide standard of service, determined and administered by the City and paid for by a tax or governmental levy), the following policy shall apply:

The City Council wishes to provide appropriate public services at the highest quality and the lowest cost, whether provided by City forces or by private contracts. In evaluating the most efficient and effective way to provide public services, the City shall use a competitive process in which private service providers are encouraged to compete with City departments for the opportunity to provide such services, and in which the option of delivering services through public employees and departments must be justified through the competitive bidding process. The City shall encourage the provision of public services through contracts with private service providers, wherever this offers the lowest cost, most effective method of service delivery consistent with service level standards and other adopted City policies.

CITY COUNCIL GOALS FOR SERVICES CONTRACTING

1. The City Council will systematically assess current City services to determine the appropriate level of service to be provided, whether by city forces or by private contract.
2. The City Council will assess the relationship of a service being considered for competition with other Council priorities and policies. Council will use this assessment to determine whether the services will be subject to competitive bid and in what amount, to determine any special provisions which may need to be included in specifications and to address other council priorities and policies.
3. Current contracts for city services will be reviewed to ensure that existing private and city service providers are being held accountable and are providing effective and efficient services as specified by individual contracts. This review may result in placing a service out for competitive bidding.
4. The City Council will make an assessment of how to best provide a "level playing field" for the City and all potential private service providers. This

Guidelines For Services Contracting

assessment will include defining, the public values of city services and how those values will be addressed in the bid process and specifications.

5. Efforts should be made to minimize the impact on current city employees affected by competition. Each competition recommendation should include an assessment of the effect on employees and recommendations for handling any negative impact.

GUIDELINES

Guideline I - Level Playing Field

The Privatization/Competition Advisory Committee (Committee) is responsible for determining that the services contracting guidelines provide for a "level playing field." The definition of a level playing field, for the purposes of these guidelines, is one that neither favors nor disadvantages any bidder (including any City department) to any extent over another party. City management and the Committee shall assure that specific procedures are in place for each specific bid. Certain general guidelines to establish a level playing field are summarized in Guidelines II through VI that follow.

Guideline II - Organizing For Contracting

- A. All Key Business Units (KBU) should have a Five (5) Year Competition Plan that will be updated annually. Services to be contracted out or subjected to public/private competition should come from these plans.
- B. Prior to starting a competition process, the City Contracts Administrator should be notified and provided with a proposed schedule of activities.
- C. An Evaluation Team should initially be formed to assist in developing specifications, conducting pre-qualification screening, and evaluating all bids received. This review should include substantiating the reasonableness, completeness and accuracy of cost figures and cost comparisons set forth in the bid contract; evaluating the quality assurance and customer complaint procedures proposed; and reassuring conformity to other elements of the Request For Proposals (RFP). The members of the Evaluation Team will be established based on the annual contract value.
 1. Contracts under \$100,000 - The responsible Key Business Executive (KBE) may establish an Evaluation Team and review process within a Key Business Unit.

Guidelines For Services Contracting

2. Contracts of \$100,000 to \$500,000 - The Evaluation Team shall consist of representatives from Purchasing, Contracts Administration, Budget and Evaluation, and City Attorney. For contracts in support areas, a representative of a major user may also serve.
3. Contracts over \$500,000 - The Evaluation Team shall consist of at least two (2) members of the Committee, a representative from the City Manager's Office and the staff KBE liaison to the Committee.
4. If the evaluation team determines that additional technical expertise is required, they may obtain that expertise from any source including requesting that the KBE of the bidding department serve on the evaluation team. In that case, the bidding KBE must be excluded from the bidding process and demonstrate a "wall of separation" from the bid team.
5. Contracts for similar work should not be divided to avoid the thresholds stated above.

Guideline III - Content of Requests For Proposals

- A. The scope of the services to be provided, in the form of "work statements," the length of the contract period, and all other pertinent information should be clearly and explicitly set forth in the Request For Proposals.
- B. Each RFP should specify the desired outcome/result of the service in accordance with City Council Policy and any other governmental mandates. Emphasis should be on describing the desired results in lieu of the means/methods used to obtain the result. RFP's should encourage responders to demonstrate creativity and innovation in describing their method for delivering the service instead of describing how they would perform the City's existing program.
- C. Each RFP should include a formalized quality assurance and customer complaint resolution plan, which shall seek to assure quantitative and qualitative measures of service delivery to be followed by the successful bidder during the contract period.
- D. Each RFP should request that all bidders provide their approach to using current city employees who may be displaced by privatization.

Guidelines For Services Contracting

- E. Each RFP should include the performance standards and other contract monitoring requirements as described in Guideline IX - Contract Monitoring.

Guideline IV - Development of Request For Proposals

- A. The service providing Key Business Executive is responsible for developing the Request For Proposal.
- B. For contracts less than \$500,000/year, the responsible KBE may use Business Support Services Key Business, or his/her own department staff to develop the RFP. However, the KBE must demonstrate the "wall of separation" between the RFP development team and the in-house City bid team.
- C. The responsible KBE will use the services of Engineering Key Business, Business Support Services Key Business and/or an outside Consultant to prepare RFP's for contracts exceeding \$500,000/year. The responsible KBE should create a "wall of separations" between the City bid team and the RFP development team by minimizing his/her department's involvement in the RFP development. That involvement should be limited to providing the historical data necessary to compete for the service and any technical support necessary to describe the desired outcome.
- D. A draft of each RFP for contracts in excess of \$100,000 should be reviewed by all qualified bidders prior to publication.
- E. There should be a clearly designated staff resource who is separate from the City's bid team, responsible for responding to general inquiries about the contracting process from private service providers and other interested citizens. After the issuance of an RFP for a specific service this individual is responsible for making available to private service bidders the information/data relevant to or needed by them in the preparation of bids.
- F. Procedures should be developed for insuring that any information or data, which is requested by one bidder, is made available to all bidders. Under such procedures, all information which is requested or which is made available to a City department for its use in preparing an "in-house bid" shall also be made available to private bidders: This will not mean that private bidders may request or have access to the working papers prepared or developed by a City

Guidelines For Services Contracting

department in order to calculate or decide upon or prepare its proposal for performing the service in-house.

Guideline V - Proposal Review

- A. Where appropriate in relation to the size and scope of the service which is being considered for contracting out, a pre-qualification screening analysis of private sector bidders should be conducted to evaluate the potential bidder's business plan and resources committed to the plan, prior performance history (if any), financial and organizational ability to perform the scope of services, and the ability to obtain any necessary bonding. The use of pre-qualification screening and the criteria for such screening shall be decided on a case-by-case basis with input from the Committee on the appropriateness of such screening and the criteria for screening.
- B. All bids submitted in response to an RFP shall be sealed and submitted at the same time. The bid evaluation process shall be conducted in accordance with the City's "Standards of Conduct" set forth in City Code Section 2-73 and in accordance with these guidelines.
- C. Costing for City "in- house" bids shall be reviewed by Internal Audit prior to bid submittal.
- D. The results of all bids over \$100,000 will be shared with the Committee
- E. All bid proposals over \$500,000 will be shared with the Committee. The Committee may make its own comments and recommendations, if any, on such bid proposals independent of the staff evaluation and recommendation. Such comments and evaluation by the Committee will be transmitted to the City Manager and to City Council along with any staff recommendation and report on the bids. In addition, in the event the Committee and City staff are unable to agree on other issues during the course of the process, the Committee may, at its option, seek further guidance and directions from City Council.
- F. In addition, the Committee anticipates that it will make quarterly reports (verified by an internal auditor) to City Council on the overall progress of the contracting out effort, including the selection of services for consideration by the City Manager and City Council,

Guidelines For Services Contracting

the schedule for consideration of contracting out, and the progress on the cost elimination plans.

Guideline VI - Costing Methodology

A. Cost Methodology for Preparation of "In-House" Bids

1. Bids submitted by a city department shall include the following cost calculations and components of total cost:
 - a. All direct or variable costs associated with performance of the service which would not be incurred if the services were not provided "in-house";
 - b. An allocation for capital costs (including depreciation and actual or imputed financing costs) for capital equipment and assets used or required in order to provide the service; and,
 - c. An allocation for semi-variable and fixed costs whose amount is related to and may be affected by the number, scope and level of services which the City provides "in-house."
2. A reconciliation of the "submitted bid" to the current budget. This reconciliation should be verified by Internal Audit.
3. There shall be excluded from these calculations those fixed costs, which, regardless of the extent to which services may be contracted out to private bidders, could not be eliminated. An example of these excludable costs would be allocated expenses for the Office of the Mayor and City Council, or expenses for services that are purely regulatory functions.
4. Costing for City "in-house" bids shall be reviewed by Internal Audit prior to bid submittal.

B. Comparison of "In-House" and Private Bids

1. In comparing bids prepared by private contractors with "in-house" proposals to provide a service, certain adjustments will be necessary in order to "level the playing field." Because these guidelines require that "in-house" proposals include an allocation for certain semi-variable and fixed costs, simple comparison of the bottom line totals for "in-house" proposals with the price quoted in private bids may

Guidelines For Services Contracting

not be an accurate reflection of the City's possible savings or costs from contracting out a service.

In order for the City to make a proper comparison of "in-house" proposals with private bids, the following possible factors and adjustments may need to be considered:

- a. The extent to which the "in-house" proposal includes an allocation for semi-variable or fixed costs which may not be eliminated or phased out over the short term if the particular service is contracted out. The key to this comparison will be the "cost elimination plan" provided in Guideline VII.
 - b. Transitional costs and/or savings (i e., potential gains or losses from the disposal of any capital assets, employee impact costs).
 - c. The costs of contract monitoring and oversight. Where these costs are different for "in-house" proposals and private bidders or as between different private bidders, the City should provide full justification and rationale for any such differences
2. Applying these factors in particular instances may have the same effect as an adjustment in the "bid price," either up or down. The goal of such comparison is to ensure that the various proposals and bids are evaluated on a "level playing field," regardless of the cost basis used in their preparation and to ensure that the ultimate total costs to the City of providing a service is as low as possible, consistent with the quality and service level standards specified in the approved RFP.

Guideline VII - Employee Impact Statement

- A. Consistent with the goals for services contracting established by the City Council, efforts should be made to minimize the impact on current City employees affected by decisions to contract out services.
- B. After receipt of the bids, the City Manager shall prepare and submit as a part of the evaluation package a personnel impact statement, setting forth for each prospective bid the cost of any personnel severance programs associated with the acceptance of such bid, the potential for absorption of displaced employees by other City

Guidelines For Services Contracting

agencies, and any other plans for dealing with displaced employees, including the cost of any such plans.

- C. "In-house" bids shall include a statement setting forth the number, grade and pay ranges of current employees assigned to the service which is being put for bid and the number, grades and pay ranges of employees who will be needed for performance of the contract if awarded "in-house".
- D. Private sector bids should include a statement of the anticipated needs, if any, of the bidder for additional personnel if selected as the service provider and may include, at the election of the bidder, a proposal for providing qualified "in-house" employees access to future jobs that may be available in connection with the services to be provided.

Guideline VIII - Cost Elimination Plan

- A. In the event the City enters into a contract with a private contractor to provide a service previously provided by the City, the City Manager shall develop and implement a "cost elimination plan" to eliminate the avoidable costs related to that service during the first annual budget period of the contract.
- B. The "cost elimination plan" shall be based on the concept of variable, semi-variable and fixed costs. This concept recognizes that certain semi-variable costs, which cannot be eliminated due to the privatization of a single service, will become available in stages when more services are privatized. Whenever practical the "cost elimination plan" should provide an analysis of the next level of semi-variable costs which can be reduced or eliminated and the applicable phase-out period, if specific additional services or combinations thereof are contracted out to the private sector.

Guideline IX - Contract Monitoring

- A. Monitoring is the process of overseeing performance after a contract has been signed to ensure that cost and service specifications are met. Monitoring procedures should address the general requirements for post-award assessments of all contracts and should also address the unique requirements for City-awarded contracts.

Guidelines For Services Contracting

- B. The KBE for the contracted services is ultimately responsible for monitoring the contracts for cost compliance and service delivery. The Business Support Services PCAC Contracts Administrator serves as the central source for the collection and reporting of monitoring data. In addition, effective independent auditing of monitoring activities and verification of compliance with policies and procedures should be part of the internal control system to ensure that the processes put into place are working as intended.
- C. There are additional monitoring considerations when the City is the successful bidder. To encourage competition, the city should be accountable both to the taxpayers and to the non-successful bidders for evidence of compliance with proposed costs and service delivery. This evidence should include an audit (independent of the bidding team) to ensure that cost overruns are not passed on inadvertently to other City departments.
- D. The best way to monitor contracts is to set explicit and quantifiable performance standards in the contract and then clearly state what the city will require of the contractor to ensure that those standards have been met. All contracts should include a mechanism for evaluating the contractor's performance as defined in the RFP. For some contracts, recording satisfactory completion within the time and cost constraints will satisfy the monitoring requirement. Larger multiyear contracts with complex specifications and performance criteria will demand more extensive monitoring procedures.
- E. Monitoring requirements should include some form of contractor-prepared statements of progress, which provides information on work completed and information relative to performance standards. These statements of progress should identify problems encountered and any contractual adjustments believed necessary. The size and complexity of the contract will determine the frequency of reporting but the reports should be verified (audited) for accuracy.
- F. The feasibility of on-site inspections will depend on the contract and on the type of monitoring conducted. Inspection results should be reported comparing the observation and accomplishment of work to prescribed specifications. The contractor should be informed of the nature of these inspections and a standard rating or scorecard should be used to record findings.
- G. The method for obtaining feedback from citizens, user departments, or service recipients should be identified in the contract monitoring requirements.

Guidelines For Services Contracting

- H. The PCAC member(s) assigned to a proposal evaluation team (contracts over \$500,000) should receive monitoring reports of the awarded contract.
- I. The full PCAC should be provided an Annual Summary Report on contracts awarded in accordance with these guidelines that will have an annual value over \$100,000.
- J. The information in the Annual Summary Report on City-awarded Contracts should include:
 - 1) Summary of comparisons of current contract performance requirements with work completed to date.
 - 2) A forecast of future contract performance requirements and expected work completion.
 - 3) Expenditures to date and any variances between budget and actual
 - 4) A narrative description of any problems encountered
 - 5) Any contract adjustments considered necessary,
 - 6) Summary findings of any independent audits performed.

City of Charlotte

Employee Placement Policy

Adopted by:

City Council

August 22, 1994

and

Expanded Placement Guidelines

Effective:

June 1995

CITY OF CHARLOTTE

EMPLOYEE PLACEMENT POLICY

Policy

Through strategic business planning, the City of Charlotte can meet the demands of a competitive market and provide safety, health and quality of life to the citizens. It is the goal of the City of Charlotte to deliver quality public services to the community through the empowerment of skilled, motivated employees who are sensitive to the day to day needs of the citizens. It is the goal of this organization to retain employees with good job performance.

It is management's responsibility to anticipate and plan for changes in order to motivate and retain productive, contributing employees. In situations when employees' positions are eliminated, every effort will be made to place employees who meet performance expectations and wish to continue in City employment.

Employee Performance Expectations

Employees of the City of Charlotte are entrusted with the responsibility of providing quality services to the citizens of Charlotte. Employees will be held accountable for producing quality work and for exhibiting the highest commitment to honesty, integrity and customer service. The level of performance exhibited by employees will be one of the major factors considered when retention decisions are made in the organization.

Employee Performance and Placement Criteria

When Key Business Executives must make decisions regarding reductions of the workforce, performance, attendance and employee's knowledge, skills, and abilities will be used as criteria in determining the placement of employees as follows:

1. Employees whose present performance is "Good Performance Which Meets and Periodically Exceeds Requirements" or "Consistently Far Exceeds Requirements" will be given placement priority. Employees whose present performance is "Meets Basic Requirements" will be given lower priority for placement.
2. An employee whose performance is "Meets Basic Requirements" may be displaced by an employee with a higher performance rating.
3. An employee who does not meet the performance or attendance standards of the organization should be considered for displacement.
4. An employee who meets the performance and attendance expectations of the City of Charlotte and whose position is eliminated should recognize that training or retraining may be required for successful job placement. This may mean some training time outside of normal working hours. However, every effort will be made to allow for training during an employee's normal work hours.
5. The level and diversity of knowledge, skills and abilities of the employees in the Key Business Unit should be considered when evaluating employees for retention. Retainment consideration should be given to the employees in the Key Business Unit who possess the qualifications that are necessary to deliver existing and future programs.

Procedures

1. Key Business Executives who have to reduce their workforce will submit a plan for reductions to the City Manager. The Human Resources Department will be available to work with the key business upon request in developing the reduction plan.
2. The plan should include the names, positions and performance ratings of the employees to be placed. The plan should include internal placement options for the affected employee.
3. Once the key business' plan is approved by the Manager, the Key Business Executive will meet personally with each displaced employee. The Key Business Executive should give the employees as much information as possible to help them to understand how they were identified as the displaced employee.
4. The Key Business Executive should notify Human Resources once the plan is approved by the Manager and provide the names and disposition of the employees who are affected.
5. Human Resources will begin to identify possible placements outside of the employees' Key Business Unit for the employees who are to be placed.
6. Human Resources will meet with the employees as soon as possible following the employees' meeting with the Key Business Executive and advise them of possible placement options.
7. Every effort will be made to place employees who have good performance. However, there will be no guarantee of placement for any employee.
8. Employees who are not placed in the organization will be laid off.
9. Affected employees will receive a severance allowance of one week of pay for each year of productive employment.
10. Employees will not receive a week of pay for any evaluation period that their performance level was below the City's performance expectations.
11. Placement decisions will not be grievable.

City Organization Commitments

1. Support an employee placement policy with practices that enable employees to perform their jobs and make contributions to the organization. These practices include planning for change, investing in training, emphasis on coaching, counseling and empowerment.
2. Assist displaced employees (due to service changes, competition, contracting or privatization) who meet the employee performance expectations to find an appropriate position, either with the same or another Key Business Unit.

EXPANDED PLACEMENT GUIDELINES

June 1995

Placement Guidelines Objective

These guidelines are provided to assist the key businesses with placement of employees whose jobs are to be eliminated. The purpose of these guidelines is to supplement the Employee Placement Policy, approved by City Council on August 22, 1994, in order to ensure that employees have every opportunity for continued employment with the City or, if necessary, are equipped to market themselves outside the City. The City's goal, however, continues to be to place employees within the City where possible.

These guidelines should be referred to when the key business unit is considering the elimination of filled positions due to competition/privatization decisions, restructuring, changes in technology and/or funding reductions.

GUIDELINES

1. Prepare a placement plan, include the applicable items below in the plan:

- a. List the names and job titles of the employees to be affected. This decision should be based on job related criteria, i. e., performance, attendance and specialized skills and abilities that are of value to the key business. The placement plan should include the process used to determine which employees are to be displaced.
- b. Develop a timetable for the completion of the employee placement or layoff, if necessary, taking into account the earliest date that an employee could be transferred to another department and the earliest date that the employee may be laid off. Also indicate the date by which employees must be placed.
- c. List planned or possible placement opportunities for the employees within the key business unit, including training needs for specific employees in order for them to be placed in other positions.
- d. If no placement opportunity is available within the KBU, list available positions and key business units that may have opportunities for specific employees based on their total work experience. Key Business Executives are encouraged to work with each other to expedite placement of employees in other KBU's. This may include circulating the names employees needing placement, their job titles and any other relevant information.
- e. If the KBU is not recommending that the employee be placed in the KBU or in another KBU, the plan should provide a recommendation for further action and the basis for this decision.

- f. If outplacement services are recommended, make suggestions for the type of services that may be needed.
 - g. Prior to implementation, a placement plan must be developed and approved by the City Manager. Plans submitted to the City Manager for approval should be first forwarded to Human Resources for comment. Human Resources is available to work with KBUs in developing placement plans.
 - h. Upon approval by the City Manager, the KBE should inform Human Resources and provide HRD with a copy of the approved plan.
2. After approval of the placement plan, schedule an initial meeting with the affected employee(s). (It is important that affected employees are informed early in the process to avoid hearing the news from sources other than the KBE or their supervisor. The information communicated to employees at the initial meeting may not be finalized at the time; however, it will be less stressful for the affected employees if a definitive plan can be shared with employees during the initial conversation.) Human Resources is available to participate in this meeting if requested.
 3. After the initial meeting in the key business, Human Resource staff will be available to meet with employees, in groups or individually, to assist and advise them with finding job placement opportunities.
 4. Human Resources will work with each employee who has been notified that their job will be eliminated and will assist the employee in every way possible to obtain other employment with the City; however, placement efforts may be discontinued if an employee receives a reasonable job offer for a City position which appears to meet the major job considerations of the employee.
 5. Vacant positions will not be frozen pending placement of affected employees; however, Key Businesses are to give affected employees first consideration for vacant positions for which they qualify. Human Resources may ask KBU's to provide justification for not placing a qualified affected employee in a vacant position.
 6. It may not be possible to place all affected employees in City positions and it is anticipated that some employees may be laid off. Key Business Executives have the flexibility of determining the point at which the organization would be best served by processing the appropriate paperwork to pay severance and terminate the employee.

Options for Internal Placement of Employees

1. The hiring department may accept an employee on a trial basis. If the employee is unsuccessful during the trial period, further placement efforts on behalf of the employee will be made. The time allotted for trial period should be negotiated between the two departments and agreed on prior to the employee beginning the trial period, typically no more than 90 days.

2. The employee's department may continue to pay the employee's salary during some portion of the trial period, typically, no more than 30 days.
3. If intensive on-the-job training is indicated, the hiring key business could work with the employee(s) to develop a specific training plan that details the responsibilities of both the department and employee.
4. If standard on-the-job training may not be sufficient, the KBU can request the Training Team to provide assistance in developing a training plan for specific employees.
5. There are many options for determining the appropriate salary of the placed employee. Factors to consider when determining salary include the market value of the new job; the employee's current salary, experience and City service; and internal equity. The Human Resources department staff is available to work with departments to assist in making salary decisions.

RESPONSIBILITIES OF KEY BUSINESS WITH EMPLOYEES TO BE PLACED

The responsibilities listed below are to guide key businesses, Human Resources and affected employees through the successful transition of changing jobs, whether the new position is with the same KBU, in another City department or with another governmental agency or a private company.

1. The key business executive should conduct an initial meeting with the employees to inform them of the decision to eliminate their positions.
2. Provide the employee with as much relevant information as possible during the first meeting and throughout the transition process.
3. Be open and honest with employees; allow for a good exchange of questions and answers.
4. Work with each employee who needs placement to develop a personal plan of action and complete the Employee Profile form.
5. Be supportive and sensitive to employees. Assist employees with handling their anxiety and frustration at being told that they no longer have a position.
6. Assist employees with improving their job search skills, allowing them time during work hours for job interviews, training opportunities and other assistance such as the services of the Employee Assistance Program.

RESPONSIBILITIES OF THE HIRING KEY BUSINESS UNIT

1. Be open minded when interviewing employees needing to be placed. Unless there are compelling reasons to the contrary, hire equally qualified displaced employees over employees from other City departments or from the outside.
2. Consider the attributes and various experiences that the employee could bring to the new job and how they could benefit the KBU.
3. Provide the employee with complete information about the available position.
4. Provide HR with useful feedback when employees are not selected.
5. If hired, provide the employee with a comprehensive orientation session to ensure that the employee is knowledgeable of the unit's rules, objectives and ways of doing business.
6. Provide the employee with thorough on-the-job or other training to ensure that they are familiar with all aspects and expectations of their new job. Request assistance of the Training Team if needed.
7. Take constructive steps to make the employee successful.
8. Provide periodic feedback to new employees during the transition/learning period.

RESPONSIBILITIES OF THE HUMAN RESOURCES DEPARTMENT

1. Assume the role as advocate for the affected employees through working individually with affected employees to assess their skills and career goals, inform them of job opportunities and contact with City departments or other job sources which may have a possible placement opportunity.
2. Assist employees identifying opportunities for training, and provide guidance for improving job search/interviewing skills, and identifying outplacement opportunities.
3. Assist employees with preparation of a Personal Profile and/or resume.
4. Send Personal Profiles/resumes to departments with relevant vacancies and provide them with supplemental information about the employees. Provide feedback to employees about their placement progress.
5. If it is necessary for someone to be laid off, provide counselling on severance, insurance continuation, retirement options, unemployment benefits, etc.
6. Notify local businesses and governmental agencies, including Mecklenburg County, Charlotte-Mecklenburg Schools, the Coliseum Authority and private companies with similar jobs to make them aware of the layoff and possible contact by the employees.
7. Assist employees with information about outplacement sources.

RESPONSIBILITIES OF THE EMPLOYEES

1. Make every effort become aware of applicable vacancies, including the City vacancy sheet and job advertisement sources.
2. Be willing to be flexible, adapt to change, learn new skills and start at a lower level and work your way up.
3. Prepare for interviews, be on time for interview appointments, ask appropriate questions and present a positive image.
4. Research jobs outside the City, including reading job opportunity ads, making business contacts, visiting the Employment Security Commission office and employment agencies.
5. Reflect on your job related strengths and weaknesses, assess your current skills, determine if additional training is indicated and how you propose to get it.
6. If provided with an opportunity in another key business, prove you are a good learner, display a positive outlook, work towards being of value to your new organization, pay particular attention to your attendance, safety practices and the way they do business in the new department.
7. Continue to satisfactorily perform the duties of your present position until you leave the job without a loss of productivity or change in job performance.

COMPETITION

PRIVATIZATION/COMPETITION ADVISORY COMMITTEE

Approved November 22, 1993

Charge

1. The Committee shall monitor the progress of the City in implementing services contracting and asset management, recommend services and assets to be considered for competition and privatization, and will advise on ways to improve current contracted services with service delivery problems.

The Committee will prepare an annual report to City Council.

2. The Committee shall assist and advise the City on issues in implementing the goals and processes adopted by City Council of:

- services contracting
- asset management

This may include review of requests for proposal, cost comparison methodologies, bid processes, etc.

3. The Committee shall be an advisor to both the City Council and the City Manager on matters regarding privatization and competition, in general. They will review the existing legal system for contracting and may develop and recommend local legislation to modify such systems.
4. The Committee shall be a resource regarding concerns about the fairness of any bidding processes. As a result, they may be asked to review bid proceedings and hear grievances from parties involved.

Composition

Proposed Size: Nine members

Appointments: Committee Chairman and one member appointed by the Mayor. Other members appointed by City Council.

Terms: Two-year staggered terms, each member being limited to two consecutive terms.

Composition: The Mayor and City Council should appoint individuals who will maintain objectivity throughout implementation. Members must consider the interests of citizens, the business community and current City employees. The Committee should be comprised of individuals that will focus on internal (e.g., process, specifications, cost) as well as external (e.g., quality customer service, impact on City employees) issues.

The Committee should be comprised of individuals knowledgeable about management, accounting, human resources, marketing and customer service. Representative skills may include some or all of the following: work management and specifications, cost accounting, customer relations, performance measurement and analysis, employee relations, quality assurance, asset divestment, and procurement and bidding processes.

Note: On November 25, 1996 City Council voted to increase the size of the Committee from 9 to 11 members. One of the additional members is to be appointed by the Mayor and the other by City Council.

CITY OF CHARLOTTE INTERNAL AUDIT PLAN

Fiscal Year 2005

City of Charlotte

Internal Audit Charter

This Charter identifies the purpose, authority and responsibilities of the Internal Audit Division.

Purpose

Internal Auditing is an independent appraisal activity established to conduct reviews of the City's system of internal controls. Findings, recommendations and corrective actions are reported to Key Business Executives, the City Manager, and the City Council, as appropriate.

The primary objective of Internal Audit is to provide reasonable assurance that the City has an operating and effective system of internal controls. Such a system encompasses the City's accounting and financial, administrative, operational and computer controls throughout the various Key Business Units.

A secondary objective of Internal Audit is to assist members of management in evaluating the efficiency and effectiveness of operations. To this end, Internal Audit furnishes analyses, counsel and recommendations concerning those functions reviewed, promoting effective controls and efficient operations at a reasonable cost.

Authority

The Internal Audit function was established by the City Manager and the City Council, and operates administratively as a part of the City Manager's Office.

Audit reports are submitted to Key Business Executives and/or the City Manager. Audit recommendations that are not resolved at the KBE level will be raised to the City Manager's Office. Audit reports may require a timely response from the KBE directly to the City Manager.

The Internal Auditors shall perform their work in compliance with the City's objectives and policies, as well as the Code of Ethics and the Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors. The Audit Division also ascribes to Generally Accepted Government Auditing Standards ("GAGAS") as established by the U.S. General Accounting Office.

Audit personnel are granted full access to all of the City's activities, records, property and employees, as necessary to the performance of their audit activities. Auditors are strictly accountable for the safekeeping of records and property examined, and for maintaining the confidentiality of information obtained and reviewed during audits.

Internal Audit has no direct authority over activities that its personnel review. Internal Audit has no line responsibilities and its activities do not relieve managers or staff of any assignments.

Responsibilities

Internal Audit is responsible for conducting independent and objective appraisals of the City's system of internal controls, the efficiency of operations and the effectiveness with which these functions are managed. Auditing priorities are determined by the City Auditor in consultation with the City Manager's Office and with consideration of input from Key Business Executives, the City Council and the independent outside auditors. Specific responsibilities include:

- Develop and adopt a multi-year Strategic Audit Plan aligned with Citywide priorities and Key Business needs. Develop and adopt an Annual Audit Plan to implement the Strategic Audit Plan.
- Effectively communicate audit processes and results, including formal reports, to Key Businesses, the City Manager and City Council.
- Advise key business staff of opportunities where current operations, accounting processes or procedures can be improved upon prior to entering into competition for a particular service.
- Work as a member of the City team (Procurement Services, Contract Administration and Key Business staff) to develop specific internal guidelines/models for Requests for Proposals (RFPs), bid specifications and contract documents. Provide comments on draft RFPs and proposed contract monitoring procedures. Assist in pre-qualification of vendors.
- Review bids prepared by the City for verification of costs and proper cost allocation. On a sample basis, monitor major private sector and City contracts for compliance, including cost and gainsharing audits.
- Help Key Businesses ensure that appropriate controls are in place to guard against fraud, misappropriation of funds or other misuse of City assets. Audit specific controls and systems in Key Businesses periodically to ensure that procedures to guard against fraud or misappropriation are being followed. Investigate and report suspected or alleged improprieties. Provide evidence of any crimes to the proper law enforcement authorities.
- Assist in the acquisition and review of new information systems (hardware and software).
- Provide auditing assistance in areas determined by the City Manager to be a high priority.

(signed)

Gregory L. McDowell, City Auditor

(signed)

Pamela A. Syfert, City Manager

INTERNAL AUDIT PLAN

Fiscal Year 2005

Overview

The 2005 Audit Plan continues to focus upon existing commitments to complete audits related to the City's *managed competition* efforts. The Plan also details audits in progress, regularly scheduled audits and additional efforts under consideration for the coming year.

Managed Competition requires Internal Audit involvement with the following:

- a. Solicitation for proposals to ensure a level playing field;
- b. Accuracy of the City's proposed costs for delivering services;
- c. Financial reviews of proponents to help determine their ability to perform;
- d. Validating the City's actual costs, and any gainsharing; and
- e. Compliance with financial and non-financial aspects of service agreements.

In addition to agreements reached with City units through the managed competition efforts, the City has *optimized* certain services by extending lessons learned through competition to similar operating units. Those optimization agreements also require monitoring and verification of the City's costs before any applicable gainsharing is approved.

Competitions that are won by private enterprise also need to be monitored for compliance with financial and non-financial contract requirements. While the primary responsibility for this monitoring rests with the Key Business Unit, Internal Audit provides overall reviews and assistance, as determined necessary or as requested.

Overall, the active number of managed competition contracts has been decreasing. However, those in place have increased in size and complexity. In addition, active optimization agreements have increased in the area of Street Maintenance and with the extension of existing agreements within the Utilities KBU.

It is expected that the City Manager's Office and KBEs may make special requests for audits or other support. Some time will be available for such requests, while at other times it may be necessary to delay a scheduled audit to address a newly identified need.

Internal Audit Division Staffing

The Division consists of the Manager, four Senior Auditors and two Staff Auditors. In addition, part-time contractors provide assistance as needed. Beginning in FY05, an additional position will be funded by CATS so that Internal Audit can provide coverage of the long-term transit construction program. One position for a staff auditor remains frozen since 2001.

Brief Review of FY 2004

There are always a number of issues that arise to impact the completion of an annual audit plan. While the Plan attempts to anticipate the potential for unforeseen needs, it is not always possible to allocate sufficient time to address each issue. The following matters impacted the Audit Division's ability to complete the 2004 Plan:

- Staffing – one previously approved senior auditor position continued to be held open due to budget restraints.
- FEMA – related to the December 2002 ice storm, audit staff continued to coordinate support for the documentation requirements of this \$5.5 million storm response and clean-up effort. During FY 2003, over 1200 audit staff hours were needed, and \$3.7 million was reimbursed by FEMA and the state of North Carolina. During FY 2004, approximately 1400 audit staff hours were required to support the effort and prepare for FEMA's own audit of the City's documentation, now expected in FY 2005. An additional \$1.04 million was reimbursed in FY 2004.

The Audit Division set aside some time for each auditor to pursue professional certification. Six staff members sat for the Certified Internal Auditor designation in May. Four auditors completed the testing requirements while two made progress towards completion.

Audits in Progress at Fiscal Year-End 2004

Competition Related:

Solid Waste Services – Combined, 3 Districts, 6/30/04
Street Maintenance – Combined, All Districts, 12/31/03
McDowell Creek Wastewater Treatment Plant, 12/31/03
McAlpine Creek Wastewater Management Facility, 12/31/03
Sugar/Irwin Wastewater Treatment Facilities, 12/31/03

Other Audits and Reviews in Progress:

SWS Bid Process – Although audit staff has completed its review of the City's bid, Audit continues to provide support to the Evaluation Team and PCAC.

Accounts Payable – We completed a significant effort in January. Finance implemented some policy changes and auditors are following up a number of issues to track improvements and/or determine which departments are having the most difficulty submitting approved invoices in a timely manner.

Lift Stations Optimization – Utilities plans to revise its operational agreement with this contracting unit. Auditors are reviewing the draft agreement and budget.

Payroll Follow-up – An audit report was issued in August 2002. Regular follow-ups were planned. Testing is nearly complete and a report will be issued in early FY 05.

Purchasing – Auditors are concluding initial fieldwork for this citywide effort and will issue a report in FY 05.

Audits Planned for Fiscal Year 2005

Competition Contracts:

Our goal is to issue quarterly audit reports within three months of each period-end (quarterly, semi-annual or annual period). Several variables impact this goal. The audit process begins after the competition unit issues its Monitoring Report. Upon receipt (usually 4-8 weeks after quarter-end), the audit may take 4-8 weeks depending upon the quality of documentation and availability of the competition unit's staff to answer and resolve questions raised during the audit. Also, the first quarter of a new contract requires additional audit time, as audit staff becomes familiar with the new operations.

The following details the planned approach for each competition contract in the coming year:

Contract

Plans for FY 2005

Competition:

Solid Waste – Consolidated
Sugar-Irwin WWTFs

Complete 6/30/04, return to quarterly
Complete 12/31/03, return to quarterly

Optimized:

Street Maintenance – Citywide
McDowell Creek WWTP
McAlpine Creek WWMF
Lift Stations

Complete 12/31/03, then perform quarterly
Complete 12/31/03, continue semi-annual
Complete 12/31/03, continue semi-annual
Perform quarterly, beginning 9/30/04

Other Competition-related:

Internal Audit will support the competition plans of each Key Business Unit. According to KBU plans submitted to the City Manager in FY04, Utilities has begun planning for two water treatment plant competitions. We are not aware of, and have not budgeted for any additional planned competitions for FY05; however, we will support any plans that arise during the year.

List of Documents Reviewed

Bid Related Documents

Professional Services Agreement between the City of Charlotte and Browning Ferris Industries of South Atlantic, September 1, 1995

Request for Proposals South Zone Residential Solid Waste Collection Services RFP # 953153-05-26-A City of Charlotte April 26, 1995

Request for Proposals West Zone Residential Solid Waste Collection Services RFP City of Charlotte December 20, 1996

Memorandum of Understanding for Residential Containerized Solid Waste, Recyclables, Yard Waste and Bulky Trash Collection Service in the West Quarter. December 17, 1997

Request for Proposals East Zone Residential Solid Waste Collection Services RFP # 99.036-02-25 City of Charlotte December 15, 1998

Request for Qualifications and Request for Proposals North Zone Residential Solid Waste Collection Services RFP # 00.003-09-27 City of Charlotte July 7, 1999

Memorandum of Understanding for Residential Containerized Solid Waste, Recyclables, Yard Waste and Bulky Trash Collection Service in the East Quarter. June 30, 1999

Memorandum of Understanding for Residential Containerized Solid Waste, Recyclables, Yard Waste and Bulky Trash Collection Service in the North District. January 31, 2000

Request for Qualifications and Request for Proposals South Zone Residential Solid Waste Collection Services RFP # 2000-382.04-18 City of Charlotte January 19, 2000

Memorandum of Understanding for Residential Containerized Solid Waste, Recyclables, Yard Waste and Bulky Trash Collection Service in the South District. December 3, 2001

Request for Proposals West Zone Residential Solid Waste Collection Services RFP # 2002-187 City of Charlotte April 26, 2002

Professional Services Agreement between the City of Charlotte and Inland Service Corporation, October 30, 2002

Request for Proposals East Zone Residential Solid Waste Collection Services RFP # 2004-055-A City of Charlotte March 1, 2004

Citywide and General Competition Documents

Five-Year Competition Plans (1995/2000 – 2005/2010)

Privatization/Competition Policy

History of Managed Competition Program

Key Dates – Managed Competition
City of Charlotte Managed Competition Overview
FY2004 Focus Area Plan
CY 2004 City Council Priorities
City of Charlotte Cost Allocation Plan Fiscal Year 2003
City of Charlotte Cost Allocation Plan Fiscal Year 2004
Guidelines for Services Contracting

- o Level Playing Field
- o Organizing for Contracting
- o Content of Request for Proposals
- o Development of Request for Proposals
- o Proposal Review
- o Costing Methodology
- o Employee Impact Statement
- o Cost Elimination Plan
- o Contract Monitoring
- o Services Contracting Guidelines Matrix

Departmental Guide to Privatization and Competition
Gainsharing Policy
Employee Placement Policy
Procedure for Cure
City Code of Ethics

Solid Waste Services Documents

Solid Waste Services Strategic Operating Plan Fiscal Year 2004
Solid Waste Competition Activity Reports (FY2000-FY2004)
Solid Waste PCAC Sub-Committee Notes (FY2000-FY2004)
Solid Waste Monitoring Reports (FY2000-FY2004)

Internal Audit Documents

FY2005 Internal Audit Plan
Internal Audit Charter
Internal Audit Reports (monthly) (FY2000-FY2004)
City of Charlotte Year-end Competition Reports, Internal Audit (1997-2004)

PCAC Documents

PCAC Monthly meeting Summaries (FY1994-FY2005 year to date)
PCAC Monthly meeting Agendas (FY1994-FY2005 year to date)
Memoranda from City Manager to PCAC

- 4-24-97
- 7-10-98
- 9-28-00
- 9-13-01

11-13-03
PCAC Reports to City Council
2-25-02
1-12-00
3-21-01
2-18-02
5-27-03
PCAC Recommendation to Council “New Financial Model” 11-09-00
PCAC charge
Committee Code of Ethics (applies to PCAC)

Other

Internal working files on competition projects, costing methodology, optimization, and monitoring results in Solid Waste Services and Utilities were reviewed that included the following:

18 Internal staff presentations
24 Internal memos and correspondence
21 General files (including notes and miscellaneous program documents)

List of Interviewees by Position Title

1. City Manager
2. Assistant City Manager (responsible for competition program/executive staff liaison to Privatization/Competition Advisory Committee)
3. Utilities - Key Business Executive – (involved in multiple competitions and executive staff liaison to Privatization/Competition Advisory Committee)
4. Utilities Resource Analyst
5. Utilities Wastewater Treatment Plant Supervisor
6. Utilities Wastewater Treatment Plant Supervisor
7. Utilities Wastewater Treatment Plant Operator
8. Utilities Safety Coordinator
9. Utilities Residuals Coordinator
10. Solid Waste Services Key Business Executive
11. Solid Waste Services Contract Monitor
12. Solid Waste Services Field Supervisor
13. Solid Waste Services Field Supervisor
14. Solid Waste Services Administrative Officer
15. Internal Audit Manager
16. Former Business Manager (1996-2002)
17. Current Privatization/Competition Advisory Committee Chairman
18. Current Privatization/Competition Advisory Committee member
19. Current Privatization/Competition Advisory Committee member
20. Current Privatization/Competition Advisory Committee member (member of PCAC sub-committee for Solid Waste Services)
21. Former Privatization/Competition Advisory Committee member (chairman of the PCAC sub-committee for Utilities, and member of PCAC subcommittee for Solid Waste Services) Term expired February 2005
22. Former City Council Member (served 1999-2001)
23. Former City Council Member (served 2001-2003)
24. Current City Council member and Past Privatization/Competition Advisory Committee member and chairman of the sub-committee on monitoring
25. Current City Council Member and member of Restructuring Government sub-Committee
26. Current City Council member
27. Current City Council Member and Current Mayor Pro-Tem (served since 1993)
28. Current City Competition Program Manager
29. Former City Competition Program Manager (1995-2000)

Summaries for each of the four study areas as well as background areas concerning the implementation of managed competition and the role of the public administrator are provided. Interview responses are summarized and grouped into one statement in cases where multiple responses were similar enough in content to categorize. The results are listed by study area, question, and type of respondent.

Summary of Interview Responses

STUDY AREA: DEMOCRATIC GOVERNANCE

1. How have efforts to involve stakeholders / citizens changed as a result of implementing managed competition?
2. Who are the stakeholders?
3. How do you believe managed competition is understood by stakeholders?
4. Do stakeholders have more or less voice in service delivery as a result of implementing managed competition?
5. Have new stakeholders been brought to the table since the inception of managed competition?
6. Based on your experiences, have other changes in the way the City relates to the citizenry occurred during the same time period as managed competition?

Question	Summary of Staff Findings	Summary of PCAC Findings	Summary of Elected Official Findings
1 - yes or no/nature of change	no change • no real change • citizens are not engaged unless there is a problem with service delivery • citizens are generally not interested in process - only outcomes, they don't see connections (lower taxes due to savings) • main voice is the PCAC • PCAC is primary change of citizen involvement • increasing change is internal processes and culture • minimal change • public may be aware but unless the City fails, it is boring and of little interest • public is not aware • no public input • no citizen input except for personal service delivery issues • overall involvement is little before and after • employees as stakeholders are more involved • media does not discuss the program • field employees interaction has changed • contract guides interaction • approach to public is different business vs. public mindset	minimal change yet more information is available to stakeholders • PCAC as a representative of citizen stakeholders are always searching for best way to fill role • change is PCAC • taxpayers not aware of program • awareness of program is limited	more formalized information can be shared • interest levels vary • it is easier to involve them because of increased information and efficiency • not enough sharing about the program • taxpayers generally not aware • involvement is limited • interest is in the results produced
2 - key stakeholders	customers • citizens • public • citizens of Charlotte/the community • employees • Council and their constituents • tax payers	Council • the citizens • taxpayers of the City of Charlotte • customer • community • public	my constituents • public • citizens of Charlotte • taxpayers

Question	Summary of Staff Findings	Summary of PCAC Findings	Summary of Elected Official Findings
3 - level of understanding	more credibility if operate more business-like • very little interest and understanding of process • only focus is results and costs • none • little understanding, • media has no interest at all • employees don't understand if not involved • need more communication • it is seen as a threat • seen as politically motivated in early years • not much understanding • not publicized even by Council • other cities interested and want to understand • understanding is limited • understanding is on ends result of savings	medium level of understanding • understanding is of impact on their wallets • general public not involved • only citizens involved in government are aware • understanding is by those involved • unless it becomes hot politically, the public is not aware and doesn't understand the process	minimal understanding • do not see or need details, just benefits • some understand more than others • limited understanding beyond those directly involved
4 - more or less voice	same voice • no change • some employees have more voice if involved in a competition project • some involved groups may have more voice (impacted employees) but influence of that voice is unclear • focus is on following policy • education of City helps voice and criticism over time • improved through PCAC relationship • PCAC is citizen's committee	voice may be same but available information on results is greater • PCAC gives more voice that was absent before • satisfying as a taxpayer to have a role representing the public voice • PCAC represents the public	more voice through PCAC input • program gets cost issues on the table for review • same voice, more information
5 - yes or no, If yes, who	no • yes, PCAC • employees in competition areas are more involved	yes, PCAC • yes, citizens thru PCAC • no direct increase in voice	yes, PCAC • yes • PCAC and interested groups (Citizens for Effective Government - early on in program)
6 - other changes	none • no significant or notable changes • no change relative to citizenry • changes only in service delivery - now only doing what is in the contract - public service ethic is gone as far as pleasing the public versus contract specs • some employees are focused on acting like private sector - earning gainsharing and not public service • indirectly influences citizenry relations by making us contractors • changes are internal, not external to citizenry • increased monitoring provides information to citizens on performance in the State of the City Annual Report	impact is greatest internally in operations and the way business is conducted (streamlined and focused on best service lowest cost) • none	we can share more with constituents about performance due to program • increased communication on results and outcomes is made possible • more data on costs and productivity • more information on cost of service delivery

Conclusion: Limited Citizen Participation

Summary of Interview Responses

STUDY AREA: POLITICS ADMINISTRATION DICHOTOMY

1. How do you believe managed competition is understood by Council?
2. Based on your experiences, what is the impact of managed competition on the Council: policy-making and oversight?
3. Are there particular Council decisions concerning managed competition that you believe are noteworthy?

Question	Summary of Staff Findings	Summary of PCAC Findings	Summary of Elected Official Findings
1 - level of understanding	better than it used to be • learning curve for new members • turnover poses issues • timing impacts new members ability to learn due to other hot issues • higher when high profile projects are under review • understood yet no longer a strong attention getter • understand somewhat • some are more interested than others • understand their policy not the details of implementation • focused on policy and results not process • declining political interest • focus on results	PCAC exists to monitor details and explain to Council as needed • understanding of process increases with time served • staff has difficult role and we are closer than Council • more by those involved • due to busy schedules, they rely on us for details and oversight • as needed	Restructuring Government Council Subcommittee understands best • understand well • policy is clear with process facilitated by our appointed Committee • PCAC helps with full Council understanding
2 - degree of impact	impact significant • oversight delegated to Committee • Council consider's other issues in light of competition such as not having to raise property taxes • impact on employees reporting • oversight has increased • perceived as lack of trust • focus on results • impact is more formal now than before • in Council and Committee oversight • creation of monitoring function • more reporting and evaluating of outcomes • policy impact in inability to change fixed policy despite evolution in specific service areas • requires more reporting and thinking of new ways to be competitive •	impact is in the change in the way the City conducts business – more like a business with empowered staff that can help guide the policy • policy-making is all done in context of best service lowest cost • reporting has grown and all benefit from it • knowing the cost of service delivery • better run City • more efficient operations	• impact is in the increase in available information for evaluating our performance and in being cost effective • holding people accountable for results • policy impact is a positive one, we are making better decisions that staff can implement • best service lowest cost mindset • knowing and controlling costs • ability to use savings for other areas • establishment of credible PCAC helps us with oversight
3 - noteworthy decisions	privatization of first quadrant of residential garbage collection (City not allowed to bid) • adoption of formal guidelines for competition • establishment of the PCAC for oversight • adoption of a formal competition policy • adoption of gainsharing program	establishment of PCAC for monitoring • shared program implementation and monitoring between committee and City Manager • privatization of first quadrant of residential garbage collection (City not allowed to bid) • adoption of gainsharing program	adoption of formal guidelines for competition • monitoring program that includes the procedure for cure • privatization of first quadrant of residential garbage collection (City not allowed to bid) •
Conclusions:	Firm Separation	Blending	Firm Separation

Summary of Interview Responses

STUDY AREA: INTERNAL PROCESSES AND PERFORMANCE

1. How is the success of managed competition evaluated in Charlotte?
2. Specifically, for managed competition projects, how is service delivery performance measured?
3. Has the evaluation of service delivery performance changed since the inception of managed competition?
4. What criteria/techniques have been established to evaluate the success of managed competition?
5. How do you insure the success of these techniques?
6. Based on your experiences, what obstacles have you faced with these techniques and how have you dealt with them?
7. Have you decided to discontinue managed competition in certain areas and if so, why?

Question	Summary of Staff Findings	Summary of PCAC Findings	Summary of Elected Official Findings
1 - evaluation of success	Monetary • contract amounts and annual savings • customer service complaints and issues need more attention • cost is main focus • knowing the cost of a service and achieving the lowest cost • doing more with less, budgets remaining flat • are we getting competition from private sector and if so are we competitive and saving money • doing the work better, cheaper and faster • financial analysis of projects • cutting costs • monitoring program results	delivering a quality service for the lowest cost possible • financial, productivity and safety measures • whether gainsharing is earned • meeting performance specifications in the contract • cost of service • monitoring program ensures success	best service at lowest cost • providing efficient and effective services tested against private sector • containing costs • getting competition and finding lowest cost
2 - measurement methodology	spreadsheets and databases to track performance • Internal Audit monitors financial and productivity performance • shadow spreadsheets allow for tracking of costs (city financial system is ledger based not cost accounting) • contract administrators/monitors track cost and performance in detail and coordinate with Internal Audit • monitoring plan requires data be evaluated in detail • monthly monitoring reports are prepared and reviewed by audit staff who then reports to the PCAC, City Manager, and then to Council • KBUs are responsible for tracking • methodology is detailed in City guidelines • monitoring program • performance specifications	PCAC subcommittee for monitoring oversees process of detailed financial and productivity information • monitoring reports are developed monthly and validated by Internal Audit and reported to PCAC and Council • monitoring program • Internal Audit • detailed financial analysis	Restructuring Government Council subcommittee oversees PCAC who monitors details from KBUs • detailed financial analysis and Internal Audit involvement • PCAC • monitoring program • reports to Council from PCAC

Question	Summary of Staff Findings	Summary of PCAC Findings	Summary of Elected Official Findings
3 - nature of change, if any	more paperwork to track costs (financial system won't do it) which is time consuming but produces good information • Internal Audit spends a great deal of time on competition projects sometimes too much for the benefit gained (on small contracts) • comprehensive knowledge of price levels is a change that is positive • formal monitoring program is now established • we are bottom line driven now and have more paperwork which consumes resources • now doing detailed financial reviews necessary for implementing the gainsharing program • increased attention to detail in costs and tracking of data • change is in internal processes for monitoring all dollars unlike before when spending was not as much of a focus • tracking overhead	more detail, we know our costs and levels of productivity • truer performance measurement is possible as more detail is available • more cost and performance information • overhead process formalized	significant change in ability to know costs • make changes in operations as a result to run more like a business • we are measuring more things and know the fully loaded costs including overhead • more information for decision-making
4 - criteria/techniques	costing methodology and tracking requirements and overhead allocation criteria are published • criteria are in guidelines • criteria ranges from process steps to audit procedures developed as we went, now documented and adopted by Council in the competition guidelines • costing criteria apply across all KBUs and are overseen by Internal Audit and PCAC • criteria are in guidelines • part of monitoring program	criteria is spelled out in the competition guidelines • detailed criteria developed that includes all aspects of monitoring from monthly reporting to procedure for cure • monitoring program	adopted guidelines and policy stipulate the criteria • very technical criteria (spreadsheets and reports) are formally described in official city documents • formalized and official • documented and overseen by PCAC
5 - insurance of success	constant monitoring • insured by Internal Audit • monitoring report • PCAC subcommittees assigned to each KBU oversee specifics monitoring program • reporting structure to City Manager and Council • don't know that we really insure it • Internal Audit's responsibility • risk of losing gainsharing • reporting structures • should be satisfied and happy citizens	formal monitoring plan overseen by PCAC • empowerment of KBUs to run their businesses is first step then monitoring process provides the tool • monitoring program • Internal Audit • our role (PCAC) of oversight • use of consultants to verify information	PCAC • Restructuring Government Council subcommittee and Council oversees performance to insure compliance thorough PCAC • monitoring plan directs insurance of success and procedure for cure insures it • meeting the bids

Question	Summary of Staff Findings	Summary of PCAC Findings	Summary of Elected Official Findings
6 - obstacles, if any	limited time and resources to devote to monitoring • learning curve for new employees • time constraints • fear of potential job loss • time consuming monitoring • employee apathy • morale • lack of communication • internal conflict between work units competing and not competing • gainsharing program changes in employee attitudes positive and negative • overhead allocation process • fear of retribution • none	fear of change • lack of competition from private sector after several years of the program being in place • cost accounting system • overhead methodology • different perspectives among KBUs • none	taking the time to change the culture • limited resources to devote to conducting managed competitions while continuing regular business • fear of change • overhead costing issues
7 - discontinued projects	none • areas where there is no competition from private sector • optimizations have taken the place of some competition projects	Transportation and Utilities have optimized some areas (instead of competing) due to lessons learned • optimizations have taken the place of some competition projects	not aware of any • none
Conclusions	Overhead Methodology, Monitoring, and Gainsharing are significant areas of impact		

Summary of Interview Responses

STUDY AREA: DECISION MAKING AND VALUES

1. Describe the decision-making process you employ when deciding to subject a service to managed competition?
2. Do contradictory prescriptions concerning performance expectations exist? If so, how do you deal with them in your decision-making process?
3. In what ways does managed competition draw upon existing approaches and/or change decisions concerning methods of service delivery?
4. Based on your experience, how has decision-making concerning service delivery been impacted by managed competition?
5. Do competing guiding ideas and values exist and if so do they come to play in your decision-making process, and if so, how do you manage them?
6. Are there key values or leading principles that guide your decision-making processes related to managed competition? If so, can you describe them?

Question	Summary of Staff Findings	Summary of PCAC Findings	Summary of Elected Official Findings
1 - decision-making process	a multi-step process is required in the competition guidelines • each KBE evaluates the services and places items on the competition plan • prescribed by competition guidelines • each KBU develops a competition plan for review according to their individual business • employees are not involved • streamlined decisions due to structure • management makes the decisions • PCAC oversees the process and questions the competition plans submitted by the KBUs • prescribed by competition guidelines • competition plan is developed with comprehensive focus • based on nature of services and ability to get competitors	five-year competition plans are developed by each KBU • each KBU makes the decision which services to include initially then reviews by the City Manager and PCAC are conducted • starts with KBUs suggestions • competition plans reviewed with PCAC to determine appropriateness and comprehensiveness	prescribed by competition guidelines • according to guidelines, each KBU formulates a competition plan
2 - contradictory prescriptions	no • yes, the very highest level of customer service is expected, however, costs are expected to be the lowest possible • impact of decisions on gainsharing payouts • yes, empowerment for performance results is discussed yet often in the field, staff is still treated as public sector employees burdened with red tape • yes, conflicting messages sometimes get sent due to the nature of business approaches being applied to public service • public service ethic over shadowed • can adopt practices but not profit motive	no • yes, often it is difficult for staff to act like a private business when they are a public entity with everything being open to review • government can only go so far in being business like • can adopt practices yet fearful of risk taking	no • yes, must be business like to be efficient yet can't ignore the human beings and quality of life issues • yes, costing like a business is not possible

Question	Summary of Staff Findings	Summary of PCAC Findings	Summary of Elected Official Findings
3 - existing approaches/ change decisions	no • yes, we focus more on teamwork and outcomes of service delivery decisions in the field versus just pleasing the customer • yes, the consideration of time is more important now as to improve productivity • yes, employees are concerned about the impact of decisions on gainsharing payouts • yes, the culture for decision making is different, think more in terms of contract specs for customer service decisions • yes, decision making is more common now at lower levels in the organization • more thought given to spending • urgency is reduced when spending money • concern for citizen should be greater in light of contract specifications	yes, staff considers all decisions in competition areas in terms of how it impacts performance and gainsharing • yes, more thought is given in decisions as to consequences • not aware of this	yes, cost is more of a consideration in service delivery • service delivery is now in a business context, cognizant of balancing cost and quality issue • not aware of this
4 - service delivery decisions	impact is on internal processes and how we work together • decisions must balance cost and service quality • impact is on productivity, it is more of a focus now • decisions are cost based decisions are considered in terms of what would the PCAC think • less consideration of impact on customer service in decision making • decisions are now made based on the contract or MOU • managed competition has empowered field employees to make decisions • decisions based on cost • PCAC gives input	more comprehensive information is available to management in their decision making • decisions are considered for the precedents they may set for the entire organization • made in context of contract • cost is a driver	decisions are made in terms of ensuring efficiency and effectiveness • cost is a consideration more now • not aware of this

Question	Summary of Staff Findings	Summary of PCAC Findings	Summary of Elected Official Findings
5 - guiding values	yes, quality and productivity sometimes clash, balance is gained by trial and error • yes, sometimes you sacrifice quality in the effort to be efficient or productive, balance is difficult and common sense is best approach to each specific situation • yes, there is a hierarchy of values for each situation, you work through each accordingly • yes, balancing the employee perspective with the manager's, PCAC member's and politician's perspectives is the hardest • yes, it is hard to be open and share information when you are under competition and the stress of possible loss is heavy • accountability is guiding value • focus on basic values is lessened (such as equity and responsiveness) • service delivery quality not as much of focus or guide for actions • cost is a main guide • none	ensuring a level playing field while keeping the process fair and focused on the lowest cost (without artificially inflating bids for leveling the field) is a balancing act • balancing being considerate of the position staff is in with the goals of the program is important • responsibility to the taxpayers guides actions • efficient and effective operations	n/a • accountability is increased and outweighs any other value • cost containment is a concern • balancing all needs and values depending on the situation is key
6 - key values/leading principles	yes, teamwork makes the results possible, also honesty is important • yes, productivity is important so that contract specs are met and gainsharing is earned • yes, the city focuses more on productivity first and quality second • yes, quality and excellence in service delivery should be our first goal to the customer • yes, the public service ethic • yes, the value of integrity • yes, personal development keeps the employees moral up in the stressful environment of competition • responsiveness to the citizens should be first priority • cost is now a value • efficiency and effectiveness • no, they are all important	yes, accountability, productivity, and teamwork • yes, accountability and quality service delivery • all are vital to success • all are important	yes, accountability, quality, and productivity • yes, accountability is most important • all are important • balance is important
Conclusions: Decision-making is primarily framed in economic context, balancing service quality concerns and cost is an issue, accountability is main value of focus			

1. Please evaluate each of the following statements (taken from the City of Charlotte's core values) in terms of its importance to you in your decision-making process concerning service delivery?
Please rank each statement on a scale of 1 to 10 with 10 being very important and 1 being least important.

_____The standards of **excellence**, which we apply to our service, make a direct and powerful difference in the **quality** of our jobs and the quality of life in our community.

_____As a public enterprise, we are **accountable** to our fellow citizens for the dollars we spend and the quality of service we render.

_____We are a business. Our success - the vitality and prosperity of our city – depends on our **productivity**.

_____Our business serves a diversity of needs and must respond to a multitude of expectations -- our own as well as that of our customers. We can do this successfully and creatively by **working together** among ourselves and with the public.

_____No one has a corner on ideas or solutions. To grow responsibly and effectively, we must be **open** to each other and our customers, the citizens.

_____As individual human beings, our potential for making a difference in our business is unlimited. By **developing our skills and abilities**, we enhance not only our job satisfaction but also the quality of service our city offers.

Ranking	10	9	8	7	6	5	4	3	2	1
quality and excellence	15	2	3	1	1	5	2	0	0	0
accountability	26	1	0	2	0	0	0	0	0	0
productivity	24	0	3	2	0	0	0	0	0	0
teamwork	7	3	3	1	2	4	2	0	0	0
openness	8	1	0	2	3	5	4	1	0	0
personal development	13	3	1	3	5	4	0	0	0	0
TOTAL	93	10	10	11	11	15	8	1	0	0

Note: Not all respondents chose to rank teamwork and openness

Summary of Interview Responses

STUDY AREA: ACCOUNTABILITY

1. What does the term "accountability" mean to you?
2. To whom are you accountable?
3. For what are you accountable?
4. Has either of these changed since the inception of managed competition? If so, how?
5. See ranking of definitions and measures of accountability.
6. How has the use of these changed since the inception of managed competition?
7. See ranking of ways to ensure accountability.

Question	Summary of Staff Findings	Summary of PCAC Findings	Summary of Elected Official Findings
1 - define accountability	meeting goals and performance standards • responsiveness • efficient and effective services • responsible for results • responsibility • meeting customer service and financial standards and taking blame if not best service • lowest cost • outcomes based evaluation • delivery of services to best of our ability	performance responsibility for all areas of the business • responsibility for actions • maintaining costs at acceptable levels • being held responsible for success or failure	accessible and responsive to citizens • taking responsibility for performance • being accountable for results • maintaining costs • effective operations that meet the needs of the citizens
2 - to whom	immediate supervisor • City Manger • Council • public • fellow employees • PCAC • KBE • customers • citizens	tax payers • Council • citizens • public	constituents • tax payers • public • citizens of Charlotte
3 - for what	Results • costs • performance standards • meeting contract specifications • quality customer service • reducing costs • completing the competition plans each year • informing the PCAC • performance standards • delivering service to the citizens • outcome measures	the overall competition program • competition goals • helping to ensure efficient operations • well run competition processes • helping the City save money	best service, lowest cost • efficient and effective government services • representing the taxpayers interests
4 - noted changes	more formal in reporting results for accountability • shift in focus to cost as accountability • we talk about accountability more • accountability has become a buzz word more awareness of the term and its intent • monitoring is intense • trust from PCAC is new • none	don't know • what the city is accountable for is easier to identify and monitor • appreciation for staff work gets internal attention • none	more emphasis on the importance of accountability • we can see now more clearly if action needs to be taken • more information available • emphasis on cost of services
5 - See ranking			
6 - changes in use	efficiency and effectiveness are focus • accountability more important • fairness seems less important • responsiveness is compromised due to contract specs versus public service ethic • none	do not know • emphasize costs and efficiency • accountability is more of a focus •	appropriate focus on costs is enhanced • accountability for performance increased • none
7 - See ranking		216	

Question	Summary of Staff Findings	Summary of PCAC Findings	Summary of Elected Official Findings
8 - changes in use	internal and external controls are focus • norms are not as important anymore • less attention to fairness • we do not discuss equity • accountability for cost has become focus • monitoring is new control • should focus more on responsiveness • PCAC is control mechanism for Council • PCAC oversight is a change • none	do not know • none • monitoring is a new formal control • committee is a tool for ensuring program accountability	increased monitoring adds emphasis on internal controls • self-awareness of costs has increased because of more attention • monitoring program • PCAC is now the main tool to ensure accountability • none
Conclusions: Accountability is based in economic context, PCAC plays a distinct role in ensuring accountability			

5. How is accountability defined and measured in the organization?

Please evaluate each item as you see it being used to define and measure accountability in the organization.

6. How is accountability ensured in the organization? Please evaluate each item as you see it being used to ensure accountability in the organization.

Rank each item on a scale of 1 to 10 with 10 being very important and 1 being least important:

5. Ranking	10	9	8	7	6	5	4	3	2	1
Equity	8	3	3	5	3	7	0	0	0	0
Fairness	7	3	4	5	6	4	0	0	0	0
Responsiveness	18	4	2	3	2	0	0	0	0	0
Economy	24	4	1	0	0	0	0	0	0	0
Efficiency	20	3	3	3	0	0	0	0	0	0
Effectiveness	18	8	0	3	0	0	0	0	0	0
TOTAL	95	25	13	19	11	11	0	0	0	0
6. Ranking	10	9	8	7	6	5	4	3	2	1
External Controls	17	2	4	2	1	1	1	1	0	0
Internal Controls	21	1	2	2	3	0	0	0	0	0
Professional Standards	8	3	4	7	0	3	1	3	0	0
Norms	9	2	2	3	5	4	3	1	0	0
Law	12	1	3	6	0	5	1	1	0	0
Rules and Regulations	11	4	3	4	1	4	1	0	0	0
TOTAL	78	13	18	24	10	17	7	6	0	0

Summary of Interview Responses

ROLE OF THE PUBLIC ADMINISTRATOR

1. Have you experienced any contradictions in trying to run city government like a business?
2. Based on your experience, do you think public administrators/managers can become entrepreneurs as prescribed by managed competition?
If they can, describe any issues you have witnessed or experienced that surround this process. Have you seen any negative consequences to the entrepreneurial aspect of managed competition for local government, for administrators, or overall governance through your experiences with managed competition?
3. How has your role / capacity as an administrator/manager/citizen participant been impacted or influenced by the introduction of market/business approaches to governance?
4. Has the way you delegate tasks been affected by managed competition? If so, how?

Question	Summary of Staff Findings	Summary of PCAC Findings
1 - contradictions	yes, we revert back to the concern for the customer which in some cases seems anti-business like • yes, business practices are easy to apply, beyond this, implementation is difficult • yes, we have to cut red tape to get things done • yes, costing methodology for overhead is limited by our systems • yes, MOUs only go so far, there are limits on what you can do in the field when you are a public entity • competition structure is rigid unlike business • line between politicians and staff makes it difficult • no	yes, it is more stressful to work for the city as everything is under the microscope and you have less latitude in options for service delivery • yes, financial system constrains options in reporting like a business • yes • adopting practices is possible yet government can only go so far • limitations exist on public sector that private sector does not have Elected Officials Findings - adoption of business practices is a positive for taxpayers • controlling costs, ensuring accountability, efficiency and effectiveness are positives • positives must be balanced with concern for quality of life and concern for employees • overhead allocations and costing mechanisms are different in business • legal requirements for municipalities often conflict with business approach • public sector must be exactly right in actions due to responsibility to citizens, this is not the case with private business
2 - level of entrepreneurs	limited • yes, gainsharing program examples • no • yes, solid waste services equipment example	limited

Question	Summary of Staff Findings	Summary of PCAC Findings
3 - role changes	decisions are based on competitions (Solid Waste Services • more time spent tracking costs and gathering performance data • planning and monitoring have turned role into business management in some ways • no change • Internal Audit role completely changed to focus majority of time on program • time spent on employee relations and communications has increased	n/a
4 - delegation	yes, due to time constraints, customer service work has been delegated • yes, resources are limited due to program reporting requirements, delegation of non-competition tasks • yes, delegation of non-competition tasks • no change • no frame of reference not here before competition	n/a

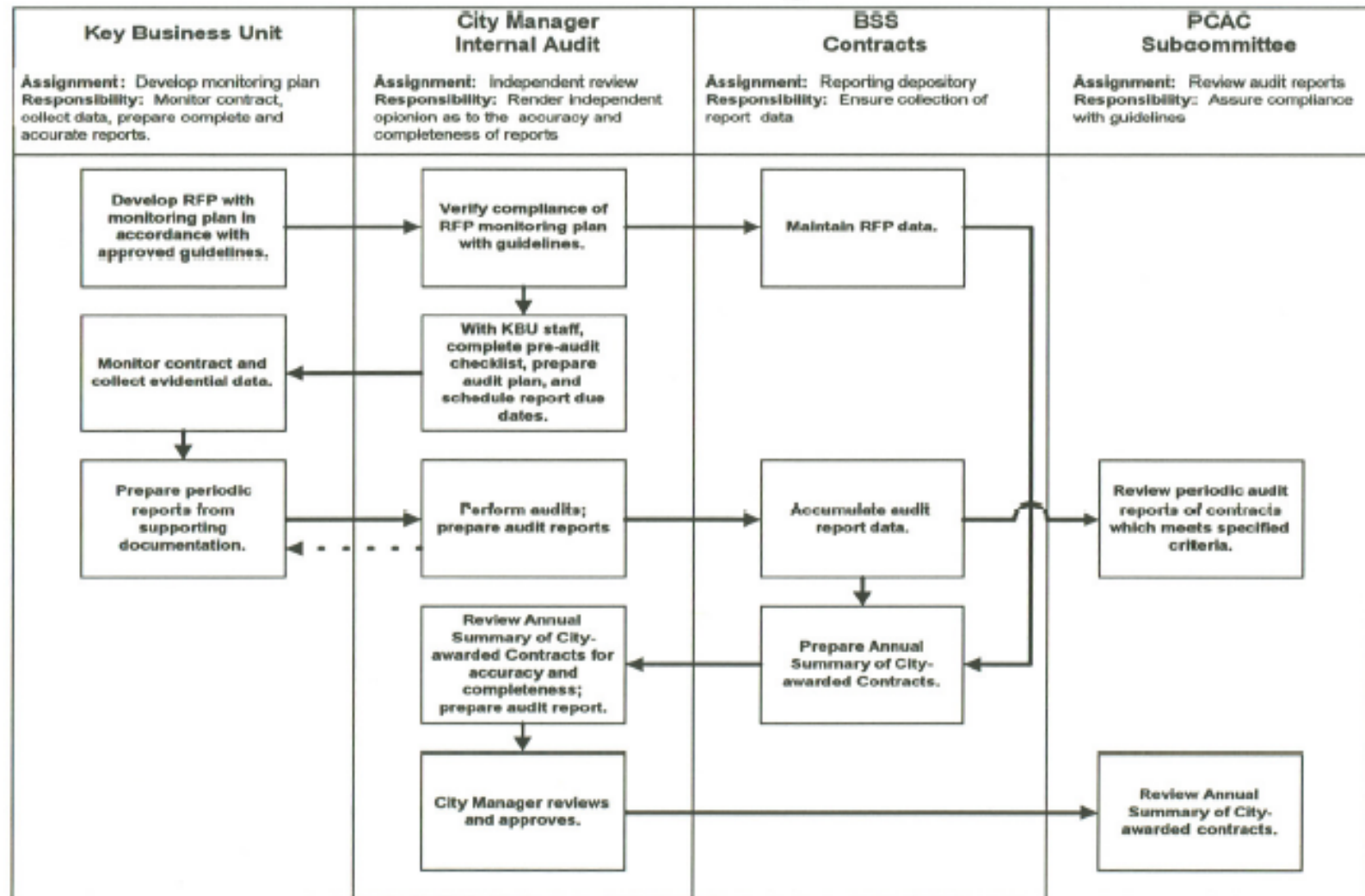
Summary of Interview Responses

BACKGROUND: IMPLEMENTATION

1. What is your understanding of the managed competition philosophy and program?
2. How do you believe managed competition is understood by city employees?
3. What factors contributed to Charlotte exploring and adopting managed competition as an option for service delivery and a city policy?
4. How did Charlotte study the feasibility of implementing a managed competition program? Who was involved in this process?

Question	Summary of Staff Findings	Summary of PCAC Findings	Summary of Elected Official Findings
1 - level of philosophy/program understanding	high • medium	high	high • medium
2 - level of employee understanding	high (those directly involved), low overall • low • medium level for majority	high (those directly involved) • low otherwise • medium level for majority	high (those directly involved)
3 - factors influencing program adoption	experience of other cities, political goals • political goals, save money • experience of other cities, political goals, and desire to drive down costs • private sector interest • anti-government sentiment • private sector interest and desire to keep taxes down • perceived poor management • political winds	desire to drive down costs • become more productive • desire to keep taxes down • best service, lowest cost • hot topic in mid 1990s • political climate	best service, lowest cost • need for additional resources and no tax increase (police officers) • private sector interest • experience of other cities • desire to keep taxes down • eliminate waste
4 - study of feasibility/process	systematic • uncoordinated	systematic	systematic

Contract Monitoring Plan



Procedure for Cure of a Key Business Unit (KBU) Failure to Achieve Bid Terms Under a Managed Competition Agreement

Policy Background:

The goal of the City's managed competition program is to provide the best service at the lowest cost. Private sector interest in competition must be maintained by ensuring a level playing field from the initial bidding process throughout the term of the contract.

When a KBU of the City wins a bid competition, the City assumes two roles. In one role, the City acts as a purchaser of services. In this context, the parties enter into a contractual-type relationship where the KBU agrees to perform and the City agrees to pay for performance. With respect to performance standards, this relationship warrants the same terms that would apply if the City were dealing with a private business. However, the fact that the KBU and the City are the same legal entity requires the addition of certain clauses, including notice of default. It also requires the deletion of certain clauses, such as provisions for performance bonds, insurance, injunctive relief, jurisdiction, and venue.

In its second role, the City manages the KBU as a division of the City and bears responsibility for payment of the KBU's costs. This relationship is analogous to that of a corporate division and corporate headquarters. Decisions regarding corrective action when a KBU overruns its sealed bid amount fall within the bounds of business judgment rather than contract law. However, it is important that all parties understand the factors that impact these decisions, as well as the potential alternative courses of action.

In either role, the decision-driving factor is the long-term best interests of the taxpayers.

Memorandum of Understanding (MOU):

When a KBU is awarded a service contract as a result of a managed competition, a MOU is executed between the KBU and the City. The MOU serves as a contract that incorporates the terms of the Request for Proposal (RFP) and the KBU proposal.

Internal Audit:

It is the role of Internal Audit to ensure that the provisions of a MOU are met by a KBU. Audits will review both financial and service standards performance. The MOU will stipulate the audit periods and, if applicable, the times when gainsharing will be calculated.

For each performance period, Internal Audit will submit an audit report to the City Manager and the KBU indicating the degree of financial and service performance as stipulated by the MOU.

Nonperformance for Audit Period:

Should an audit report for any quarterly or semi-annual audit indicate financial or service nonperformance, a written report indicating corrective actions to be taken and target completion dates should be prepared by the KBU and presented to Internal Audit and the City Manager within fifteen days of receiving the audit report. The KBU will present to Internal Audit a written update on its progress no later than 90 days following the initial report.

Nonperformance for Contract Year:

Should a contract year-end audit report reveal financial or service nonperformance, the KBU will be given the opportunity to cure the deficiencies. A written “Plan for Cure” will be prepared by the KBU and presented to the City Manager within thirty days of the year-end audit that will include:

- Reasons for the nonperformance
- Measures to be taken to correct deficiencies
- A schedule that will lead to the timely conformance with financial or service requirements

The City Manager, with input from Internal Audit, will determine if the “Plan for Cure” is sufficient to address the deficiencies. Should the plan be approved, periodic audit reports will determine if KBU performance meets the goals of the plan. Should the plan be deemed insufficient, the City Manager may direct revision of the plan. However, if the deficiencies are so great that successful performance cannot be reasonably expected, the City Manager may take action consistent with section “Inability to Cure.”

Inability to Cure:

In the event that the “Plan for Cure” is not successfully met the City Manager may take any actions she deems appropriate, including:

1. Terminate the contract;
2. Recover deficits from accrued retained earnings generated in prior years (i.e., the 50 percent City share);
3. Carry forward and Recover deficits from future retained earnings and gainsharing;

4. Continue under a revised MOU;
5. Disallow the KBU from bidding on a future services competition;
6. Impose mandatory spending limits;
7. Require a deficit to be added to future bids; and
8. Suspend gainsharing.

Factors Impacting the Appropriate Remedy:

Some of the factors that would impact the City's decision on how to address an inability to cure may include:

1. The severity of the breach;
2. Past performance under the MOU (whether it has been generally acceptable or unacceptable, and whether the KBU has demonstrated an ability to resolve problems);
3. The cause of the breach, and whether it has been adequately addressed;
4. Whether the cure plan is comprehensive and realistic;
5. Past cure attempts;
6. The availability of substitute service providers;
7. The cost difference between what the KBU can realistically provide the service for and the price offered by the next lowest bidder, taking into consideration the time of the last bid;
8. The costs of transition from the KBU to another service provider;
9. Current Market Conditions;
10. The cost of the KBU re-entering the business at a future date, and whether the elimination of the KBU as a performer of the service will have a long term detrimental effect on competition and the City's ability to obtain the service at the lowest cost;
11. The year of the MOU in which the breach occurs;
12. Whether the cause of the deficit was foreseeable;
13. Whether the deficit was attributable to a lack of experience in forecasting costs for purposes of managed competition; and
14. Other factors which may impact the long-term best interests of the taxpayers.

As with all decisions, the over-riding consideration is what result will achieve the best service for taxpayers at the lowest cost over the long run.

Change Orders:

While not encouraged, a KBU may be entitled to a change order if the City materially changes the nature or scope of work to be performed or if uncontrollable circumstances (i.e. fire, flood, etc.) impact the ability to perform.

Change orders should be timely prepared with sufficient documentation so that they may be examined by Internal Audit prior to being presented to the City Manager for her consideration.

Institutional Review Board

Dr. David M. Moore
IRB (Human Subjects) Chair
Assistant Vice President for Research Compliance
CVM Phase II- Duckpond Dr., Blacksburg, VA 24061-0442
Office: 540/231-4991; FAX: 540/231-6033
email: moored@vt.edu

DATE: September 21, 2004

MEMORANDUM

TO: Larkin S. Dudley Center for Public Admin. and Policy 0520
Kimberly Eagle

FROM: David Moore 

SUBJECT: **IRB Exempt Approval:** "A Case Study of Managed Competition" IRB #
04-437

I have reviewed your request to the IRB for exemption for the above referenced project. I concur that the research falls within the exempt status. Approval is granted effective as of September 14, 2004.

cc: File

Vita
Kimberly Scism Eagle

FAMILY: Married to husband Keith for nine and one half years with one son, John William, five months of age.

PREVIOUS EDUCATION:

Education Specialist (Ed.S.) -Higher Education Administration, Appalachian State University, Boone, NC. Graduation: May 2000.

Master of Public Administration (MPA) -Public Management, minor concentration -Higher Education Administration, Appalachian State University, Boone, NC. Graduation: December 1994.

Bachelor of Arts -History, minor concentration -English, Wingate University, Wingate, NC.
Graduation:
May 1993.

PROFESSIONAL EXPERIENCE:

City of Charlotte Budget & Evaluation Office, Charlotte, North Carolina
Evaluation Manager December 2003-present

Charlotte-Mecklenburg Utilities, City of Charlotte, Charlotte, North Carolina.

Assistant Business Manager (June 1998 – August 2001)
Resource/Research Analyst (February 1995 –June 1998)
Capital Improvement Analyst (December 1994 – February 1995)
Graduate Research Intern (August 1994 -November 1994)

PUBLICATIONS:

Article: “Planning to Include the Public: Transportation Policy Implementation with Effective Citizen Involvement” Co-author: Bethany Stich
Public Works Management and Policy, April, 2005

Article “The Origins and Evolution of Charlotte’s Corporate Scorecard”
Government Finance Review, October, 2004

Paper/

Presentation: Planning to Include the Public: A Study of Policy Implementation” –
Co-author: Bethany Stich American Society for Public Administration Annual
Conference, March 2003 – Received Best Student Paper Award by American Society for
Public Administration Section on Transportation Policy and Administration 2003 Student
Paper Competition

Paper/

Presentation: “Managing the Workforce and Managed Competition” Association of Metropolitan
Sewerage Agencies Annual Conference, February 2003

Paper/

Presentation: "Head Start Participation: School Outcomes of African American Students" Race and Social Policy Conference – Center for Public Administration and Policy, Virginia Tech, December 2002

Article: "Students Measure Refuse Collection Performance in Southwestern Virginia" Virginia Review, September 2002

Article: "Contracting for the Long Haul"
Presented: 14th Annual Residuals and Biosolids Management Conference, February 2000

Book Chapter: "Managed Competition in Charlotte-Mecklenburg Utilities" in America's Water and Wastewater Industries, January 2000

Article: "Managed Competition"
International City/County Management Association IQ Service Report, Volume 31/ Number 10, October 1999

Presentation: "Scorecard Management System Experience: Charlotte/Mecklenburg Water Utility" Water and Sewer Authority of Trinidad and Tobago, October 1999

Article: "Charlotte-Mecklenburg Utilities Successful Experience in Business Planning" American Water Works Association and the Water Environment Federation Technical Journal North Carolina Section, November 1998

Presented: 1998 North Carolina AWWA/NCWEA Conference, November 1998

Article: "Contract Monitoring for Financial and Operational Performance" Government Finance Review, June 1997