

RIGHTSIZING AND THE NEW PUBLIC MANAGEMENT:
PLANNING, ARRANGING, AND SPENDING FOR SERVICE DELIVERY
IN CHARLOTTE, NORTH CAROLINA

by

JOSEPH LORN MCCRARY

(Under the Direction of Jerome S. Legge, Jr.)

ABSTRACT

Among other strategies, the New Public Management seeks to introduce private-sector practices into government management. These include focusing on contractual relationships between elected officials as service providers and government agencies and private sector firms as service producer and utilizing such techniques as outcome-oriented planning and competition for service delivery. The City of Charlotte, North Carolina introduced these practices beginning in 1992 in a process it called *Rightsizing* with the stated purpose of reducing service delivery costs associated with non-public safety functions. This dissertation is a case study of Charlotte's efforts. Specifically, I utilize Transaction Cost Economics to understand planning, service delivery, and expenditures under Rightsizing.

Planning in Charlotte evolved through two phases. First, Charlotte largely focused on the mechanics of service delivery through strategic planning processes directed towards efficient service production. The second phase—Balanced Scorecards—focused Charlotte's planning efforts squarely on service delivery outcomes. Charlotte attempted to introduce market forces into service delivery through competition by identifying nearly 380 services that would be opened for competition. However, between 1992 and 1999, fewer than 150 services were actually competed for, and most of those were not identified originally as candidates for competition. Charlotte did reduce expenditures for non-public safety functions successfully which were then applied to police and fire services. The lack of a relationship between the actual exposure of services to competition combined with Charlotte's success in reducing service delivery expenditures for non-public safety services provides some support for the notion that outcome-oriented planning for service delivery can be a successful route to reducing service delivery expenditures. It is possible that efforts to more closely align service delivery through outcome-based planning, training employees, developing reward-based compensation schemes, and instilling values of public service may be as equally adept at reducing service delivery expenditures as opening services to market forces such as competition and contracting.

INDEX WORDS: New Public Management, Competition, Rightsizing, Service Delivery, Service Provision, Service Production, Contracting Out

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DEDICATION

I would like to dedicate this dissertation to my loving wife and my parents, for showing me the value of doing the best job you can and the importance of public service and community. Without the support of my wife and my mother this dissertation would never have been completed.

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CHAPTER 1

INTRODUCTION

The New Public Management (NPM) is a set of recent public sector management reforms that relies on market forces and contractual relationships within government to achieve customer service and responsiveness. Proponents of NPM reforms espouse that governments focus on customer satisfaction outcomes, where the citizen is viewed as a customer. Elected officials and agency managers agree on contracts for specific outcomes. Agency managers then possess the flexibility to utilize private sector practices, such as contracting out, benchmarking, and pay for performance, to achieve the specified outcomes. Several factors provide the foundation for the use of NPM. First, governments are now forced to “do more with less.” The second factor is overwhelming acceptance of the public choice view that government bureaucrats are solely interested in maximizing their own utilities at the cost of rising budgets and poor government service. Third, the New Institutional Economics (NIE), and especially Transaction Cost Economics (TCE), provide a rationale for the use of contractualism.¹ That is, NPM seeks to induce behavior in government agencies more akin to that perceived to exist in private corporations while maintaining political control over those agencies. The common belief among NPM advocates is that reliance on market processes can improve the cost-effectiveness of services since those organizations relying on market mechanisms are more efficient. This

¹ Contractualism is the reliance on contracts that specify responsibilities.

dissertation presents Charlotte, North Carolina's experience in implementing NPM-style reforms and uses TCE to explain their efforts.

Government revenues have not kept pace with service demands. Political constraints, such as taxpayer revolts (as in California's Proposition 13 and Massachusetts's Proposition 2 ½) and political promises (such as George Bush's "no new taxes" pledge), have limited the amount of revenue governments can generate to fund service provision. There has not been a simultaneous reduction in service demands, however, only a redistribution of service delivery authority. During the 1980's, the federal government reduced financial assistance to cities significantly, especially through the elimination of revenue sharing, while shifting the burden of service provision to states and localities (Berman 1997). States responded by furthering this devolution. Economic growth during the 1980's allowed cities to respond to revenue loss and increased service demands without substantial, and politically unacceptable, tax rate increases. The recessions of the early 1990's quickly placed tremendous fiscal stress on cities as they attempted to find new means of delivering quality services to citizens and maintain acceptable tax rates. Cities may also find that, in order to compete for higher-spending residents, they must provide additional services (Peterson 1981). For instance, localities must often finance improvements in law enforcement, education, and parks and recreation in order to attract younger residents with children (who generally purchase larger homes and spend more per capita than do childless adults). These changes compelled cities and counties to find ways to limit expenditures while maintaining, if not enhancing, service provision.

The second factor influential in recent public sector reforms is the belief that bureaucrats are only interested in maximizing their own gain in public service and not serving their constituents. This perception is the result of political campaigns that have bashed bureaucracy and academic literature in the public choice school that has modeled bureaucratic behavior based on the assumption that government agents act in a purely self-interested, utility-maximizing capacity (Downs and Larkey 1986; Goodsell 1994, 1-23; Migue and Belanger; Niskanen 1971). Both of these forces foster the belief that governments are largely organized and managed to benefit agency managers and elected officials rather than citizens. This view, in turn, spurs government reform efforts including micromanagement by elected officials (Wilson 1989, 241-244) and various reorganizations (Rainey 1997, 350).

Third, NPM is greatly influenced by the New Institutional Economics (NIE), especially Transaction Cost Economics (TCE). The NIE paradigm views relationships in firms as a series of contracts between principals and agents. Firms align governance mechanisms in order to minimize transaction costs, which are the costs of managing the relationships within firms and between firms and external entities. Building on the work of Coase (1937) and Commons (1925; 1934), TCE stresses that organizational arrangements develop in order to minimize transaction costs. TCE assumes that bounded rationality and opportunism prevent the perfect structuring of contracts prior to production and examines the governance structure necessary to operate the firm after production has begun. TCE, then, is the study of institutional arrangements used to manage transactions in order to protect the interests of the traders (Shelanski and Klein 1995). The research in this dissertation proceeds with the view that the goal of

government reorganization is to align service delivery structures with their transaction costs in order to minimize service delivery costs while ensuring that service demands are met.

The City of Charlotte, North Carolina instituted a set of policies entitled *Rightsizing* to introduce NPM into its operations. Seals (1995) defined Rightsizing as the ongoing strategic allocation of resources to deliver cost-effective, high quality, customer-oriented services. Rightsizing is anticipatory, strategic, and prospective. Important considerations are values, capacities, capabilities, and needs—both of the organization and the community. As a process, Rightsizing is installing, maintaining, and deploying the necessary structure, capital assets, and human resources to facilitate the mission of an organization (97).

In September, 1993, Charlotte consolidated its 26 departments into 13 “Key Business Units,” instructing each to develop its own competition plan (City of Charlotte 1997d). Each plan identifies which services are no longer needed, which ones can be outsourced, and which ones are “core” services – those that must remain produced completely in government. Through its reorganization, Charlotte flattened each Key Business’s hierarchy to five layers or less. Charlotte also instituted management practices consistent with the rational utility-maximizing view of the individual, including gainsharing and pay-for-performance and permitted decision-making to be devolved to lower levels of each bureaucracy. The remaining sections in this chapter explore the NPM in more detail and describe Charlotte’s efforts.

This dissertation constitutes a case study examination of the impact on service delivery and expenditures of NPM-style reforms. I build upon past research by developing a description of municipal service delivery under the New Public Management that seeks to explain the choice of service delivery options. Specifically, this research applies Transaction Cost Economics (TCE) to the examination of the

choices of governance mechanisms used to deliver municipal services in relation to political control (planning) and service production methods. The goals of this dissertation are twofold. First, it describes the efforts of a large municipality that has undertaken NPM-style reforms to understand whether these reforms altered service delivery. Second, the research in this dissertation utilizes TCE to develop propositions that explain the changes that occurred in the case of Charlotte. These propositions may form the basis of subsequent scholarly research. Chapters three through five address three areas of Rightsizing that are also the targets of NPM: planning (in Chapter Three), service delivery (in Chapter Four), and service delivery spending (in Chapter Five).

The academic literature on government organization and service delivery has only recently begun to expand beyond public choice explanations of these questions.² Jackson (1990) argues that the current state of public sector economics does not fully address its potential role in public sector management, while public sector management does not utilize all that public sector economics produces. Public sector economics begins from the welfare economics and public finance perspectives. The former focuses on allocative and productive efficiency while the latter on taxation. Public sector economics, then, has largely focused on market failures in proscribing what functions government ought to be providing. Jackson suggests that there are additional areas of inquiry for public sector economics, such as how government ought to be providing services or “...designing appropriate incentive and information structures for the management of public sector institutions” (14). He cites the development of “internal markets” in Great Britain’s

² See, for instance, Ostrom (1973), Niskanen (1971), and Migue and Belanger (1974) for public choice treatments of public service delivery.

National Health Service as an instance of such incentive and information structures, where competition provides the incentive to produce services more efficiently.

State and local governments will continue to search for additional ways to improve the allocative and technical efficiencies of service delivery, especially as revenues fluctuate from rapid economic shifts. The New Public Management promises to deliver these improvements. The results of this case study—the description of the mechanisms Charlotte utilizes and how service delivery and spending have changed as a result—should be of interest to state and local government officials interested in introducing NPM into their operations. It is also my hope that this research will serve to open a new line of theoretically informed inquiry into municipal reform and the New Public Management by proposing that such reform is the search for the governance mechanisms that minimize service delivery transaction costs and generating propositions that derive from this case study. Future research could build on this view by examining the propositions developed through studying other reforms and other cases of NPM in government. Second, the research questions whether the paradigm proposed by NPM advocates is equally applicable across all service delivery areas. That is, the market model of government may be better applied where the services delivered have more of a market component, such as trash collection or water delivery, than in other services that have less of a market component, as in police services.

The New Public Management

The New Public Management (NPM) encompasses recent scholarship and practice, much of it normative, which suggests government should be run more business-like to manage competing claims (Clatworthy et al. 2000). Minogue (1998) characterizes

modern public administration thought as focusing on the dual themes of efficiency and accountability, and states that NPM strives to integrate the two into practice through an entrepreneurial model of government. Minogue et al. (1998) define 'governance' as the management of all competing values in government (for instance, efficiency, accountability, citizens' rights, and responsiveness). Public management is a component of governance.

Common (1993) notes that NPM defies precise definition. Some scholars choose a normative definition (Ferlie et al. 1996; Holmes and Shand 1995). Others locate it in management science and public choice theory (Aucoin 1995, Hood 1991, 1995). The common theme underlying these definitions is the reliance on market-like practices and contractual relationships to deliver services (Box 1999; Koch 1999). These practices include decentralized management, pay-for-performance, customer service, teamwork, privatization, and benchmarking (Foster and Hoggett 1999; Hanlon and Rosenberg 1999).

Several scholars (Minogue 2000; Lynn 2001; Riccucci 2001) have sought to compare and contrast the New Public Management with the Old Public Management. The Weberian model of Public Administration is built upon the premises of the separation of politics and administration, clear lines of authority, organizational status according to ability, division of labor, the use of technical rationality in decision-making, and the normative principle of public interest driving individual and organizational behavior (Minogue 2000). Research into actual practice has found that this model is not

accurate (Minogue 2000). Politics and administration are intermingled.³ Decisions rely more on conflict negotiation than technical analyses. While clear lines of authority and divisions of labor are the norm, over-reliance on rules results in bureaucratic pathologies such as delays, inflexibility, and unresponsiveness. Bureaucracies are substantially more complex than the Weberian model suggests, as interorganizational networks and reliance on external service producers introduce new, complex relationships into government. The New Public Management seeks to overcome these pathologies by formalizing the separation of politics and management in the planning process, focusing bureaucratic efforts according to results and citizen and customer expectations, and orienting bureaucracies towards more “steering” and “entrepreneurial” modes of operation (Minogue 2000).

Scholars have noted that the devolution of authority is a response to micro-management of service delivery and is likely to concentrate more power over both service provision and service policy in agency directors’ hands. Minogue (1998) argues that the devolution of authority ought to be accompanied by accountability requirements as measured through performance measurement agreements and targets. These can be developed in two ways. First, the lower level manager and their direct superior could agree upon on performance targets. Second, the government could establish a citizen’s group that establishes performance measures to which the lower level manager is contractually bound. Under either of these scenarios, the governance mechanism to ensure performance is a contract, either stated or implicit.

³ Lynn (2001) cites the scholarship of Merriam (1926) and Key (1942), both of whom argue that Goodnow (1900) and Wilson (1892) did not advocate a complete separation of politics and administration, but rather

Critics of NPM reforms argue that freeing public managers from oversight to focus on entrepreneurship may conflict with other public values such as ethics, accountability, honesty, fairness, and due process (Goodsell 1994; Hood 1991; Gawthrop 1998). Terry (1998) and deLeon and Denhardt (2000) characterize entrepreneurial public managers as “rule breakers” and “loose cannons.” These arguments, however, are largely rhetorical and do not rely substantially on empirical research. Borins (2000) analyzes applications to the Ford-KSG innovative public official award program. His findings largely refute critics’ views of entrepreneurial public managers. They tend to be proactive, objective with respect to reforms, and more likely to use persuasion rather than power politics in response to opposition. Innovators frequently attempt to bring autonomous agencies together, use techniques that empowered citizens (thus sharing power rather than hoarding it), and introduce process improvements and new technology with little grandstanding. While in any system of governance there will always be rule-breakers and loose cannons, Borins’s findings indicate that there are also good public managers.

Service Production Under the New Public Management

NPM alters the production of goods and services by governments by flattening the civil service and by aligning rewards to performance measurement (Minogue 1998). NPM also strives to improve service delivery through the use of market mechanisms, such as open competition and privatization, in service production. The benefits of this system, according to its proponents, are that it becomes more mission-driven, decentralized, entrepreneurial, and reliant on individual incentives. Furthermore,

that politics should direct the activities of administration and that administration has significant influence in

governments are more able to adapt to changing conditions and focused on outcomes instead of inputs and processes.

One area of research into the relationship between NPM reforms and public employment/civil service systems focuses on employment contracts and the systems and rules used to enforce those contracts. In Great Britain, for example, three-quarters of the civil servants are now employed in 130 freestanding agencies that are loosely coupled to government ministries. Agencies are evaluated according to financial performance targets and service quality measures. Prior to this, ministries tightly controlled civil servants and agencies (Minogue 1998). Savoie (1996) studied the actions of the Office of Management and Budget, the Office of Personnel Management, and the Central Services Administration under the NPR. He reasoned that if the activities of these three management agencies were directed less towards controlling the management practices of the other federal agencies, then the NPR resulted in greater agency discretion. Savoie found that the NPR did little to change the activities of the three federal management agencies with respect to the directives placed on other federal agencies in the areas of personnel, budgeting, and management rules imposed on federal agencies.

Considine (2000) analyzes the employment service delivery systems in four countries that have undertaken NPM reforms – Great Britain, Australia, New Zealand,

legislative activities. The two, then, are intertwined.

and the Netherlands. He considers NPM reforms as the introduction of a regime of contracts in public service.⁴ These include the following contracts:

- social and political contracts where organizations publicly adopt a common, outcome-based platform;
- employment contracts with public managers;
- contracts with public agencies for service provision and production;
- contracts with private firms and non-profits for service production; and
- contracts with customers for their participation in service production.

Considine finds that each country adopted different forms of each contract, supporting the notion that, although focused on market-oriented practices, NPM may take different forms. Considine did distinguish between two different foci of contracting: compliance based and client based. Compliance based contracting was used to maintain control over service production and involved output-based targets. In the UK, for instance, there is an extensive system of contracts; the Annual Performance Agreement between the Department for Education and Employment and the Employment Service specifies the number of services, major programs, classifications of clients to receive services, and target outcomes (Considine 2000, 619). The results have been the standardization of services and the reduction of options open to Employment Services staff to tailor treatments to clients. Client-based contracting provided much more flexibility to service producers; however, Considine found that other controls, such as budgetary restrictions,

⁴ By considering NPM a regime, Considine ascribes other characteristics to it that differentiate it from simple outsourcing. Regimes are social constructs that include principles, rules, norms, and decision-making procedures (Krasner 1983, as cited by Considine, M. (2000)). "Contract Regimes and Reflexive Governance: Comparing Employment Service Reforms in the United Kingdom, The Netherlands, New Zealand, and Australia." *Public Administration* 78(3): 613-638., 635). NPM, then, is an organizational reform that affects all aspects of the organization.

were used to maintain control over the provision process and reduced the flexibility of service producers. Thus, in describing any outcomes of NPM reforms, it is obviously important to specifically detail the nature of the reorganization of service delivery methods.

Wise and Stengård (1999) compare experiences with changes in internal labor markets to examine the extent of implementation of NPM reforms in the United States and Sweden. They note that although governments may claim they are undertaking reforms, governments do not necessarily undertake the steps they claim they will take. Under NPM reforms, internal labor markets in government organizations should be weaker relative to their pre-NPM state. Debureaucratization efforts, such as promoting greater decision-making flexibility, flatter and leaner organizations, reduced job security, pay-for-performance, and greater reliance on temporary staff, should be much more prominent in NPM reformed organizations. Wise and Stengård find that, between 1982 and 1993, there were few changes in the United States federal civil service reform system that reduced staffing levels. Rather, the United States sought to take a passive approach to staff reductions, by refusing to fill vacated positions. The U. S. did introduce some broadband pay classifications, but these were not adopted throughout the federal system. Finally, the United States continued to base its civil service system on organizational status and position. Sweden, in contrast, actively reorganized and consolidated some departments and converted others to public enterprises. Sweden altered its personnel policy from one based on organizational status to one based on individual contribution and established pay systems accordingly. Managers received more authority to remove employees and were not constrained to hire displaced workers in open slots. Sweden

converted 12 agencies to public corporations or limited companies, resulting in the transfer of over 71,000 jobs to the private sector. Consolidations and reorganizations resulted in the elimination of 33,620 jobs. Thus, by the early 1990s, Sweden's efforts to reform its internal labor market to be more consistent with the view that government should be run like a private corporation vastly exceeded those of the United States.

NPM has been widely disseminated and implemented (Armstrong 1998; Kaboolian 1998). A number of third-world countries have attempted to organize their national governments according to NPM proscriptions at the behest of international aid agencies, such as the World Bank, and USAID. Other countries, such as Mexico (Arellano-Gault 2000; Klingner 2000) have implemented NPM reforms on their own. Developed countries have also actively introduced NPM, including the United States, Canada (Hanlon and Rosenberg 1998), United Kingdom (Lo Schiavo 2000; Minogue, 2000),⁵ France (Guyomarch 1999), Israel (Galnoor et al. 1998; Vigoda 2000), Italy (Lo Schiavo 2000), Australia (English and Guthrie 2000),⁶ and New Zealand (Minogue

⁵ Great Britain has been active in implementing NPM-style reforms through the Thatcher and Major administrations (Minogue, 2000). Both administrations relied substantially on privatization efforts, and, later on, "market testing" through compulsory competitive contracting. Planning efforts sought to examine the purpose of work activities and whether or not they could be privatized, improved, or eliminated. Minogue (2000) reports that, through 1993, the British government examined 937 separate activities, abolishing 47, privatizing 4, contracting 241, market-testing 498, and restructuring 147.

⁶ Johnston (1998) notes that, even though Australia's government was largely controlled by the more liberal Labour Party, it embraced economic rational managerialism (which includes public choice and principal-agent theories) in implementing government reforms. The Australian government, in 1984, implemented the Financial Management Improvement Program (FMIP), which directed activity to focus on efficiency and effectiveness, rather than inputs. By focusing on corporate plans, three-year budget plans, and program evaluation plans, Australia hoped to rely on intended organizational performance informed by strategic planning.

Later, the Australian government undertook more reforms to inject more business practices into government management through the *One Nation* statement (1992), the *Hilmer* report (1993), and the *National Competition Policy* (1995) (Dunford et al., 1998). The Hilmer report recommended three courses of action for government in Australia:

- Extend the competitive conduct rules laid out in the Commonwealth Trade Practices Act of 1974;
- Reduce regulatory restrictions on competition; and
- Increase competition in public sector (Dunford et al., 1998, p. 387).

2000).⁷ There has thus been a wide range of types of governments that have attempted NPM. Furthermore, NPM-style reforms have been attempted at all levels of government. Mexico City, for instance, is trying to design its government according to NPM principles (Arellano-Gault 2000; Cabrero-Mendoza 2000). The Hong Kong government began instituting NPM reforms in 1989 in the areas of financial management and resource allocation, relationships between governmental units, and the development of a new corporate culture of service (Burns 1994). Foster and Hoggett (1999) point out, however, that NPM, while comprised of a consistent set of premises, is not the result of a single, coherent change strategy, but rather piecemeal implementation strategies done under widely different circumstances. The next three sections describe NPM efforts undertaken in the United States and focus broadly on national and sub-national and specifically on Charlotte's efforts. Following these descriptions is an outline of the research undertaken in this dissertation.

Reinventing Government: The U.S. Experience

Perhaps the most discussed NPM reform movement during the 1990s is the U.S. Federal Government's Reinventing Government (REGO). Born out of citizen discontent, globalization, and rapid developments in information technology (Lenkowsky and Perry 2000), REGO subsumes the reforms proposed by Osborne and Gabler (1993) and implemented by the federal government under Vice President Gore's (1993) *National Performance Review*. Osborne and Gabler list ten principles that they argued would improve government performance and efficiency by changing the bureaucracy's DNA so

⁷ Both Britain and New Zealand have also reorganized agencies to be more business-like, relying of chief executives with more autonomous controls than the agency directors they replaced and business plans

that the impetus for continual improvement and change resides inside the bureaucracy rather than being imposed by external forces (Osborne and Plastrik 1997). These ten principles are (Osborne and Plastrik, 1997: 347-349):

1. Catalytic Government: Steering Rather than Rowing – Governments separate policy functions from service delivery functions and then rely on numerous mechanisms as alternatives to government provision.
2. Community-Owned Government: Empowering Rather than Serving – Governments provide communities with the abilities to deal with their own problems and thus reduce dependency on government to solve the community's problems.
3. Competitive Government: Injecting Competition into Service Delivery – Governments must compete for the right to produce services delivered to the public.
4. Mission-Driven Government: Transforming Rule-Driven Organizations – Successful government service delivery relies on establishing goals and then removing all unnecessary restrictions on managers so that they may achieve their goals.
5. Results-Oriented Output: Funding Outcomes, Not Inputs – Accountability measures derive from whether the agency achieved its goals instead of whether it purchased the inputs for which it was allocated its budget.
6. Customer-Driven Government: Meeting the Needs of the Customer, Not the Bureaucracy – Government should treat the people that receive its services and the general public in the same manner that successful businesses treat customers.
7. Enterprising Government: Earning Rather than Spending – For those services where government can charge unit prices, it should. In other areas, where possible, the government should use incentives that encourage income-seeking behavior among government units.
8. Anticipatory Government: Prevention Rather than Cure – Governments should use strategic planning and other forward-looking planning mechanisms such as strategic planning to prevent problems rather than fix them after they have occurred.
9. Decentralized Government: From Hierarchy to Participation and Teamwork – This proposal empowers front-line employees to make decisions rather than working through a complex hierarchy of management and procurement.

containing output and outcome measures used to judge performance (Minogue, 2000). New Zealand's efforts have exceeded Britain's by relying on planned outputs to determine budgetary appropriations.

10. Market-Oriented Government: Leveraging Change Through the Market – This suggests that governments should try to encourage private sector behavior through market mechanisms rather than through regulatory practices.

These ten principles incorporate NPM into one set of broad guidelines. They focus on strategic planning efforts, goal establishment, aligning management processes with desired outcomes, and utilizing market techniques in management wherever possible. Reinventing Government differs from earlier government reforms because it seeks to change management without addressing political change directly, targets the “rank-and-file” employees instead of agency leadership, and did not need Congressional approval to be implemented (Thompson 1999).

Often, these efforts redefine the targets of government services as customers rather than citizens. Rainey (1997) notes several events that have led to this redefinition in government: the publication of Peters and Waterman’s *In Search of Excellence* in 1982, the implementation of Total Quality Management in the private sector, and the National Performance Review. Peters and Waterman (1982) sought to identify those factors successful organizations used to achieve their success. They found that those organizations that focused on customer satisfaction, valued employees and focused on their development, defined and stuck to core values, acted upon decisions, and encouraged entrepreneurship were often the most successful organizations (Rainey 1997, 352-353). Rainey traces the roots of Total Quality Management to the work of Deming, whose principles of management stressed the entire process of production, rather than simply focusing on quality as the final outcome. The unifying theme of each of these events is the reorientation of the organization towards the goal of customer satisfaction and the processes that will achieve it.

U.S. Sub-National Government Reform Efforts

U. S. states and municipalities have also sought to introduce NPM-style practices into service delivery in order to meet demands for increased quality and quantity while reducing costs to citizens. Compelled to “do more with less,” public managers have used strategic planning and management, quality management and reengineering, and benchmarking to enhance their management capacity (Poister and Streib 1999b). Brudney et al. (1999) surveyed agency directors in all fifty states, asking whether those agencies had undertaken any of eleven specific recommendations associated with reinvention. Strategic planning efforts were fully implemented by almost forty percent of respondents, much more than any of the other efforts listed on the survey. They also found that those efforts associated with customer service—training programs to improve customer service, quality improvement to empower employees, benchmarking, and systematic customer evaluation—were also implemented frequently. Structural reforms (decentralized decision-making and reductions in hierarchical levels of government) were undertaken less frequently and relaxed administrative rules (greater procurement discretion and simplification of human resources rules) least frequently.

Several other large cities have the distinction of being noted for their level of reform in service production and delivery, Phoenix and Indianapolis being chief among those. Many cities contract out service delivery; some cities allow city departments to bid on contracts, as in Indianapolis (Gray and Eisinger 1997) and Phoenix (Jensen 1998). These efforts typically do not examine which services should be provided nor do they attempt to reorganize municipal government to manage their affairs more efficiently, as in Charlotte’s Rightsizing efforts. Another city that attempted Rightsizing is Corvallis,

Oregon (Seals 1995). City manager Gerald Seals, hired in 1988, sought to reorganize his government in order to provide the services citizens wanted in the most cost effective manner as possible. He instituted the following steps under the Rightsizing rubric:

- reorganized city government according to functional lines, separating several “super-departments” into smaller departments;
- reduced layers of bureaucracy; and
- refocused city employees towards serving the needs of citizens rather than the internal needs of their departments.

Weikart (2001) reviews Mayor Rudolph Giuliani’s efforts to adopt NPM-style practices in New York City’s government. He concludes that there is are substantial differences in the Mayor’s rhetoric and practice. When elected, Mayor Giuliani promised privatization, a reduction in the size and scope of New York City’s government, and increasing productivity. Weikart concludes that Giuliani achieved only limited success in implementing NPM reforms. While the mayor did achieve some tax cuts and privatize some services, total personnel did not decrease (it increased), performance measures were not used properly, and agencies were centralized rather than decentralized and debureaucratized. The fact that total personnel did not decrease is not an indictment of the Giuliani administration’s failure to implement NPM, as Weikart indicates. Instead, the mayor was able to redirect positions away from some services, especially social services, and into public safety and education, two of the mayor’s priorities. The mayor did fail in improving productivity, as talks with unions did not result in any efficiency-enhancing changes.

Rightsizing in Charlotte

Recognizing that budgets could not continue to grow the way they had in the 1980’s, the City of Charlotte implemented “Rightsizing” with the intention of improving

efficiency and service delivery quality. In both 1991 and 1992, the state of North Carolina, facing a revenue shortfall, withheld monies it had allocated to cities. The economic recession of the time also resulted in fewer revenues for Charlotte than had been planned. Charlotte undertook several steps to compensate for these shortfalls, including hiring freezes, unpaid leaves to current employees, freezing operating expenses, and reducing services (City of Charlotte 2000, 9). The Charlotte City Council, during this time, also directed the City Manager to hire an additional 100 police officers with no increase in funding. City Manager Wendell White used this opportunity to present the “Blueprint for Rightsizing” in March 1992 (see Figure 1.1 for a timeline of significant events in Charlotte’s Rightsizing approach). The Blueprint for Rightsizing contained short- and long-term proposals for redesigning Charlotte’s government so that it would be more customer-friendly, decentralized, competitive, quick responding, and results-oriented (Figure 1.2 contains the Blueprint for Rightsizing). Specifically, Rightsizing focused on reorganizing and flattening the bureaucracy, opening services to private sector forces such as competition, relying on outcome-based planning for service provision, and training city employees to function in Charlotte’s government.

Figure 1.1. Rightsizing Timeline

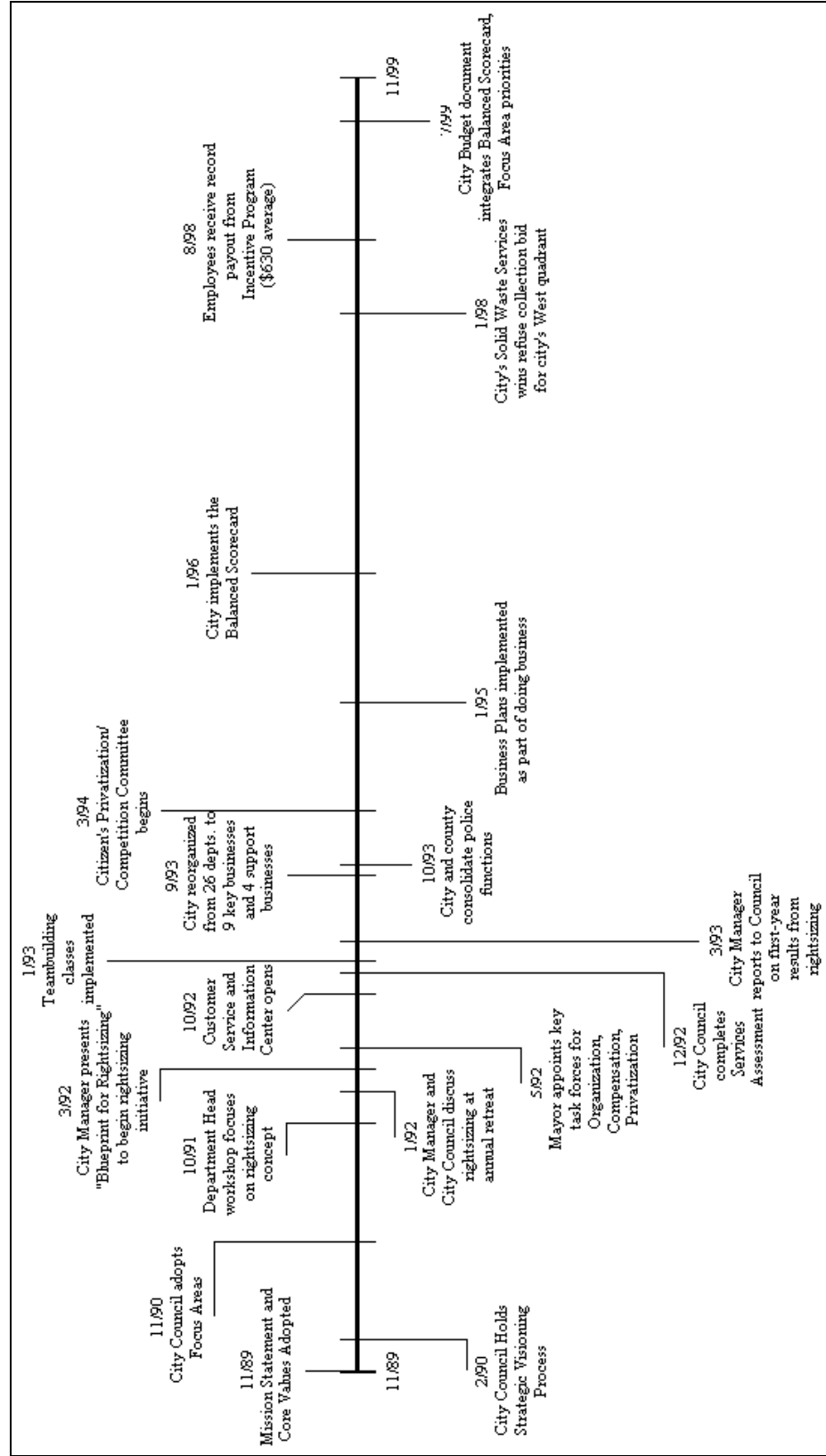
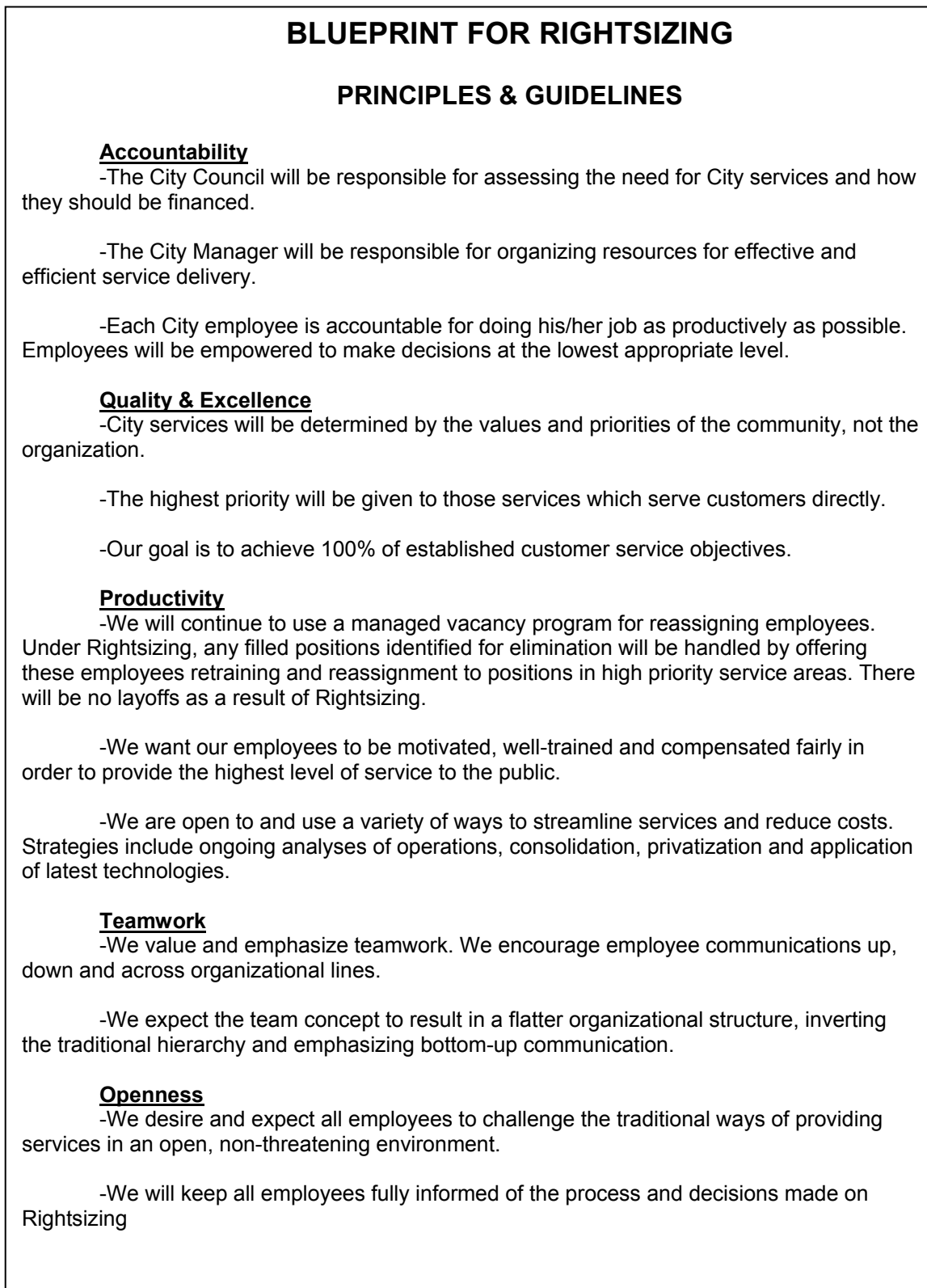


Figure 1.2. Blueprint for Rightsizing



(Source: City of Charlotte 1993, 29-30).

Founding Ideas

City leaders recognized that Charlotte had to alter the way it provided services to citizens in response to changes in technology. Increasing citizen demands for services combined with their unwillingness to accept subsequent tax increases. Prior to Rightsizing, Charlotte's government was organized hierarchically, where decisions were made centrally and then dispersed down through the hierarchy (City of Charlotte 1993, 31). It thus resembled the Weberian model of public administration, including its bureaucratic pathologies. Information flow was slow and resulted in limited information exchange between the core and the periphery and across different departments. Charlotte, furthermore, did not rely much on technology nor were workers trained beyond the rudiments of their jobs. Charlotte's blueprint for the future in Figure 1.2 incorporated new technology, improved communication, and the workforce education to both use new technologies and make decisions in the field. The city also sought to improve competitiveness with the private sector, increase flexibility to respond to new technologies and changing citizens' demands, and focus on results rather than outputs. Finally, Charlotte wanted its leaders to focus less on managing the government and more on providing leadership.

Reading and Sizer (1994, 3) list the four questions that informed the city's approach to Rightsizing: what services should Charlotte provide; how should they be financed; how can they be produced most efficiently; and how can service effectiveness be maximized? In 1989, Charlotte used employee focus groups to develop vision and mission statements and a set of supporting core values which formed the "key guideposts" that informed the direction of the Rightsizing process (City of Charlotte

2000, 17). Its vision statement laid the foundation for the mission statement and set of core values.

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 (City of Charlotte 2000, 18).

Also informing the Rightsizing process were the Charlotte's mission statement, "Public Service is our Key Business," and its statement of Core Values, "Quality and Excellence, Accountability, Openness, Productivity, Teamwork, and People Development" (Readling and Sizer 1994, 4). Finally, the City Council also proposed that the Rightsizing plan consider customer service, flexibility, competitiveness with the private sector, an outcome-orientation, and a leadership rather than supervisory focus (Readling and Sizer 1994, 4). Charlotte attributes the vision and mission statements and the set of core values as "...be(ing) at the center of establishing a 'cultural' orientation which has made the organization more proactive and adaptive to change," (Readling and Sizer 1994,19).

In Charlotte, each Key Business has been granted flexibility to manage its own affairs, both internally and externally. Key Businesses establish which services are opened for competition, produced in-house, and exposed to other market forces. Key businesses may also seek to minimize costs through formal contracting among Key Businesses and between Key Businesses and the private sector. The Sanitation Key Business, for instance, has entered into an internal agreement with the vehicle maintenance Key Business to maintain its vehicles. The cost of this contract relies on anticipated costs and mutually agreed-upon turnaround times (author's correspondence with Ed Sizer, July 25, 1999).

Charlotte also used the restructuring opportunity to alter the method by which it compensates employees (City of Charlotte 2000, 49-56). Prior to Rightsizing, Charlotte's compensation structure contained five different pay plans that utilized fixed percentage increases and merit dates. The new compensation approach uses six broad bands of minimum and maximum pay rates that include all City employees with the exceptions of uniformed police and fire. Charlotte uses market rate data to establish salaries within the bands. In addition to broadbanding, Charlotte utilizes two variable pay programs to reward employee performance. First is the Employee Incentive Program, which rewards employees for achieving expenditure savings goals established by the City Manager and for meeting business unit targets. If the savings goal is met, up to half of the savings are placed into an employee incentive pool, with the employees that contributed to the savings receiving half of the pool. The remaining half of the incentive pool funds employee bonuses in Key Businesses that achieve their business unit objectives. The second variable pay program is the Competition-Based Gainshairing Program. Units are eligible to participate in this program if they have competed for that service successfully or have proceeded through service optimization (benchmarking against an existing service). Payouts are achieved if the unit produces the service for less than the amount contracted. The payout amount is half of the savings. Approximately \$200,000 has been distributed to Charlotte's employees through gainsharing (author's correspondence with Ed Sizer, July 25, 1999).

The City of Charlotte through Rightsizing also sought to introduce market forces into the production of services through opening services for competition and contracting, benchmarking against private sector firms, and utilizing other forms of optimization.

Charlotte has dealt with two concerns associated with alternative service delivery. First, so as to make the savings from outsourcing transparent, when a contract is let, a separate account is established for the contracted amount. The identified savings from the contract (the original cost of service production minus the contract amount) is subtracted from the Key Business's budget. The second concern is maintaining service quality and production if the contractor should be unable to produce the service. Its Internal Audits staff reviews contract performance quarterly. Furthermore, the City requires private sector bidders to place bid, performance, and payment bonds on large contracts to prevent service delivery problems. Charlotte also pre-qualifies private sector bidders by examining their technical ability, financial strength, past and pending litigation, and ability to provide insurance coverage. Finally, to enhance competition, Charlotte contacts private sector firms that expressed an interest in bidding for a service but did not submit a bid to determine why they did not.

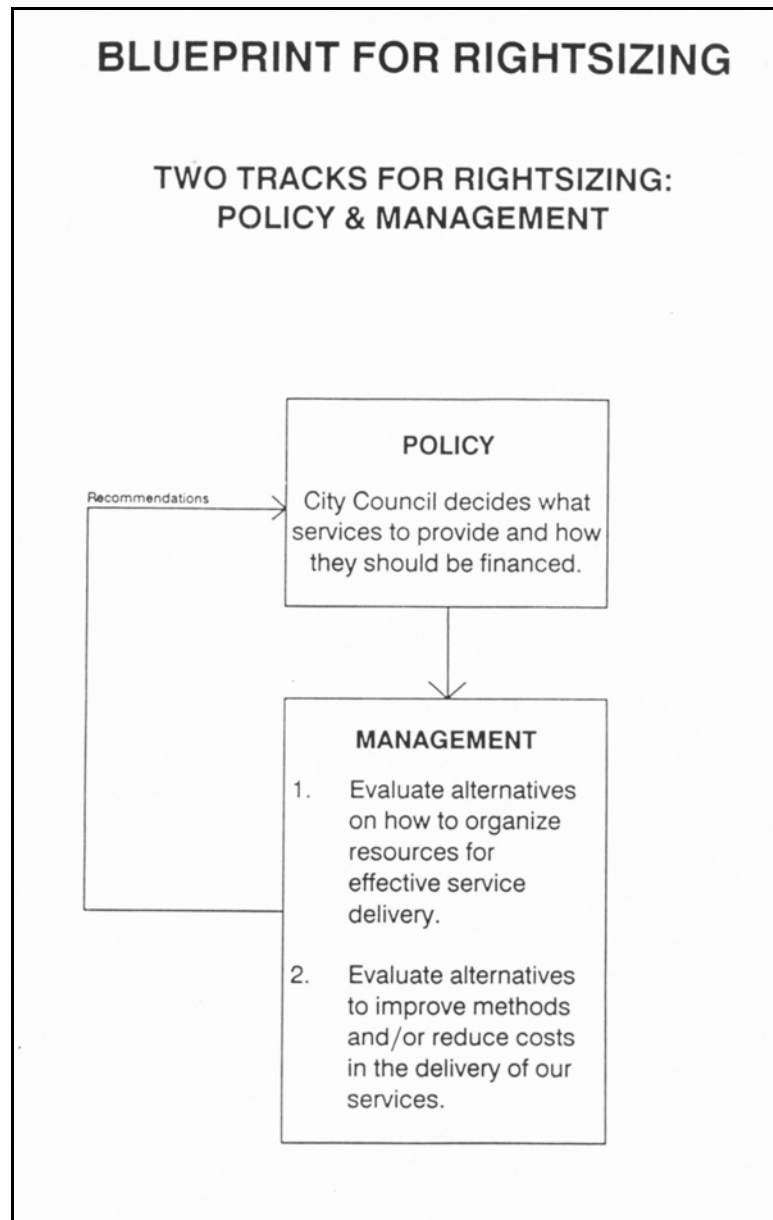
Planning under Rightsizing

The NPM places a heightened emphasis on planning for service provision and accountability through measuring outcomes. Planning under NPM includes locating policy-making squarely with elected officials, harkening back to the politics-administration dichotomy of early Public Administration thought. NPM removes the public manager from decisions of a political nature, such as setting the goals of an agency (Maor 1999) and advocates that elected officials remove any barriers to implementation so that public managers can achieve politically decided-upon goals (Plowden 1994). Under the NPM style of government organization, contracts for outcomes between elected officials and bureaucrats replace command and control relationships over inputs

as the main control over service provision. This results in the devolution of authority over how to best produce the services that will lead to politically defined outcomes (Minogue 1998). Contractual relationships under the NPM also alter the mechanisms by which elected officials hold agency leaders accountable; rather than ensuring agency leaders produce services within budget, elected officials can rely more on outcome measures, such as community conditions.

Syfert and Cooke (1997) detail how Rightsizing and especially the introduction of competition into Charlotte's management have resulted in the alteration of managers' behavior towards that more akin to their private sector counterparts. Rightsizing required each business to develop five-year competition plans that identify the services it provides that may also be found in the private sector, defines a schedule for opening those services to competitive bidding, and lists how the business will become more competitive in service delivery. One key idea behind Rightsizing, then, was that policy would still be dictated by elected officials. The City Manager and each key business manager would be responsible for both implementing the City Council's directives and recommending to the City Council which services to provide and how to produce them (see Figure 1.3). The City Council decides which services to provide and how to finance them.

Figure 1.3. The Separation of Politics from Management in Rightsizing.



Source: City of Charlotte (1993): 28

Prior to Rightsizing, planning in Charlotte occurred on a year-to-year basis, where the City Council would establish a broad set of objectives but then focus on inputs and outputs in putting its budget together. Each time the City decided it needed a new service, it created a new department to deliver that service, thus ensuring service demands could

be met but neglecting efficiencies, such as those that could be achieved through scale economies. Performance measurement was purely retroactive and relied largely on input and output measures.

Charlotte's implementation of Rightsizing contained several foci on service provision activities, especially in the areas of strategic planning and decentralization of authority. One of the first steps taken after Rightsizing was the imposition of Key Business Five Year plans, in which each Key Business details those services it provides and presents a list of provided services that will be contracted out, opened for competition, or outright eliminated. A second change in service delivery planning was the development of focus areas, which identified the city's broad goals. During the FY 1992 budget discussions, the City Council decided on five focus areas: community safety, City-Within-a-City,⁸ economic development, transportation, and restructuring government (City of Charlotte 2000, 23). These focus areas have been consistent over time; the only changes that occurred were in specific goals designed to achieve the broad goals outlined in the focus areas. More recently, the City of Charlotte instituted the Balanced Scorecard System, where the City Council derives a broad set of desired future states and Key Businesses orient their activities to achieving those objectives.

Teamwork also plays an important role in planning for service delivery. Charlotte's Long-Term Plan for Rightsizing established five citywide teams and up to three teams for each department (Figure 1.3). City leaders comprised the *Strategic Team*, which was responsible for "steering the ship." That is, they provided direction for the overall course of city government through reviewing and approving plans, principles, and

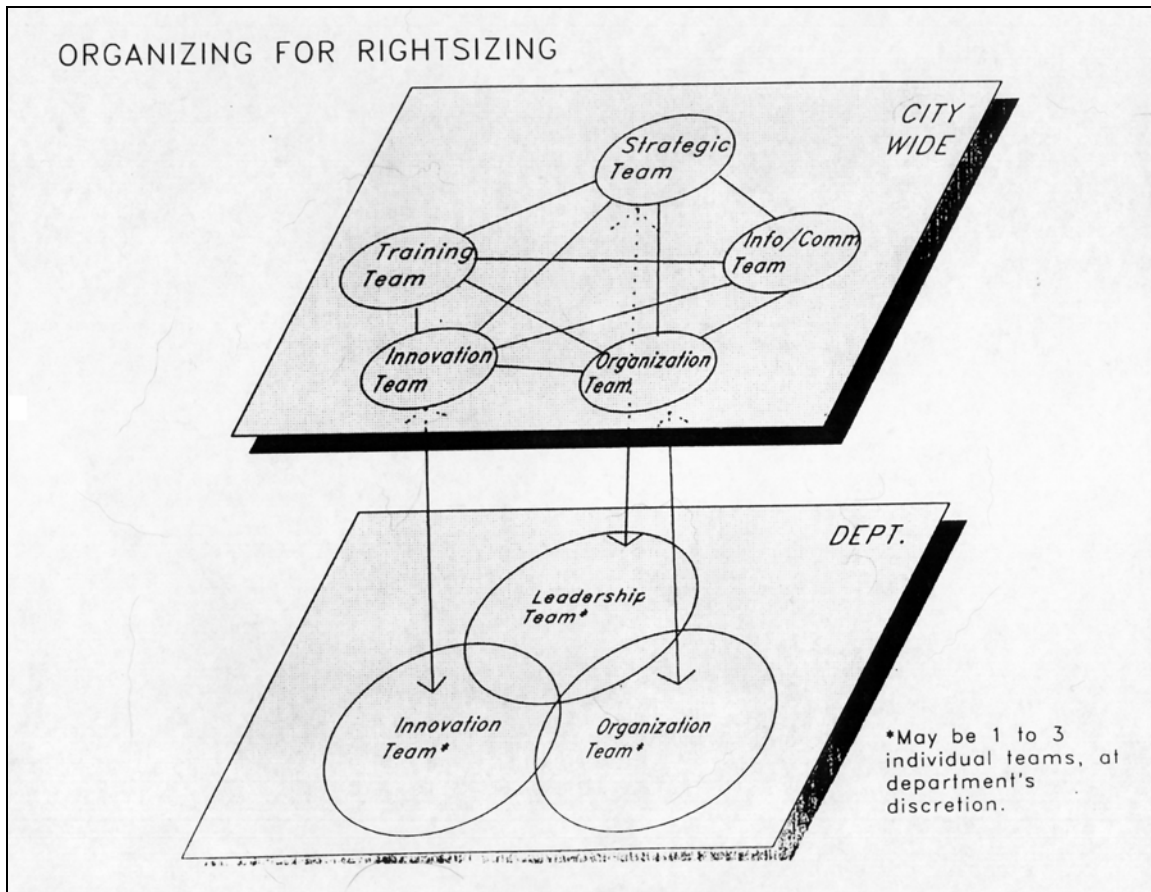
⁸ The City-Within-a-City focus area directs efforts towards revitalizing Charlotte's older downtown area.

processes adopted, ensuring departments achieve progress measures, and providing guidance to consultants and teams (City of Charlotte 1993, 38). The *Training Team*'s responsibilities included identifying and addressing training needs (City of Charlotte 1993, 39). Training not only focused on how to produce services; Charlotte also provided training in managing stress and change to 2,600 employees and working in teams to 750 employees (City of Charlotte 1993, 82). The *Innovations Team*'s responsibility was to identify new and alternative methods for providing city services by researching new ideas and examining departmental and employee ideas (City of Charlotte 1993, 40). The *Organization Team* received the charge to "develop a new model for the organization." The new organizational model for Charlotte's government relied on the ideas of decentralization, flexibility, minimal hierarchy, empowerment at the lower levels, rapid response to changing conditions, and competitiveness with the private sector and other local governments (City of Charlotte 1993, 41). The *Information/Communication Team* was charged with first, determining what information was needed for dissemination and second communicating Rightsizing's goals, principles, plans, and achievements across the government (City of Charlotte 1993, 42).

Each department can have up to three teams (see Figure 1.4). The *Leadership Management Team* is responsible for the establishment and achievement of the department's goals and principles, setting the departmental calendar for achieving its goals and communicating them throughout the department and with the city (City of Charlotte 1993, 43). The *Departmental Innovation Team* generates new ideas for the provision of that department's services; one requirement is that each departmental innovation team generates two new ideas per week or it disbands (City of Charlotte 1993,

44). The third departmental team is the *Organization Team*, which applies the citywide organizational model to the department (City of Charlotte 1993, 45).

Figure 1.4. City-Wide and Departmental Teams Organized to Define the Goals of Rightsizing.



Source: Charlotte (1993, 37).

Performance measurement has also undergone a transformation as a result of the Balanced Scorecard approach. Prior to 1994, Charlotte published a list of performance measures every six months that presented data on outputs, such as the number of fires to which the fire department responded, police response time to emergency calls, and lane-miles of road paved. Table 1.1 contains a list of the most frequently listed performance

measures prior to Rightsizing.⁹ Note that all measures are either output measures or cost per unit of output. Once the Balanced Scorecard was developed, Charlotte used the Balanced Scorecard annually to develop its Corporate Scorecard Measures. These are the specific measures that the City seeks to achieve in the upcoming fiscal year and are derived from the City's annual Strategic Plan. That is, for each outcome Charlotte lists in its Balanced Scorecard, it identifies a measure, defines the metric for that measure, and identifies the source of information. Given the proximity of implementation of Charlotte's Balanced Scorecard relative to the time period covered in this dissertation, the data presented here is unable to assess the degree of impact performance measurement has in subsequent planning processes.

⁹ The source of these is the Budget and Evaluation Department's Mid-Year and End-of-Year Objective Status Reports published between Fiscal Years 1982 and 1994.

Table 1.1. Performance Measures Frequently Listed Prior to Rightsizing

Department	Measure
Animal Control	Number of animals handled Citations issued for license violations Percentage of emergency calls responded to within primary response time
Police	Arson and unlawful burning clearance rate Housebreaking and larceny cases closed Homicide, suicide, questionable death cases closed Rape clearance rate by Felony Investigations Bureau Robbery clearance rate by Felony Investigations Bureau Percentage of high priority calls dispatched within 3 minutes or less
Fire	Fire rate per 1,000 population Injury rate per 1,000 population Death rate per 1,000 population Property loss per capita Number of fires investigated EMS Calls Total fire response alarms
Community Relations	Number of mediations conducted
Solid Waste	Percentage of service requests resolved within eight work hours Number of service requests Total curb miles swept Tons of bulky items collected Cost of backyard collection per month per service location Cost of curbside collection per month per service location Cost of multi-material collection per month per service location Cost of yard waste collection per month per service location
Public Transport	Requests for Special Transportation Services Requests for Special Transportation Services filled Average cost per ride for transporting the handicapped
Street Maintenance	Number of utility cuts made in City streets by franchised utility companies Number of utility cuts made in City streets by franchised utility companies closed Miles of city-maintained streets resurfaced
Engineering	Number of subdivision and apartment complex designs reviewed Number of building permits processed over a 12-month period

Communicating Rightsizing

The City of Charlotte disseminated the information in Figure 1.5 as an update to inform employees and citizens as to the goals of the Rightsizing process and to the progress being made to achieve those goals. It clearly states the reasoning behind Rightsizing was to control the growth in expenditures because the conditions favorable to budgetary growth in the 1980's no longer existed in the 1990's. The City of Charlotte, then, needed to develop a method to select more effectively which services to provide and then to determine how to deliver those services more cost-effectively. The Rightsizing Update in Figure 1.5 also clearly states that Charlotte would be taking a more customer-oriented focus and would create self-managed work teams with the ability to make decisions in the field to respond more quickly and flexibly to citizen requests. In order to implement Rightsizing, Charlotte undertook several training programs. The City first sought to train employees to equip themselves more effectively to the new work environment through computer training and training in teamwork. Charlotte also established a training program to retrain employees displaced by Rightsizing. These training programs served to illustrate to current employees that they were not simply being moved off of the payroll and that their contributions to the City were important. These training programs, as a result, quite probably reduced the amount of resistance that the City might have faced if they were downsizing government.

Figure 1.5. Rightsizing Update

	<i>Rightsizing Update</i>
Why Rightsize?	<p>In the past 25 years, Charlotte has grown from a small community into a large regional center. That growth, caused by abundant jobs, record housing starts and booming retail sales made Charlotte the hub of a large distribution, financial and transportation network. It was the “baby boomer” generation, the children of the ‘50’s and ‘60’s, who became the consumers that drove the economy of the ‘80’s. The rate of growth in the ‘90’s is not expected to be as great, which means a slowdown in the growth of the tax base. In addition, state government is now keeping some local tax revenues instead of returning these revenues to the cities and towns. All of these factors add up to less dollars to run City government</p> <p>To meet the challenges of a smaller funding dollar, Charlotte City government is evolving and changing to try to meet the needs of the community in a cost effective manner. This change means Rightsizing.</p>
What Is Rightsizing?	<p>Rightsizing is a process by which City government matches services to the community’s needs and values. When Rightsizing is complete, public dollars will be allocated to those services which are most important to the community. The organization will be more customer-focused with fewer employees and with many decisions made by self-managed work teams. These teams will have the ability to respond quickly to solve problems and be flexible in dealing with the citizens of the community.</p>
Progress made in past years	<p>This process of Rightsizing and efficiency is not entirely new. During the ‘80’s Charlotte began to look at ways to become more efficient. Several productivity task forces made up of the community’s top business leaders were appointed. They made recommendations that have been implemented by City government. During the past two years the number of City employees has been reduced by 330.</p>
Current progress	<p>The City’s first step was to strengthen the City’s training capabilities. A Training Team will provide training to City employees who are transferred to different jobs and will develop training for all employees on handling change and working as a team. The City established a Communications/Information Team that will provide information to the public and to employees throughout the Rightsizing process.</p> <p>A Customer Service Team, already working, was asked to make a Customer Service Center operational by August 1, 1992. This service center will use existing personnel to handle requests for service and information about City government.</p> <p>And greater use of technology, such as computers, local area networks and cellular telephones, is being encouraged to help employees accommodate Rightsizing and reduction in layers of supervision.</p>
Rightsizing the workload and workforce	<p>The City’s second step was to begin to “flatten” the organization by reducing layers of management within each department. Larger departments may have no more than five layers; smaller departments as few as two. By June 15, 1992, the City will develop a new organizational model that will emphasize self-managed teams and fewer layers of supervision.</p> <p>There will be efforts to reduce the workforce without layoffs. An early retirement policy, adopted by City Council, has been successfully used in other organizations. It will be offered to all eligible employees. The City will continue a managed vacancy program.</p>
Long-range program	<p>The City’s long-range program that will carry the organization through February 1993 will be led by a strategic planning staff. This group will provide oversight guidance and evaluation of the entire Rightsizing program. The long-range program also establishes a Citywide Innovations Team that will encourage new ideas on productivity and will work with consultants and citizen committees to accomplish this task and an Organizational Team that will develop a new model for City government. To help facilitate this effort, each department will set up teams using the same framework as the City-wide approach, with leadership, innovations and organizational teams.</p>
Assessing the needs of the Community	<p>Finally, it will be up to the Charlotte City Council to decide what services should be provided to the community and how these services will be financed. To help find the balance of services versus resources, City departments are completing a Services Handbook that will detail the activities, services and programs provided by each department.</p> <p>The City Council will begin to assess what services should be provided by identifying “key results areas.” These are the issues or services that the community feels are necessary. These areas will be ranked by priority. This ranking will assist City Council in determining the services or activities within each department that are the most important.</p> <p>The final phase will be to determine how services will be financed. City Council will decide who will pay for these services and will develop any alternatives for financing.</p>
Opportunities for the Future	<p>As Charlotte moves into the ‘90’s it will be facing more challenges than perhaps ever before in its history. But, history has shown how strong this community can be when faced with challenges. City government must look for new ways to be responsible to the community priorities. New flexibility and restructuring will provide new and innovative opportunities to provide services to a community with growing needs.</p>
	Published periodically by the City of Charlotte as an update on the City's Rightsizing Policy.

The City of Charlotte, as part of its Rightsizing program, has also completed two citizen surveys, one in 1995 and the other in 1999. The 1995 survey asked citizens to rank the budget priority of programs (City of Charlotte 1995). This was done to determine those programs that Charlotte could eliminate. Those services that received little support include cultural activities (Art in public buildings, the Arts and Science Council, and the Mint Museum, for instance), Animal Control, and some city beautification efforts. The 1995 survey also asked respondents to rate their perceptions of Charlotte's government and the responsiveness of City staff and the City Council. Forty-eight percent ranked the overall performance of Charlotte's government as good or excellent.

The 1999 survey asked citizens about their perceptions of the quality of life in Charlotte and to assess the performance of the City's Key Businesses. Specific quality of life topics included the availability of employment opportunities, housing, and safety. More than sixty percent of respondents felt that Charlotte was a good place to live in general, especially for economic opportunities and raising a family. Fewer than fifty percent of respondents felt that Charlotte's downtown area was safe, the only instance where fewer than half of respondents felt that a quality of life measure was positive. In assessing the performance of the city, respondents were asked about the availability of information, treatment by city employees, the promptness of service, and responsiveness to citizens. The 1999 survey collected more detailed information about citizen satisfaction with specific services. By 1999, citizen satisfaction had climbed to sixty-

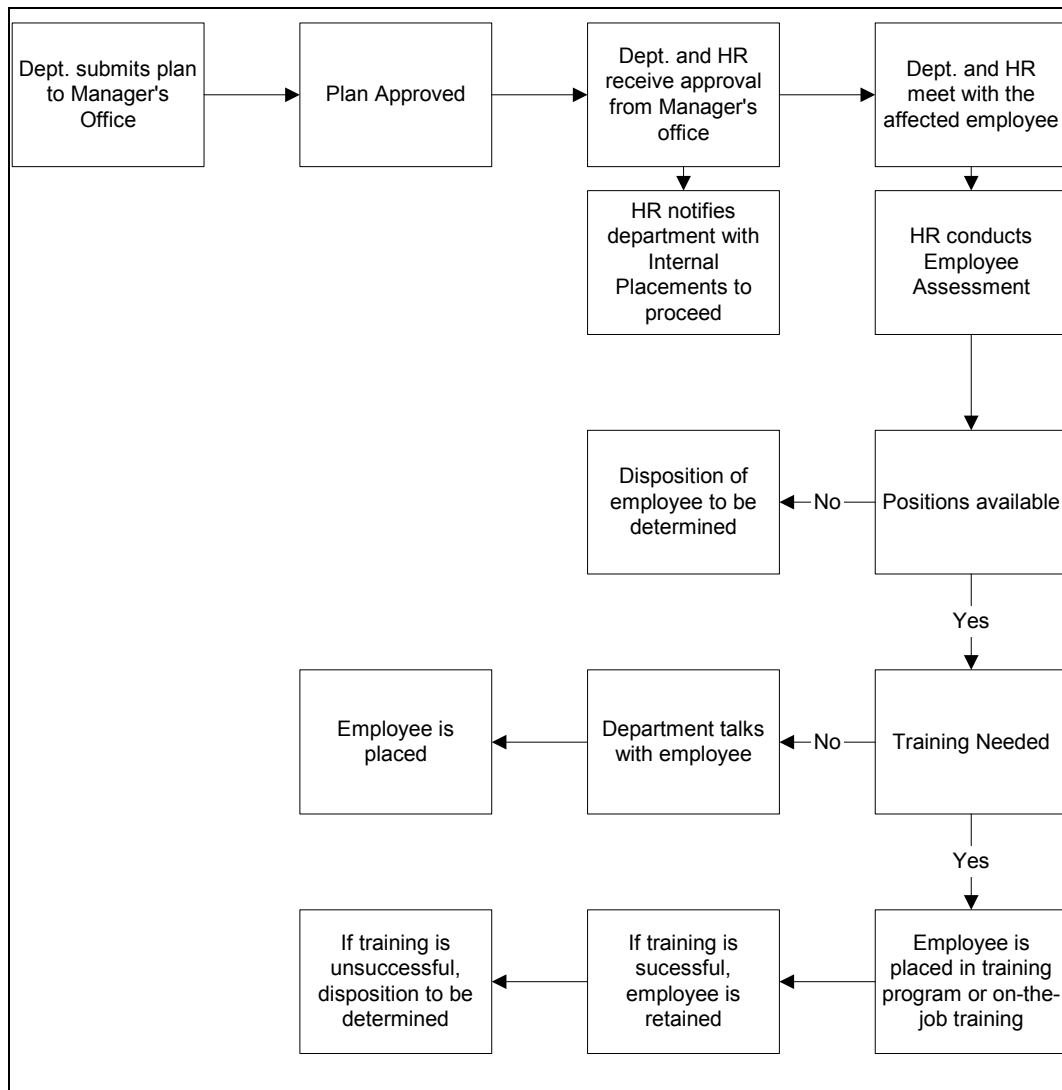
eight percent.¹⁰ There were, however, several areas in the 1999 survey that citizens felt that Charlotte was not doing a good job. Specifically, fewer than half of all respondents agreed with the statements that Charlotte is responsive to its citizens' needs, Charlotte's elected officials set effective policies, Charlotte is working to reduce the cost of services, and Charlotte spends tax dollars wisely. By way of contrast, more than half of all respondents to the 1999 survey felt that City employees were courteous and professional, that information was easy to obtain, and that Charlotte provides quality services.

Training City Employees

The reorganization of Charlotte's government resulted in the displacement of employees as their positions were eliminated. Charlotte instituted a policy whereby these employees would be retrained for positions that were created, whether in the employee's original department or in another department. Charlotte's policy on layoffs was quite clear: *There will be no layoffs as a result of Rightsizing* (City of Charlotte 1993, 30). In order to achieve their goal of not firing or laying off current employees as a result of Rightsizing, the City of Charlotte created training courses to deliver to their employees so that participants can improve service delivery and compete against the private sector for the production of services. Figure 1.6 contains the steps in the decision process Charlotte used to handle employees displaced by Rightsizing. Note that at several points in the decision process, the employee's disposition is undetermined (either when training is unsuccessful or there are no open positions available). Charlotte (2000) has made it clear, though, that Rightsizing did not result in the termination of a single employee from the civil service.

¹⁰ Standard errors of results were not available, preventing the statistical comparison of results across

Figure 1.6. The Process for Assisting Employees Affected by Rightsizing



Source: Undated Internal Memo, The Process for Assisting Employees Affected by Rightsizing

One of the first steps in implementing Rightsizing was the establishment of the training team. Reporting directly to the Deputy City Manager, the training team was responsible for developing skills in employees and for employees to better handle change and teamwork (City of Charlotte 1993, 33 and 84; City of Charlotte 2000, 42). The first

set of training programs was a response to several problems Charlotte noted, including the entrenchment of current organizational patterns that focus on command and control procedures, the fact that departments have differing levels of capability to handle change and have implemented technologies to different degrees, and that employees do not have the proper training to implement Rightsizing (City of Charlotte 1993, 33). Charlotte contracted with a consultant, who taught four/eight-hour classes in forming and developing teams to Charlotte's management staff, department heads, and other key personnel. One of the lessons learned by the training team early in the process was that teamwork was not necessarily the proper approach some units should take. They then worked with supervisors to determine which units would best function using the teamwork approach (City of Charlotte 2000, 42). Four Key Businesses subsequently arranged and delivered thirty-four/four-hour Workteam Basics classes (which included the benefits of working in teams, team processes, and team leadership) to supervisory and management personnel. Eight Key Businesses provided teamwork training to its employees (City of Charlotte 1993, 84).

Another training component was designed to enhance the reading and writing skills of supervisors, including basic communications skills using job-related vocabulary, forms, and reports. The Utilities Key Business had four tutors work individually with supervisors, resulting in changes in the department's accident reports and crew sheets. The Solid Waste Key Business trained its crew chiefs in writing accident reports and performance appraisals. The Transportation Key Business's coordinator received training as a tutor, which he then used to tutor fifteen department employees so that they passed

their commercial driver's license exam. This allowed the Transportation Key Business to reduce its reliance on outside commercially licensed drivers (City of Charlotte 1993, 84).

A further training component is the development of the Executive Training Institute (ETI) to assist each of the Key Business Executives (KBE) to develop the skills necessary to operate under the new structure (City of Charlotte 2000, 43). The first task of the ETI was to assess each KBE's personal development and leadership skills.

Consultants then reviewed those results individually and developed individual action plans with each KBE. A second component of the ETI was the twelve-month series of courses that focused on strategic planning, developing a holistic view of Charlotte's government, comprehending the various economic, social, and political forces that influence decision-making, and developing leadership skills consistent with the city's new organizational structure. During the ETI, one of the exercises assigned by the facilitator was to develop a business plan for each Key Business; however, since this assignment did not come from the City Manager the first business plans were not as effective as they could have been had the directive come straight from the City Manager (City of Charlotte 2000, 44). Since the ETI ended in 1995, the Executive Team that developed has continued to meet every month (City of Charlotte 2000, 45). These monthly meetings often include field trips to learn how their Key Business's activities intersect with each other and affect Charlotte.

Reorganizing City Departments

Those involved in the process termed it "Rightsizing" to stress that what was occurring was not simply government cutbacks but a reallocation of resources to those services determined most important. One of the main points of reform involved reducing

the 26 departments into 13 “Key Businesses.” Animal Control, for instance, was transferred into the Police Key Business. The Neighborhood Development Key Business subsumed the Community Development, Community Relations, Economic Development, and Employment and Training departments. Fire, Planning, Solid Waste, and Transportation did not subsume any other departments. Here, then, is one of the areas where Charlotte’s Rightsizing efforts diverge from NPM. Charlotte consolidated activities into fewer departments, whereas NPM supports the separation of functions. Nine of these Key Businesses are responsible for service delivery (Aviation, Engineering and Property Management, Fire, Neighborhood Development, Planning, Police, Solid Waste Services, Transportation, and Utilities); four serve as support organizations (Budget and Evaluation, Business Support Services, Finance, and Human Resources); and there are four “Charter Offices”: Mayor and Council, City Attorney, City Clerk, and City Manager, (City of Charlotte 2000, 13).

Each of these Key Businesses is flatter than their agency counterparts; most have reduced their hierarchical levels to five or less (City of Charlotte 1997a, 1). Reporting requirements have also changed so that each Key Business executive reports directly to the city manager; prior to this arrangement, agency leaders reported to a number of assistant city managers (City of Charlotte 1997a, 1). Even though Charlotte pulled functions together into larger agencies, it sought to achieve decentralization by flattening bureaucracies. Charlotte established targets for organizational layers based on the number of employees in the unit. Key Businesses with fewer than fifty employees should have one or two layers of management; those Key Businesses with between fifty and 125 employees three or fewer layers; and those with more than 125 employees five or fewer

levels. Table 1.2 contains the changes in the number of layers of management resulting from Rightsizing. Thirteen of the twenty-six departments listed in Table 1.2 reduced the number of layers of management and all had reached the targeted number of layers.

Table 1.2. Changes to Management Layers Resulting from Rightsizing

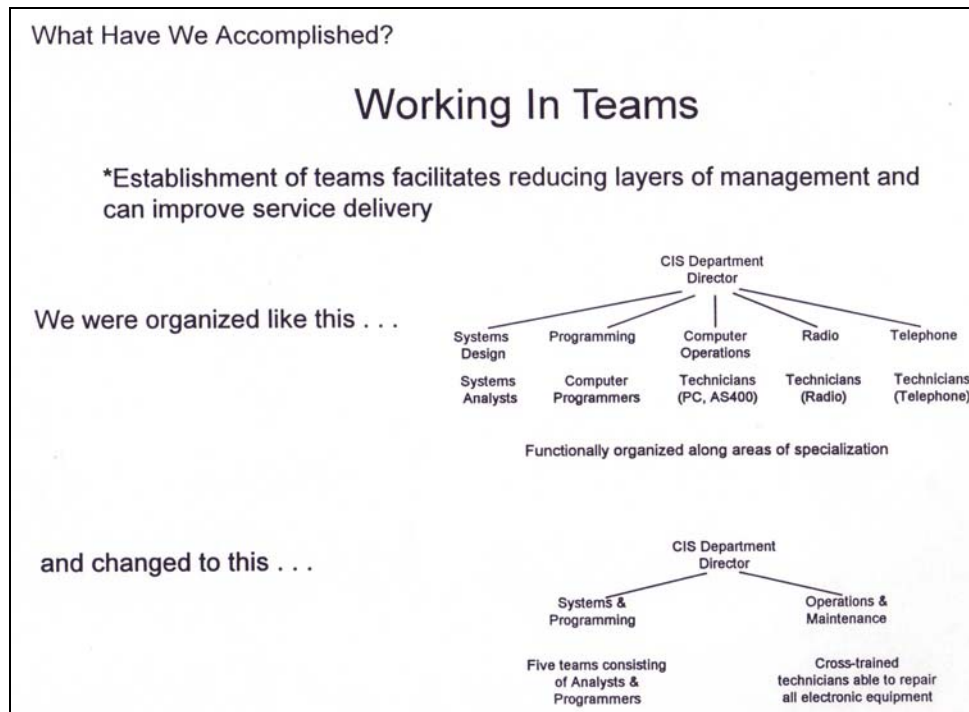
Department	Number of Employees	Layers of Management	
		Before Rightsizing	After Rightsizing
Airport	225	6	5
Animal Control	56.5	3	2
Budget & Evaluation	11.75	3	2
CDOT	419.25	6	5
CIS	72.5	3	3
City Clerk	6	2	2
Community Development	50	3	3
Community Relations	12.25	2	2
CMUD	673.75	8	5
Customer Service	9	--	--
Economic Development	3	1	1
Employment & Training	25	2	2
Engineering & Storm Water	156	6	5
Finance & DIRM	128	5	4
Fire	800.75	5	4
General Services	231.75	6	5
Human Resources & Training	26	3	2
Legal	14	2	2
Mayor & City Council	18	--	--
City Manager	15.75	2	2
Neighborhood Services	20	2	2
Planning	41	2	2
Police	1201	6	5
PS&I	16	3	2
Purchasing	15	2	2
Solid Waste	431	5	4

Source: City of Charlotte 1993, 80.

Individual units also reorganized to complete their tasks in workteams rather than along functional lines. For example, the Central Information Services Department (CIS) had been organized in five separate units according to their area of specialization prior to Rightsizing (see Figure 1.7). After Rightsizing, CIS consisted of five teams of analysts

and programmers while technicians were cross-trained in all of the various types of equipment.

Figure 1.7. Change in the Organization of CIS Resulting from Rightsizing.



Source: City of Charlotte 1993, 81.

The result of this reorganization has been described as more than a “paradigm shift;” the organizational cultures of the Key Businesses have shifted to match their private sector counterparts (City of Charlotte 1997b). Among those impacts reported (City of Charlotte 1997b):

- Key businesses are emphasizing customers and employees more than their predecessor agencies.
- Focus on costs has shifted to comparisons with private sector providers instead of with other local governments.
- Key businesses are utilizing alternate service delivery arrangements such as contracting to provide services.

Research Plan

I view NPM as a new governance mechanism in the provision of public services that seeks to replace the traditional (Weberian) bureaucracy with contractual relations where elected officials set goals for which public managers are accountable. Contracts, then, replace traditional bureaucratic controls (Considine 2000, 614). Rewards and punishments under the NPM model rely more on outcomes decided in the planning process rather than on the choice of inputs or outputs in the traditional bureaucratic model. Decision-making authority devolves to lower levels of government, which are then held accountable for those decisions. Services are frequently organized in a manner so that they may be opened for competition. Ensuring accountability, then, undergoes a substantial transformation as governments move away from the traditional bureaucratic model to NPM.

In this dissertation, I analyze NPM reforms in three separate, yet interdependent, topics. First is outcome-oriented planning. NPM strives to separate politics from administration distinctly (Box 1999; Plowden, 1994; Stewart 1996). Elected officials establish the goals for their communities, states, or policy area, and then direct agencies to achieve those goals. Several of the principles espoused in *Reinventing Government* are clearly planning activities – steering rather than rowing, goal orientation, taking an outcome focus, and anticipatory behavior. Several methods of planning are closely related to, and often part of, NPM activities. Total Quality Management (TQM) was often the first method of planning implemented under NPM. More recently, jurisdictions have switched to the Balanced Scorecards approach to planning as efforts have been more

focused on outcomes.¹¹ The separation of politics from administration inherent in NPM planning designs provides one illustration of the contractual nature of the relationships in NPM.

The second topic is municipal service delivery. Most scholars consider NPM to be the equivalent of downsizing. However, this approach only considers some of the reforms undertaken in NPM. A more proper identification of reorganization activities is that NPM seeks to realign service delivery structures with the demands for those services by both customers and elected officials. These efforts often involve creating a distinction between purchaser and provider, team-based production, devolution of decision-making, and pay-for-performance (Gore 1993). NPM reorganizes service delivery to attempt to import private sector practices into the provision of public services. There is an increased reliance on competition, contracting, privatization, and load shedding. Driving these changes is the belief that, as noted in *Reinventing Government* and the National Performance Review, government should be more customer-focused, enterprising, and market-driven. The data utilized to examine service delivery include service delivery plans and competition and contracting efforts.

The final topic evaluated is that of actual service delivery expenditures (as opposed to the true costs of service delivery which include overhead costs). One goal of the New Public Management, and of Rightsizing in Charlotte, is to control service delivery expenditures. Chapter five presents an analysis of service delivery expenditures

¹¹ Total Quality Management and Balanced Scorecards are sets of beliefs, principles, and activities that orient an organization towards planning production and/or service delivery with a focus on specific outcomes, such as ensuring customer satisfaction (TQM) or a priori defined desired states (Balanced Scorecards). Both are explored extensively in Chapter Three.

in Charlotte, comparing expenditures before and after Rightsizing as well as comparing between different services.

Transaction Cost Economics provides the basis for the explanation of these three phenomena. That is, the chapters on planning, service delivery, and expenditures conclude by discussing why Charlotte undertook the actions it did in light of Transaction Cost Economics and whether those activities did minimize costs. For instance, Chapter 3 concludes with a discussion on why Charlotte implemented Strategic Management and Balanced Scorecards in the manner it did in planning for service delivery resulting from Charlotte's efforts to implement NPM. Chapter 4 describes the activities exposed to market forces and seeks to provide an explanation as to why certain types of activities were exposed. Finally, Chapter 5 presents evidence as to whether Charlotte's activities actually impacted expenditures, controlling for indicators of demand for municipal services.

The Case Study Design

In this dissertation, I describe Charlotte's efforts, asking whether these reforms altered service delivery and spending, and utilize TCE to generate propositions explaining the outcomes of Rightsizing. For these purposes, the case study design is appropriate. Naumes and Naumes (1999) define a case study as "...a factual description of events that actually happened at some point in the past....The case is designed to meet specific pedagogical or research objectives of the case writer," (page 10). In the research design literature, case studies are often differentiated from large-*n* studies and experiments (Van Evera 1997, 50). Until recently, case studies have been considered the weakest of the three study designs. Experiments, typically thought of as the strongest,

allow the researcher to assure that the variables of interest are included in the experiment and to prevent *third* variables, those that may have an effect on the outcome but are theoretically uninteresting, from entering into the experiment. Large-*n* statistical analyses permit the researcher to control statistically for the effects of third variables; including a large number of cases in the analysis can also minimize the effect of omitted, but theoretically interesting, variables. Case studies suffer criticism because of the lack of control the researcher can exhibit on the inclusion/exclusion of third variables and the inability of statistical analyses to control for missing or third variables. As Van Evera (1997) points out, however, case studies can correct for the problems of missing variables or third variable influence by procedures such as process mapping¹² and multiple congruence procedures.¹³ The researcher can also minimize the chance that third variables can exert any influence over the results by selecting fairly uniform cases, so that there is little variance in third variables (Van Evera 1997, 52).

There can be one or several units of analysis in a single-case study. Yin (1998) defines a holistic case study where there is one unit of analysis in a single case study and embedded case study where there are multiple units of analysis in a single case. This dissertation is an embedded case study in that each Key Business is treated as a separate unit of analysis in the case of Charlotte, North Carolina. A description of what would be expected as a result from NPM-style reforms is presented in subsequent chapters.

Observations from Charlotte, gathered in published and unpublished reports and budget

¹² Process mapping is the procedure used to trace the causal process where antecedent conditions are translated into outcomes (Van Evera 1997, 52, note 9).

¹³ The researcher examines "...congruence or incongruence between observed and predicted values on several or more measures of the independent and dependent variables of the test hypothesis," (Van Evera 2000, 52, note 8).

documents are then compared with these descriptions. Yin (1994) identifies numerous techniques for enhancing the validity and reliability of case study research, including relying on multiple sources of evidence, explicitly documenting the sources of information used, and relying on pattern matching, explanation building, and/or time series analysis to generate causal relations. Yin (1998) makes the point that the analysis of a case study does not have a “cookbook” of methods as do other forms of research. He suggests as general guidelines that the researcher has to rely on rigorous thinking, explicit presentation of evidence, and alternative explanations for findings. Yin also outlines several specific methods of analysis in case study research – pattern matching, explanation building, and time series analysis. Pattern matching entails the comparisons of the data collected with theoretically predicted patterns. In explanatory case study research, the patterns can include both independent and dependent variables. As Yin states, “If, for each outcome, the initially predicted values have been confirmed, and at the same time alternative patterns from rival predictions have not been confirmed, strong causal inference can be made,” (Yin, 1998: 251). Explanation building involves identifying a set of causal links and testing them with the case study data. Time series analysis tracks the case over time, to determine the changes in the outcome variables as a result of the independent variables.

Yin (1994) lists the presence of “how” and/or “why” questions in the research, a lack of investigator control over events, and a research focus on recent phenomenon in its context as the conditions that lead to the choice of the case study over other forms of research when compared to other methods, such as histories, surveys, experiments, and statistical models. This dissertation asks whether Rightsizing in Charlotte altered service

delivery and develops propositions explaining any changes that occurred in planning and performance measurement, choice of service production mechanisms, and service delivery expenditures. It examines events that have already happened, preventing the manipulation of key variables. The research relies on pattern matching (Yin 1994; 1998) by comparing descriptions of what NPM-style reforms would resemble according to the NIE perspective with what is actually observed in Charlotte. I also utilize time series analysis to compare service provision and production in Charlotte before and after Rightsizing. Another method of examination applicable to the research in this dissertation is *multiple within-case comparisons* (Van Evera, 1997, 61) by examining whether independent and dependent variables covary across circumstances within the case. In this research, the case is Charlotte and the multiple circumstances are the actions of each Key Business.

Yin (1998) lists six sources of evidence in case studies: documentation, archival records, interview, direct observations, participant observation, and physical artifacts. In this dissertation, I rely on documents and archived records, such as Key Business plans and internal memoranda, and databases of annual expenditures. Documentation has the strengths of stability, unobtrusiveness, exactness, and broad coverage (Yin, 1998). Archival records add precision to the strengths of documentation. Both of these records, however, are subject to problems of reporting bias – that is, those authoring any documents may do so in a manner that presents their case in a positive light regardless of the “facts.”

Yin (1998) also identifies four methods to overcome data limitations in case studies. First is to seek convergent lines of evidence through triangulation. This entails

finding multiple sources of information that support the “facts” of the case as they are defined by the researcher. In this dissertation, I utilize budget documents, expenditure reports, service delivery plans, and competition results to document changes that have occurred as a result of Rightsizing. Second is to structure the analysis according to well-specified research questions, such as how and why events have happened. Each of the three analytical chapters are structured around a research topic: planning, service delivery, and spending. Third, the researcher should rely on theory to explain the “facts” of the case as well as to structure alternative explanations. That paradigm in this dissertation is Transaction Cost Economics. Fourth, the researcher should maintain a “chain of evidence,” which describes the source of the data collected and used and the methods used to collect it and links the presentation of that data back to its source (Appendix A contains a list of the documents and databases used in this dissertation).

One issue that arises in the discussion of case studies is generalizability. That is, scholars typically strive to conduct research that is generalizable to a larger population. Yin (1994) makes the point that case study research is not, nor should be, generalizable to a larger population, but should be generalizable to theoretical propositions or to generate theories. Case studies serve to provide analytic generalizations, where the purpose is to “...illustrate, represent, or generalize to a theory,” (Yin, 1998: 239). The goal of case study research is to “...expand and generalize theories (analytic generalizations) and not enumerate frequencies (statistical generalizations)” (Yin 1994: 10). This dissertation uses Rightsizing in Charlotte as a case to develop propositions that explain the changes that occurred in light of the view that the goal of government reorganization is to align service

delivery structures with their transaction costs in order to minimize service delivery costs while ensuring that service demands are met.

The research in this dissertation seeks to illustrate one city's experience in implementing the New Public Management. The Transaction Cost Economics perspective provides a "lens" by which the discussion of Charlotte's experiences can be organized. Charlotte was chosen because it is one of the leading cities in introducing NPM-style reforms into its management practices through strategic planning, Balanced Scorecards, open competition for service production, and customer surveys. Because of these unique efforts, the findings in this dissertation may not be applicable to other municipalities in the United States or abroad. Furthermore, since much of the research is exploratory in nature, theoretical generalizations that result from the findings presented herein should be subjected to other methodologically rigorous testing.

CHAPTER 2

MUNICIPAL REFORM ACCORDING TO THE TRANSACTION COST ECONOMICS PERSPECTIVE

The Transaction Cost Economics perspective (TCE) provides the basis for understanding the New Public Management and Charlotte's Rightsizing effort in this dissertation for two reasons. First, as stated in the introduction, the research presented here proceeds with the view that municipal reform can be thought of as the search for the set of governance mechanisms that minimizes the political and managerial transaction costs of municipal service delivery. Second, TCE provides a substantial portion of NPM's foundation. The first section in this chapter presents TCE. Following this is a review of current scholarship that utilizes TCE to explain public sector phenomena, such as budgetary processes and service delivery arrangements. The final section models municipal reform as a transaction cost minimizing strategy. This model forms the basis of the propositions developed that explain the changes resulting from Rightsizing. In subsequent chapters, I examine Rightsizing's outcomes.

Transaction Cost Economics

TCE is the study of institutional arrangements used to manage transactions in order to protect the interests of the traders (Shelanski and Klein, 1995). Transactions are the exchanges of resources among firms and individuals in the production of outputs. According to this perspective, transactions are the basic unit of analysis and occur in both markets and hierarchies. These transactions can be entirely internal to the organization, as

in the case of the employment contract between a firm and an employee, and external, as in the case of a contract between two firms to provide a necessary input in the production process. Transaction costs are "...the resources expended in planning, adapting, and monitoring task completion," (Maser 1986, 58). Building on the work of Coase (1937) and Commons (1925; 1934), TCE stresses that organizational arrangements develop in order to minimize transaction costs. The study of Transaction Cost Economics examines the dimensions by which transactions differ and how those differences enhance or detract from the efficacy of the organizational forms created to maintain those transactions.

Factors surrounding the transaction and the transactors may impose obstacles to the successful completion of the transaction. Thus, different organizational structures emerge to govern and facilitate transactions. Some transactions occur in an open market while others are restricted to vertical or "lateral" hierarchies. In between these two extremes lie a number of other arrangements, such as hierarchies, markets, hybrids, and bureaus (Williamson 1996, 7). The nature of the organizational arrangement depends systematically upon the specific transaction. If something about the transaction changes, a new governance mechanism may be more able to achieve cost minimization.

Transaction Cost Economics (TCE) assumes that bounded rationality and opportunism prevent the perfect structuring of contracts prior to production and examines the governance structure necessary to operate the firm after production has begun. Given lack of perfect foresight, parties to a contract cannot structure the terms of that contract to reflect every possible future event. Contingencies may sometimes occur which give one of the parties the ability to exploit the other; the belief that individuals are opportunistic implies that they will take advantage of these opportunities. As a result, contracts are

necessarily incomplete and firms require governance structures to maintain their operations. According to TCE, transaction attributes and the transactors inform the best choice for the governance mechanism to assure completion of the transaction.

In order to understand how transaction costs come to inhibit working relationships, Williamson (1981) first makes several assumptions concerning human behavior — that humans are boundedly rational and that they are opportunistic. The assumption of bounded rationality derives from the work of Herbert Simon (1955; 1957a; 1957b), who argued that people cannot comprehend and analyze their environments fully when making decisions even though they attempt to choose the most rational alternative among those analyzed. That is, although people

...experience limits in formulating and solving complex problems and in processing (receiving, storing, retrieving, transmitting) information, they otherwise remain “intendedly rational.” (Williamson 1981: 552)

Intended rationality refers to a person’s intent to make the best decision possible, even though that person may not have all of the information nor the necessary capacity to process it to make an ideal decision. Yet, a cognitive decision making process limited by incomplete information is, by itself, not enough to impose substantial transaction costs. Williamson (1981) states that comprehensive contracting between principals and agents could occur even where bounded rationality existed. Principals and agents could simply promise that they would act in good faith, even when unanticipated events occurred. Some people, however, will act opportunistically to exploit unanticipated events through dishonesty and deceit.

Williamson (1981) defines three “critical dimensions” to a transaction that affect the selection of governance mechanism – asset specificity, uncertainty, and frequency. Asset specificity refers to the extent to which the elements necessary for the successful

realization of the transaction are specific to that transaction or may be sold on an open market. For example, certain job skills, such as learning a firm's accounting system, may be specific to the operation of a single firm, whereas typing is a skill that may be sold on the open labor market. Thus, high asset specificity refers to situations where the elements of a transaction are specific to that transaction and low asset specificity refers to elements that may be sold on an open market. Holding uncertainty and frequency constant, where asset specificity is minimal, firms will use classical market contracts to purchase inputs. As asset specificity increases, firms will enter into bilateral or obligational market contracts. Spot markets will no longer supply the assets since potential suppliers will not be willing to accept the risk of producing the assets given a highly specific demand. That is, a firm that sells an asset that can only be used for a specific purpose can find little value in selling that asset for other uses and can then be held hostage by the purchaser unless there are safeguards in place. Alternatively, a monopoly provider of an asset can hold a firm that relies on that specific asset hostage without adequate protection. As a result, firms will rely increasingly on internal organization to ensure supply of highly specific assets (Douma and Schreuder 1991; Williamson 1981). Firms are likely to try to retain people familiar with their accounting system and "shop around" for the lowest cost typist.

The second dimension of a transaction is the uncertainty/complexity of the transaction, which is related to bounded rationality — people do not know all of the elements in their environment nor can they predict future states that may alter the conditions surrounding the contract. Williamson (1996, 60) states that contracting problems arise due to "behavioral uncertainties" that result from necessarily incomplete

contracts and asset specificity. Behavioral uncertainty is the condition in an incomplete contractual arrangement that arises from contingencies in the environment and opportunistic behavior or miscommunication between the contracting parties. Higher transaction costs are expected in highly complex or uncertain transactions. Note that there must also be a pre-existing investment for uncertainty to expose a trading partner to loss (Shelanski and Klein 1995). Firms are not exposed to trading losses unless they actually commit resources to that transaction. Transaction governance also becomes more difficult when there are multiple transactions involved in the successful completion of that transaction. These complex transactions are also less likely to be handled through market arrangements (Marsh 1998).

The third dimension to the transaction is its frequency. Given instances of high asset specificity, vertical integration requires that the high costs of internalizing the transaction be recoverable, which is more likely given very frequent transactions (Bryson and Ring 1990; Douma and Schreuder 1991). It may be too costly, in contrast, to maintain a transaction with high asset specificity in-house if that transaction occurs very infrequently. For instance, TCE would predict that a state highway department ought to be more likely to contract out the construction of an interstate highway rather than maintain the in-house capacity to construct that highway itself given the highly specific needs in interstate highway construction and the infrequency of interstate highway construction. However, road resurfacing equipment, which is also highly specific to its purpose, is more likely to be maintained by the highway department since road resurfacing occurs much more frequently. The nature of the asset specificity may supercede its frequency, however. Consider an instance where a state government has to

develop and maintain a database of all patients that receive care for mental illness. While it could be more cost efficient to contract that out with a database company, the nature and sensitivity of the information in that database might preclude contracting it out with a private firm.

Marsh (1998) adds the difficulty of measuring performance and the degree to which a transaction is connected to other transactions as additional dimensions. As performance measurement becomes more difficult, the transaction is more likely to be located within a hierarchical arrangement rather than in a market arrangement. Markets are more likely to supply those products that are more easily differentiated and observed than those products that are not differentiable. Firms are more likely to use the market to supply inputs when they can easily quantify and measure the quality of the goods and services they are purchasing. Firms are more likely to rely on hierarchy when performance measurement is difficult since ensuring performance then relies on more direct controls over the production process. The classic example in government is that of refuse collection. Governments can easily identify the amount of household trash to collect (both by the number of households in the community and the weight of the trash disposed) as well as the frequency with which it is collected. Furthermore, it is easy to discern individual customers, so that garbage collection is differentiable. Thus, governments have found contracting garbage collection with private firms to be cost-effective (Savas 1987; Rehfuss 1989). By way of comparison, performance measurement is much more difficult for police patrols. The quality of patrol can only be observed indirectly, either by examining the crime rate (which is influenced by a myriad of factors) or counting the number of times a street is patrolled (which is overly costly) or by

calculating response time to calls (which is also affected by other factors and does not necessarily estimate crime suppression but crime response). Thus, municipalities have been much less likely to contract police patrols out.

Scholarly research into the relationship between the components of transaction costs and the governance mechanisms utilized has largely examined the role of asset specificity in determining the choice of governance mechanism. Empirical specifications, then, have also been targeted towards asset specificity. Williamson (2000, 108) presents a heuristic model of the relationship between asset specificity and the choice of market, hybrid, or hierarchy. Asset specificity is presented as a continuum in which there are discrete thresholds that determine the transaction cost minimizing solution. That is, until the degree of asset specificity rises to the first threshold, a market arrangements is the most transaction cost minimizing. Between that first threshold and the second discrete threshold, hybrid arrangements are the most transaction cost minimizing. Finally, when assets specificity rises above the second threshold, hierarchical arrangements are the most transaction cost minimizing.

Empirical specifications of asset specificity have followed this pattern. Joskow (1996), for instance, relies on dummy variables to estimate the site specificity of coal mines and whether or not a coal mine is located near a processing plant.¹⁴ Klein (1988) suggests that GM's purchase of Fisher Auto Bodies did not necessarily correct the problem of "hold up" by Fisher because, even though GM now owned all of the physical assets and could dictate their location, Fisher could still hold up GM because they

¹⁴ The type of coal supplied to a processor is dependent on the source of coal. Thus, the location of the coal mine also serves as a proxy measure for physical asset specificity, since coal processors must invest in equipment based on the type of coal they will be processing.

possessed the technical knowledge to operate the machinery. The presence/absence of technical knowledge, then, is how asset specificity is measured in this case. Monteverde and Teece (1982) utilized two design engineers in the automobile industry to estimate on a 10-point scale the amount of engineering knowledge required to manufacture parts in the construction of automobiles. Masten (1984) utilized a choice-based sample of staff and managers in engineering departments of aerospace firms to derive a three-level variable measuring the design specificity of parts utilized in the aerospace industry. He defines the three levels as highly specialized (used only in a specific firm), somewhat specialized (adaptable for use in other aerospace firms), and relatively standard (used outside the aerospace industry). Masten and Snyder (1993) utilize the government classification of the importance of machinery in shoe manufacturing as major and minor. A major machine is one where its failure would cause a complete or near-complete stoppage in the assembly line. A minor machine is one where its failure would only cause a relatively small inconvenience.¹⁵ In each of these instances, then, asset specificity is categorized in discrete levels.

Criticisms of Transaction Cost Economics

Marsh (1998) has documented several scholars' critiques of Transaction Cost Economics. First TCE relies on the assumption that transaction attributes exist independent of the governance mechanism employed to manage that transaction (Dow 1987). Marsh uses this criticism to argue that the examination of the competition for public services cannot be easily done according to the TCE perspective because service contracting often changes the quality of output; thus, comparing different organizational

¹⁵ The U.S. Government defined shoe manufacturing machinery in its case against United Shoe Company

arrangements cannot be done because the service is different. Marsh seems to be suggesting that quality is an attribute of the transaction that should be independent of the governance mechanism. Quality, however, is not independent from the transaction and it, as well as other outcomes, should factor into the choice of the governance mechanism such that the choice of the governance mechanism should reflect the overall net benefit to the firm. That is, even though a particular governance mechanism may provide the most cost-efficient governance arrangement, an organization may wish to employ an alternative governance mechanism if it satisfies some other criteria important to the organization.¹⁶ Government organizations, for instance, often have numerous criteria by which they measure success, including but not limited to cost efficiency, effectiveness, and equity. Certain policies that may not be the most economically efficient may exist because they provide a particular group redress for past wrongs. Government policies indicating that a certain percentage of its work be contracted with minority- and women-owned businesses may be more costly than a purely open competitive arrangement but serve equity goals of modern society.

Marsh (1998) also points out that TCE does not account for organizational learning; new knowledge and new technology may alter the transaction costs of a specific governance mechanism such that another one is now more appropriate. Marsh states,

Technological change is a further example of an issue which has important implications for relative transaction costs but which the TCE framework does not currently handle well...(T)he decentralization of housing management...was facilitated by advances in information technology which made a decentralized

for monopolistic practices (Masten and Snyder 1993).

¹⁶ Joskow (1987) finds that the duration of contracts between coal suppliers and utilities varies according to the type of coal supplied. Masten and Snyder (1993) find that, when compared to outright purchase, leasing offers the lessee the advantage of securing higher quality commitments from the lessor over a longer time frame.

organization no more expensive than a centralized one. If the TCE framework cannot handle the sorts of changes that have already occurred with any degree of comfort then it suggests that caution is necessary with considering (the TCE framework's) utility as a general framework for understanding organizational change (pp. 12-13).

This criticism is founded on the assumption that once a firm has achieved its governance arrangement in managing a transaction the governance arrangement is fixed; that is, the firm no longer seeks to find alternative governance structures that may further minimize transaction costs. However, there is nothing in the TCE literature to support that this is one of its tenets. Rather, the TCE framework can quite easily adapt to organizational changes. Firms can reexamine the costs of governance mechanisms when there are changes in some aspect of the transaction to determine the more efficient arrangement. In Marsh's example, the new technology that facilitated the decentralization of housing management did so because it altered the costs of collecting information about housing management. That is, technological advances reduced the uncertainty of housing management by providing more timely information, thus allowing greater reliance on governance forms other than hierarchy.

The third criticism leveled by Marsh (1998) is that the possibility exists that the social and political context of the transaction may determine the governance mechanism's effectiveness in governing the transaction independent of the transaction attributes. One aspect of the social context that receives some treatment is that of trust. One might expect that in a "high-trust" culture, the role of opportunism in determining transaction costs is qualitatively different than in a "low trust" culture. Nooderhaven (1995), for instance, explores the logic behind Williamson's stressing that hierarchies may be more suitable for some transactions than markets in that hierarchies generate cooperation and loyalty among their employees. However, Nooderhaven argues, the

stress placed on opportunism dictates that cooperation and loyalty in organizations will not exist, collapsing the hierarchical arrangement built on those concepts.

Williamson (1996, 272-275), in response, categorizes trust into calculative trust, personal trust, and institutional trust. Personal trust is that which exists between two people in an emotional sense and excludes commercial relations. Emotional relations exist beyond a calculus of exchange in that each party invests of himself to create an “us” which defines the person (Williamson 1996, 272). Institutional trust is the context in which economic transactions occur and, as such, opportunism reasserts itself in the transaction. That is, the governance mechanism is chosen with respect to the institutional context in which it exists. Calculated trust is the amount of risk an individual is willing to place in a transaction. Individuals estimate the amount of risk inherent in a transaction according to the transaction’s uncertainty and the reputations of the other transactors in order to devise and estimate of the optimal level of trust to place in a transaction. Wicks et al. (1999) model three levels of trust in the development of *optimal trust*. High levels of trust between transactors provides for almost no transaction costs as long as there is no defection away from the agreement and can significantly reduce the costs of adjustment should environmental contingencies change. Moderate levels of trust, present where there is a small amount of interdependence between the parties, increase monitoring costs and have limited ability for adaptation. Low trust, existing in independent relationships, is associated with very high transaction costs of monitoring and presents very limited opportunity when conditions change. Optimal levels of trust are where the firm neither overinvests nor underinvests in trusting its trading partners, as mismatching the level of trust with the situation could result in increased transaction costs, either by opportunistic

behavior (when overinvesting in trust) or by overapplying monitoring (when underinvesting in trust). Frank (1988) also notes that when there is too little trust placed in an exchange relationship, the probability of opportunism increases, quite possibly because the parties to the transaction assume that the script is one of opportunism (see Weick 1979; Dees 1992; and Lee and Mitchell 1994).

Applications of Transaction Cost Economics to the Public Sector

Transaction Cost Economics has made several inroads into the study of government and public administration. Twight (1994), Hammond and Knott (1996), Gilligan (1993), Ferejohn and Shipan (1990), and Weingast and Marshall (1988) all have explored some aspect of the political decision-making process utilizing the TCE approach, focusing on such aspects as legislative structure and the relationship between legislatures, executives, courts, and bureaucracies. Other scholars have focused on the structure of government and the organization of service delivery, especially the decision to contract service production with external producer or retain production in-house. This review concentrates on those studies that apply TCE to service delivery issues in government, including budgeting, bureaucratic organization and the decision to produce in-house or contract out service provision.

Public Budgeting

Politicians rely on the budgeting process to constrain bureaucratic choice and to establish long-term commitments for their constituents. Horn (1995) fits an approach to public budgeting based on NIE within a broader framework of control over the bureaucracy. He lists three variables that determine the choice of budget mechanism used to control the bureaucracy. The first variable is the distribution of costs and benefits

among citizens. In the federal government, both the costs and benefits of legislation are distributed across a wide swath of society; incentives for citizens to monitor bureau behavior are weak. Should either the costs or the benefits (or both) of legislation be concentrated to a select group, however, the legislature is likely to establish budget mechanisms that ensure the bureau cannot reallocate resources away from the policy. Where concentrations do exist, citizens have greater incentives to monitor bureaucratic behavior and make known when it does not legislative intent or stakeholders' preferences. The second variable in Horn's model is the ease of measurement of bureau output or specificity of bureau goals. Goods and services easier to evaluate will present fewer monitoring costs. Third, since there is no competitive market for bureaucratic output, there is no method to determine the value of output. This leads to additional problems of valuing the factors of production and the mix of factors that went into producing bureaucratic output. The third variable, then, is the amount of information legislators can trust to reflect actual costs of production and demand for bureaucratic output.

Horn then compares three forms - entitlements, formulaic expenditures, and long-term appropriations. Expenditure restrictions are directives in agency budgets that define the inputs an agency can purchase. Legislators use mandated expenditures to solve the problem of commitment, as these expenditures can only be altered through legislation which is more difficult to pass than changes to agency budgets. Examining the costs and benefits associated with mandated expenditures, costs to current citizens are reduced as future taxpayers are encumbered with the burden of funding the legislation. Benefits may be derived by current citizens, as in the case of services and items that are provided

through deficit financing which encumbers future taxpayers who cannot voice their opposition. Finally, entitlement recipients have the incentive to monitor bureaucratic behavior such that legislators minimally monitor bureaucratic behavior.

Patashnik (1996) outlines a transaction cost approach to public budget reforms that begins with the premise that budgets are contracts between political actors. Several questions emanate from this view. First, as Wildavsky (1964) asks, how can legislators and constituents enforce the budget contract? Second, do items within the budget contract differ? If so, on what dimensions do they differ? Finally, why are there several different kinds of budgets and methods of budgeting? Patashnik attempts to answer these questions through a conceptual model of budgeting based on three propositions.

1. The costs of negotiating and enforcing budget 'contracts' shape the budgetary process and, through them, budget outcomes.
2. Political actors deliberately craft institutional safeguards to add durability to their commitment.
3. Budget reforms are unlikely to succeed if they fail to take into account both the potential for opportunistic political behavior and the inherent need of complex transactions for contractual safeguards (Patashnik 1996, 191).

Patashnik includes in his model the work of Moe (1984) and Horn (1995), who posit that political actors structure the outcomes of their decisions to prevent future decision makers from drastically altering those outcomes. There are two methods by which budget makers can ensure future political actors cannot reverse budgetary decisions. The first is by ensuring that current budget decisions are compatible with future budget makers' preferences. There are certain programs that, because of their popularity among the public, are difficult to cut (e.g., Social Security). The second is by crafting institutions which impose prohibitive transaction costs on future decision makers who wish to reverse earlier budget decisions. These attempts to structure budget contracts

to ensure that they are not reversed in the future also increase the likelihood that new governance structures will not emerge. Patashnik uses these two methods to devise a typology of the credibility of budget ‘contracts’ (195), included in Table 2.1.

Table 2.1. Credibility of Budget Contracts.

Level of Institutional Protection	Officeholders’ Incentive to Maintain Promise	
	Strong	Weak
Strong	Credible	Semi-Credible
Weak	Semi-Credible	Empty Promise

Source: Patashnik (1996, 195). Table 2. Credibility of budget contracts.

Social security is the best example of a credible commitment as its budget is formula-driven and strong political will has existed to resist cutting benefits. Where political support for a program is weak, political actors can maintain the viability of future programs by structuring them in such a way as to impose severe transaction costs for their alteration. Formulaic redistributive programs often fall into this category. Pork-barrel projects receive strong support from a relatively concentrated constituency but lack institutional protection as there is no pre-existing commitment to their allocation. Some programs, finally, receive little support politically and are not entrenched in the bureaucracy, such as migrant health care.

Patashnik also focuses on the method of budgeting by placing several methods of budgeting – annual appropriations budgeting, zero-based budgeting, and entitlement budgeting – in the context of TCE. Zero-based budgeting allows great flexibility as budgets are supposedly begun from scratch each year. This prevents policy makers from committing to long-term benefits for their constituents. Zero-based budgeting also drastically increases the workload for decision makers. Appropriations, or incremental, budgeting provides some commitment toward future expenditures, reduces the amount of

information for decision makers, and permits budgeters to make adjustments to budgets. Entitlement budgeting provides little flexibility, but greatly reduces the amount of information needed for decision making in future budget cycles and also greatly increases the commitment of future decision makers to maintain the policy.

Two dimensions of transaction costs are pertinent to Patashnik's model: uncertainty and asset specificity. Uncertainty applies as described in maintaining credible commitments from future decision makers and those who will be implementing the current budget. That is, the greater the degree of uncertainty, the more likely legislators are to use methods which prevent changes to legislation. Patashnik interprets high asset specificity in the political context to mean those decisions that have the potential for severe consequences. Those decisions with high asset specificity or that exist in a highly uncertain environment are those that require a long term commitment, reduced information costs, or both. Social security, for instance, requires a long-term commitment as individuals will make decisions regarding retirement savings based on their beliefs of the government's commitment to their retirement. Budgetary decisions made by local governments often require year-to-year flexibility in response to changing conditions in a municipality. Local governments' decisions must be credible in order to maintain their financial standing among creditors; drastic budgetary decisions are frowned upon, then.

Service Provision

Marsh (1998) traces the issues surrounding Britain's compulsory competitive tendering (CCT) policy of housing management functions according to the TCE perspective. He considers housing management a "white collar" activity and contrasts it with "blue collar" activities to explore the potential transaction costs of contracting out

housing management. Blue collar activities lack the complexity of white collar ones, do not require specific investments, and are relatively easy to monitor. Housing management, however, is relatively complex as it often requires the cooperation of other transactors. Performance measurement is also more difficult in housing management than in blue collar activities because of its reliance on other actors, including other contractors and tenants. The CCT of housing management also required that contractors adopt a uniform information system, requiring a costly investment up front. March concludes that the CCT of housing management is prohibitively costly and will probably not work well.

Coles and Hesterly (1998) examine the interaction of asset specificity and uncertainty in hospitals' make or buy decision. They hypothesize that only when assets are specific to the transaction will increasing levels of uncertainty result in increased vertical integration ("make"). When assets are not specific to the transaction, they hypothesize, uncertainty has no relationship with vertical integration. Coles and Hesterly then randomly surveyed general hospitals to determine which of fifteen services are contracted out or produced in house. They also asked several questions about physical and human asset specificity and uncertainty at the hospital level, not the individual service level. Specifically, they asked respondents to rank on a five-point scale,

- The degree to which equipment is specially designed for that hospital;
- How much of the physical equipment in a hospital unit could be sold off if the service that unit provided was no longer offered;
- How long a newly hired employee would need to attain a satisfactory performance rating;

- The amount of coordination needed between administration and service delivery units;
- The simplicity/complexity of the specific service analyzed; and
- How frequently new methods are introduced into the delivery of a service.

In their analysis, Coles and Hesterly created dummy variables where 1 indicated the presence of asset specificity. This was based on a respondent indicating that asset specificity was present at least some of the time (anything greater than 1 on their five-point scale). The analysis consisted of separate equations that included all fifteen services over the entire sample and an interaction between one type of asset specificity and one type of uncertainty, controlling for hospital size, public/private distinction, and whether the service was directly provided to the patient or not. They found that private hospitals are more likely to integrate service production than are public hospitals in instances of increasing uncertainty at similar levels of asset specificity.

Organization

Bryson and Ring (1990) develop an approach to policy intervention based on TCE. Consistent with TCE, they model the appropriateness of certain policy mechanisms according to the nature of the transaction. Bounded rationality, opportunism, asset specificity, uncertainty, and frequency are thus important criteria by which to gauge the efficiency of governance mechanisms. Other dimensions of transactions Bryson and Ring included are information impactedness, small numbers, excludability, and jointness of consumption. Parties to a transaction often withhold information concerning their willingness to pay or qualifications to provide the service from other transactors. The lack of alternative transactors exacerbates conditions of high asset specificity. Excludability

and jointness of consumption derive from the nature of public goods – their provision often cannot be parceled out to recipients (preventing unit pricing) and individuals may consume a public service without impacting the quality of the service to others. Public goods, since pure “buyers” and “sellers” cannot be identified, are more difficult to govern in market conditions.

Bryson and Ring also add justice and liberty to the criteria by which governance mechanisms are evaluated. That is, the bulk of the research in the New Institutional Economics stresses that governance mechanisms are chosen that minimize the costs of that transaction, thus stressing efficiency as the criterion by which governance mechanisms are chosen. The justice criterion is very similar to equity in public policy analysis – governance mechanisms should be evaluated according to whether they result in fair treatment of transactors and the equitable distribution of resources. Evaluating governance mechanisms according to liberty necessitates examining the restrictions governance mechanisms place on individuals as well as the freedoms they guarantee others through their prevention of externalities.

Bryson and Ring examine theoretically four classes of governance mechanisms in the context of the provision of education services. The first, self-service mechanisms, are those where individuals supply the service themselves or get the service through others’ voluntary efforts. Self-service mechanisms satisfy the freedom and justice criteria because individuals are free to choose what they study and recent technological advances have expanded the availability of information. Self-service mechanisms do not satisfy the efficiency criterion, however. When individuals educate themselves, they are not sure what subjects to study nor do they understand the best methods for learning (self service

succumbs to bounded rationality and uncertainty). Voluntary provision of education may alleviate problems of bounded rationality and uncertainty, but it possesses the problems of excludability and jointness of production. Regulation can alleviate these problems, but suffers from the fact that it may not satisfy the criteria of efficiency, justice, and liberty. Regulation restricts individuals' educational choices and places costs on offerings. Market provision of education services in the form of one-on-one tutoring, which solves the problems associated with the public goods nature of education, does not satisfy the justice criterion because very few individuals will be able to afford to purchase that service. Furthermore, one-on-one tutoring in the absence of government regulation leads to opportunistic behavior and information impactedness and suffers from asset specificity and uncertainty. Hierarchical arrangements to deliver education may develop to sell education services, but these also fail the justice requirement and do not completely correct for some of the transaction costs failures that impact efficiency.

The next potential arrangement is the government provision of education services with the government taking the student "hostage" by requiring a minimum number of years of education. The current method of education provision, relying on school districts to tax and set curriculum, violates the justice criterion since some school districts are better able to afford more and higher quality education services. It also violates the efficiency criterion as buyers, because of their asset-specific investments in housing, may be unable to exit into another school district. Recent educational reform has sought to correct for these problems by introducing more options demanders of education have to choose from when selecting an education service provider. The introduction of choice (and release of the "hostage") is perceived to stimulate competition between education

service providers. At first, however, the net effects of the choice governance mechanism are more costly than simple government production because of the lack of knowledge about providers. The choice mechanism also violates the justice criterion in some instances because, in better prepared districts, schools can respond more effectively to competition than in poorer school districts. Those schools that cannot respond may also continue to serve the least able students as more able students “jump ship.” The disparity between more financially able schools and districts and those that are less financially able could increase under choice.

Framework for Development of the Theoretical Perspective Used in This Research

This dissertation builds upon past research by developing a description of municipal service delivery under the New Public Management (NPM) that seeks to explain service delivery options. Specifically, this research applies the Transaction Cost Economics (TCE) to the examination of the choices of governance mechanisms used to deliver municipal services in relation to planning and service delivery. This description of NPM municipal reforms is used to explain why Charlotte undertook the changes in planning and service provision that it did. The goal of this section is to provide the foundation for the description of municipal service delivery under NPM according to the TCE perspective.

The Transaction Costs of Municipal Service Delivery

A transaction is defined as the exchange between the municipal government as service provider and the entity producing the service. That is, the municipal government

enters into a contract with an entity for that entity to produce a specific service.¹⁷ That entity producing the service could be a unit of the government itself, another government, or an alternative service producer. This description relies on the premise that the cost of monitoring is the primary transaction cost of municipal service delivery. Monitoring is essential to the enforcement of service delivery standards, and it is in enforcing these standards (and thus ensuring that services provided match citizen expectations) that elected municipal officials remain in good standing with citizens. Planning, performance measurement, bureaucratic organization, and service delivery mechanisms are all components of monitoring. In a monopolistic relationship, monitoring can be costly, even when services are easily observed. The introduction of NPM reforms, such as competition, outcome-based planning, and performance measurement, adds a dimension to monitoring so that services can be monitored periodically. The City Council then has more information with which to make decisions regarding the allocation of resources.

As discussed earlier, TCE presents three “components” of transactions that determine the governance mechanism costs: asset specificity, frequency, and uncertainty. Human asset specificity is identified by how easily the technical knowledge (which includes training and experience) needed to produce that service can be bought and sold on the spot market. In certain instances, technical skills are transferable on the open market. For instance, computer skills such as database administration are readily available on the spot market. A municipality can, then, contract database administration

¹⁷ There are other transactions in the provision and production of public goods and services, such as that between the service producer and recipient. The primary focus of the research in this dissertation is on the transactions between the government as service provider and the service producers with whom Charlotte arranges service production. Where appropriate, other transactions will be identified as they have a role in the choice of service producer.

services out with a private producer unless there are other considerations (such as the sensitivity of the data) which prevent contracting that service out with a private sector producer. In contrast, police patrols require significant knowledge and experience unique to the community being patrolled. That is, officers must know the specific laws in order to enforce them and know the characteristics of the community to know where best to patrol. It is much less likely that a municipality will turn to alternative service providers for police patrols as a government that relies on alternative service providers for police patrol will lose substantial ability to control the technical knowledge of those patrolling.¹⁸

Physical asset specificity simply refers to the extent to which physical assets can be traded on the open market. As it becomes easier to trade physical assets on the open market, governments should explore alternative service delivery arrangements. Both location and the availability of alternative uses can determine physical asset specificity. Some assets are difficult to trade because they must be located near a specific resource, as Joskow (1996) illustrates in his study of coal markets. Assets for which there are few alternative uses will also be difficult to trade.

Third, the legitimacy/authority of the service producer is also an asset in the transaction. The gauge of the legitimacy/authority is not whether it can be traded on the open market, but, rather the degree of direct management needed to ensure that legitimacy needs are met. Recalling the examples of database administration and police, the need for the legitimacy/authority of the government in police patrols is substantially greater than in database administration. The governance mechanisms needed to ensure

¹⁸ Note that the contract could specify minimum requirements for hires. This would increase monitoring costs so that the efficiency gains from contracting police protection out would be negated by increased

provision of police patrols will differ substantially from the governance mechanisms needed in database administration because of the differing legitimacy/authority needs, *ceteris paribus*. That is, governments should be more likely to rely on a more rigid bureaucratic structure in order to ensure the legitimacy/authority of a service provided where such concerns are important.

The frequency of the service delivery transaction will interact with information about the service to determine its costs of monitoring. Increased service delivery frequency provides more information as to the quality of the service where that information can be collected relatively easily. Janitorial services that are provided on a nightly schedule provide the observer with a large quantity of information about the quality of the service which can be obtained easily. By way of contrast, legal services occur on a sporadic schedule and the quality of the agent's efforts is difficult to ascertain. In between these two extremes are services where interactions occur frequently but present difficulties in observing their quality (such as police patrols) and where services are delivered infrequently but can easily be observed (street maintenance may fall into this category).

Uncertainty increases the transaction costs of monitoring the provision of government services because citizen input and other characteristics of the populace partially determine the quality of many of those services (Hargrove and Glidewell, 1990). Law enforcement functions, for instance, require that citizens report crimes and generally benefit from a better-educated, more affluent population. Other government services also

monitoring costs while there are still no absolute assurances that the alternative service provider will follow contractually agreed-upon requirements.

impact service delivery, as in fire suppression, where responses to calls will be quicker when the roads are better maintained.

Table 2.2 illustrates these differences using the hypothetical examples of refuse collection and fire suppression. First, the two services differ on the human asset specificity components. Labor needed to produce refuse collection services can be bought and sold on the open market because the skills needed are readily available on the open market and because refuse collection does not require police powers of the state. On the other hand, fire suppression requires specialized training and, on occasion, the police powers of the state. Thus, jurisdictions do not want to lose their trained firefighters because they then have to train other individuals. Human asset specificity for fire suppression is thus much higher than for refuse collection. Note that once an individual is trained in fire suppression they can move to another jurisdiction. Second, uncertainty is substantially higher for people to call in when fire suppression is needed and the unscheduled nature of fire suppression. Both fire suppression and refuse collection rely on streets departments to maintain roads, but the need is greater for fire suppression because of the time element involved. That is, a refuse collection crew that is five minute late in its scheduled pickup time will not impose great costs on service recipients. However, a fire suppression crew being five minutes late could have tragic consequences.

Table 2.2. Transaction Costs for Scheduled Refuse Collection and Fire Suppression

Component of Transaction Costs	Scheduled Refuse Collection	Fire Suppression
Human Asset Specificity: Technical Knowledge	Low Asset Specificity: Service requires operation of heavy machinery, a skill that is easily transferable on the open market.	High Asset Specificity: Service requires specific training to operate equipment. Once trained, however, the individual could relocate to another jurisdiction. Fire suppression skills are not easily transferred to other uses.
Physical Asset Specificity	Moderate Asset Specificity: Equipment cannot be used for other purposes, but can be sold to other jurisdictions and private firms. Equipment is not easily transferred for other uses.	Moderate Asset Specificity: Equipment cannot be used for other purposes, but can be sold to other jurisdictions.
Legitimacy/ Authority	Low Legitimacy Needs: Service does not require police powers of the state, nor are there equity concerns in service delivery.	Moderate Legitimacy Needs: Service sometimes requires police powers of the state (fire inspections and code enforcement). Equity concerns exist in ensuring that all areas receive similar levels of service.
Frequency	High Frequency: Service usually occurs daily.	High Frequency: Service usually needed daily.
Uncertainty	Low Uncertainty: Service does not rely on other services or on substantial public participation (i.e., does not rely on citizens to call in when they need their trash collected). Service also occurs on a regular schedule.	High Uncertainty: Service requires external calls to alert for the need for the service and on other departments to ensure that fire department can respond in a timely fashion (i.e., city transportation department to maintain roads). Service does not occur on a regular schedule.

Discussion of Service Delivery Under the New Public Management

Traditional governance arrangements for service delivery take a strictly bureaucratic form to administer the budget contract. That is, bureaucratic arrangements

are typically hierarchical chains of command with many levels present. This was the case in Charlotte prior to Rightsizing. Agency managers did not report to the City Manager directly but rather to one of several assistant city managers. Political control under this arrangement is largely top-down, with elected officials monitoring spending and input levels, evaluating output only when citizens contact elected officials to complain about service provision. Finally, in many of these arrangements, service production largely remains in-house, although privatization of some services does occur.

New Public Management reforms such as Rightsizing introduce a new set of governance mechanisms, modeled as a set of contractual relationships, into service delivery. They provide officials the ability to decide upon service provision through strategic planning and outcome monitoring and introduce market forces into service production in order to achieve politically determined goals. New Public Management advocates propose that such arrangements are desirable for all areas of government. However, the very nature of public services may prevent the utilization of NPM techniques because the transaction costs of governing service delivery arrangements may be higher for some services under NPM than they might be under traditional service delivery arrangements. That is, depending on the service, it might be more transaction cost minimizing for a government to rely on traditional service delivery arrangements than to try to introduce alternative mechanisms such as NPM.

Once NPM reforms have been implemented, the planning, performance measurement, bureaucratic structure, and service delivery methods of household refuse collection are likely to be quite different than prior to the reforms. Planning and performance measurement should focus on measures of outcomes, such as the overall

cleanliness of the municipality, public perception of safety, and the new business start-ups, for instance. Competition for the right to produce a service is also more likely than it was prior to reform. Because of the increased likelihood of greater reliance on competition and contracting, the bureaucratic structure of service delivery is likely to change to focus on contract management. Service delivery may also be reorganized into teams that are problem-focused, such as street cleaning and large item removal. NPM reforms may be much less likely to result in these changes to fire suppression. The specialized training needed for various fire suppression activities is more likely to be bureaucratically controlled so that it can be distributed in the city where needed. Competition is less likely both because of the specialized training needs and because the physical assets needed are less transferable (both conditions result in higher market entry costs, preventing many competitors for bidding on fire suppression services). Performance measurement is also less likely to become outcome-focused for fire suppression because of the uncertainty of fire suppression activities, which prevent the perfect attribution of outcomes to fire department activities.

Thus, NPM reforms may not be entirely applicable to each service provided by governments. Nettleton and Burrows (1997), for example, examine the effects of NPM on the provision of health promotion services and identify the reasons NPM may not be a suitable fit for health promotion. In health promotion services, there is little consensus about what constitutes health promotion activities, no distinct theoretical foundation exists, and a sense of vulnerability about health promotion services pervades the field. Because of these problems in the discipline, differentiating between purchasers and providers is difficult. That is, it is difficult to identify which services should be

purchased, who the customers are, and what is the proper mix. Furthermore, health promotion activities do not subject themselves well to economic evaluation as the prevention of a condition is often more difficult to quantify than the cost of eliminating a condition. Thus, since there is a problem identifying a purchaser-provider distinction, health promotion services may not fit well within NPM. The inability to establish the purchaser-provider distinction and succinctly define health promotion services hinders governments in evaluating health promotion services. Given this hindrance, the application of NPM reforms to health promotion services may increase the transaction costs of service provision—assets needed for health promotion are less likely to be available on the open market because the need for such assets is poorly defined. Furthermore, the lack of a well-defined theory in health promotion services results in the inability to forecast the frequency of service delivery accurately in the future, so that service providers would not be able to assess accurately when the cost efficiencies of privatization would result in service delivery savings from privatization.

Rightsizing restructured Charlotte's government by introducing contractual relationships into service delivery. Strategic planning, outcome-based performance measurement, and decentralization are all steps taken within service provision to develop and enforce contracts between elected officials and Key Business leaders. Strategic planning establishes the terms of the contract by defining that for which the Key Business leader is accountable. Performance measurement provides the means by which Key Business leaders are held accountable for outcomes. Decentralization of service production decisions to the Key Businesses permits them the latitude to achieve desired outcomes and search for cost efficiencies where available. This new contract, between

elected officials and Key Business leaders, is the governance mechanism that is a response to the transaction costs in service delivery.

Charlotte's use of strategic planning constitutes one attempt at reducing the transaction costs of service delivery by shifting planning activities to the locations in government where the assets are used more appropriately. That is, when service provision decisions are made with the desired community conditions in mind, elected officials, since they are directly responsible to the electorate and (conceivably) understand the desired community conditions, possess the requisite knowledge to make decisions about services provided to the public. But, because of their distance from the point of service delivery, agency officials, such as Key Business leaders and team members, often possess the knowledge required to make service production decisions. Placing service production decisions with elected officials would require them to understand the costs of service delivery. Concurrently, placing service planning and provision decisions with agency officials would result in the misaligning of political transaction costs of control, in that bureaucrats are insulated from being accountable to citizens.

When Charlotte's Rightsizing efforts are examined at the Key Business level, the Transaction Costs perspective described above predicts that reform efforts will not be applied equally across all Key Businesses. Services differ over transaction dimensions. Skills and knowledge in most public safety and policy-making functions are typically jurisdiction-specific such that a large municipality is less likely to contract out for their production. Certain activities within those functions may, however, be less community specific and rely on goods and services that are available on the open market. For instance, zoning is a policy-making function, but the mapping necessary for zoning may

be done with GIS software available on the open market and by firms that construct GIS databases for a number of clients. Thus, in public safety and policy-making functions, the use of NPM-style reforms should be limited, but may still be used piecemeal. Where NPM-style reforms are limited, planning for service delivery is less likely to embrace strategic management and its ilk than for services that are more likely to undertake the full scope of NPM. Under Rightsizing, then, planning for service delivery at the city level should focus on questions of service provision while planning at the Key Business level ought to focus on service production decisions. Chapter 3 describes planning for service delivery in Charlotte under Rightsizing to explore the scope of activities undertaken by the city and its Key Businesses.

Contractualism in service production under Rightsizing is also a transaction cost minimizing strategy. Charlotte's use of competition aligns service production with the method that minimizes transaction costs. Where competition is feasible, opening a service to market forces allows for the purchase of assets—both human and physical—on the open market where competition may result in the more cost-efficient purchase of assets. That is, the transaction costs perspective predicts that the purchase of assets that are available on the open market is more efficient (results in fewer transaction costs) than producing it in-house. Conversely, the TCE perspective predicts that there are fewer transaction costs in relying on other governance mechanisms (including in-house production) when assets are not available on the open market. By exposing to competition those services that are available on the open market, Charlotte is seeking to reduce the transaction costs in providing those services to the public. A similar set of premises holds true for service production—NPM-style reforms are less likely to result in

changes in service production when the transaction costs of producing those services under NPM are higher than under traditional service production mechanisms. Chapter four discusses the utilization of competition in Charlotte for service delivery under Rightsizing.

Finally, Charlotte undertook Rightsizing with the intent of controlling expenditures so that it could offer the services its citizens desired while maintaining high levels of quality. Chapter five examines program-specific expenditures to determine if they changed in response to Rightsizing. Examining program-specific changes can illustrate if the transaction cost components allowed Rightsizing to achieve its cost-savings goals.

Summary

The transaction cost economics approach provides a unique understanding of New Public Management reforms not illustrated by previous literatures. Charlotte's stated goal in implementing its management reforms was to control expenditures while providing the mix, level, and quality of services desired by its citizens. This was a proactive response to perceived difficulties in maintaining service level and quality in light of anticipated revenue reductions. The governance arrangement created – that of a market-like organizational structure – reflects the choice of decision-makers to create a system of governance responsive to both the public and elected officials and one that also recognizes that individuals are rational utility maximizers and thus provides incentives to achieve stated outcomes. However, because of the nature of municipal services, some services may be more likely to realize drastic reforms than other services. The following chapter further develops the description of NPM according to the TCE perspective by

discussing planning and performance measurement activities under the New Public Management, and then compares what has been observed in Charlotte's Rightsizing efforts. Subsequent chapters examine service delivery (Chapter 4) and service delivery expenditures (Chapter 5).

CHAPTER 3

PLANNING ACTIVITIES AND THE NEW PUBLIC MANAGEMENT

One desired outcome of the New Public Management (NPM) reforms is a heightened emphasis on planning for both service provision and production. Planning provides the contract terms for service delivery between elected officials and agency managers. These planning initiatives include, but are not limited to, Strategic Planning, Total Quality Management (TQM), and Balanced Scorecards, all of which focus on outcome-based planning.

NPM locates policy-making squarely with elected officials, harkening back to the politics-administration dichotomy of early Public Administration thought. NPM removes the public manager from decisions of a political nature, such as setting the goals of an agency (Maor 1999), and advocates that elected officials remove all barriers to implementation so that public managers can achieve politically decided-upon goals (Plowden 1994). However, as Stewart (1996) suggests, separating policy-making from management is not the ideal arrangement in all service areas because public managers often possess substantial knowledge about the service being delivered and the clientele receiving the service. This chapter describes Charlotte's planning activities undertaken after Rightsizing and utilizes the model developed in Chapter 2 to discuss why Charlotte structured planning in the manner it did.

Prior to Rightsizing, planning occurred on a year-to-year basis, in which Charlotte's City Council established a broad set of objectives but then focused on inputs and outputs in compiling its budget. Each time the City decided it needed a new service, it created a new department to deliver that service, thus ensuring service demands could be met but neglecting efficiencies, such as those that could be achieved through scale economies. For instance, five departments were responsible for neighborhood functions: housing, code enforcement, jobs, small business loans, and community relations (City of Charlotte 2000, 13). Since the beginning of Rightsizing, Charlotte's service delivery planning evolved from a departmental-focused set of outputs to a comprehensive city-wide focus.

One of the first steps taken after Rightsizing was the imposition of Key Business Five Year plans, in which each Key Business detailed those services it provides and presents a list of provided services to be contracted out, opened for competition, or eliminated. A second change in service delivery planning was the development of focus areas, which identify the city's broad goals. These focus areas have been consistent over time; the only changes that occurred were in specific goals designed to achieve the broad objectives outlined in the focus areas. More recently, the City of Charlotte instituted the Balanced Scorecard System; under this plan, the City Council derives a broad set of desired future states, and Key Businesses orient their activities toward achieving those objectives. These changes are cited by Charlotte as being some of the most important in service delivery to stem from Rightsizing:

In fact, perhaps the most salient characteristic of Charlotte's experience is that the City has become a more *strategic* organization. The City now has a "strategic plan," a policy framework that centers on five "focus areas" or priority themes adopted by the City Council, and this strategic focus is linked to business

principles.... It is a *results-oriented* approach that seems to give us the necessary tools to deliver quality services in the best possible manner and at a competitive cost (City of Charlotte, 2000, v).

The next several sections describe planning efforts in Charlotte under Rightsizing. They rely on reports provided by the City of Charlotte, Key Business Competition Plans, citywide Balanced Scorecard documents, and Key Business Balanced Scorecard documents. As will become evident in the remainder of this chapter, service provision planning has evolved over time. This dissertation classifies that evolution in two phases. First, much of the planning in the early years of Rightsizing focused on the mechanics of service provision under the rubric of strategic planning and management. In the second phase, the focus of planning efforts expanded to include customer and citizen satisfaction, performance measurement, and allocative efficiency through Balanced Scorecards.

Strategic Planning and Management

Strategic Management refers to an organization's steps uses to achieve all pre-defined objectives that determine that organization's success (David 2001). It includes defining objectives, formulating actions to achieve those objectives, implementing those actions, and evaluating whether the organization has achieved its objectives and what factors, if any, have impeded the organization. The terms Strategic Management and Strategic Planning are often used synonymously. In some instances, however, Strategic Planning refers only to the process of defining an organization's objectives and/or formulating actions to achieve those objectives. Here, the term Strategic Management will only be used as the process described reflects the planning, implementing, and outcome measurement phases.

Organizations undertaking Strategic Management should focus on three questions: where the organization is now; where it will be in the future if conditions stay

the same; and, should the picture of the future not be the desired one, what actions will be required to bring the organization to future desired states (Hunger and Wheelan 1997, 2). Strategic Management thus focuses on internal operations and the external environment as organizations develop short- and long-term strategies as well as plans to implement those strategies and evaluate their efforts.

There are four basic processes to strategic management (Hunger and Wheelan 1997). First, organizations must undertake environmental scanning, which assesses internal strengths and weaknesses as well as external threats and opportunities. Second, strategy formulation results in the organization's long-range plans, incorporating its mission statement, objectives, strategies, and policy guidelines. An organization's mission statement is its stated *raison d'être* and may be either broad (e.g., our organization will provide the most value for its shareholders, customers, and employees) or narrow (e.g., this division will produce the highest quality television sets). Broad mission statements do not restrict the organization's activities, but they may fail to differentiate that organization from others. A narrow mission statement does differentiate an organization, but it may also prevent the organization from expanding into a new line or sector. Objectives provide mostly quantifiable definitions of what the organization is to achieve and define the time frame allotted for those achievements. Strategies define how the organization will achieve its objectives. Policies are broad guidelines to which members of the organization adhere when making decisions.

The third process in strategic management is the implementation of the strategy. Hunger and Wheelan (1997) identify three methods by which programs are put into action. First, an organization utilizes programs that are "...the activities or steps needed

to accomplish a single-use plan” (9). Second, budgets provide the costs of each program and may include the return on a program’s investment. Third, procedures define the specific steps in completing a task.

The last process is the evaluation of the strategic planning effort. This process is a continual one in which information flows back into the organization so that any of the other three steps can be changed to help the organization realize its mission statement. Successful evaluation relies on the information being received in a prompt, accurate, and unbiased manner (Hunger and Wheelan 1997, 11).

Strategic management in the public sector includes the following: 1) directing agency activity according to an outcome-oriented plan that is continually updated, 2) matching the organization with its external environment, and 3) communicating the goals of the agency to both internal and external constituencies. Poister and Streib (1999a) present a model of the strategic planning process in which the values, mission, and vision of the organization are central, driving its strategies and coordinating the various management functions. Poister and Streib group these functions into several categories: external relations, management responsibilities, internal management functions, and human relations. These functions also direct the organization’s values, mission, and vision; that is, changes in the relationship between the agency and any of its management functions may create new opportunities for or threats to the organization, thereby requiring adaptation. The strategic management process is directed by a team, which usually consists of the senior echelon of organizational leadership. The strategic management team is responsible for “establishing the structure for developing and updating strategic plans and for guiding their implementation” (317). Because strategic

management is a continual process, the leadership team meets on a regular basis. The outcome of the strategic management process is a set of guidelines that directs actions undertaken by the lower levels of the organization. These guidelines may consist of specific outcome measures for certain units within the organization (or agency) that are addressed by cross-departmental teams. Once the strategic management team has established the organization's goals, the process requires that resources, including people, be allocated where needed to implement the strategic management plan successfully. Finally, the strategic management process must also include outcome measures by which efforts will be evaluated.

Poister and Streib (1999a) illustrate strategic management through the examples of Georgia's Department of Administrative Services (DOAS) and Pennsylvania's Department of Transportation (PDOT). DOAS undertook several reforms to implement a more "customer-friendly" operation. It

- created an information technology unit which consolidated the Telecommunications and Computer Services divisions in order to provide customers with a "seamless web" of interrelated services;
- utilized customer advisory groups and conferences, focus groups, and surveys to evaluate customer satisfaction with services;
- facilitated how other agencies make purchases by supporting increases in the thresholds for delegated purchasing authority and providing agencies with plastic "purchasing cards;"
- redesigned its warehouse and renegotiated contracts with vendors to reduce the shipment time for purchase requests to two days (down from five); and
- revamped its workers' compensation operations, viewing injured workers as customers to address their needs adequately and reduce the number of days lost due to injured workers.

PDOT implemented strategic planning measures and linked them to the budget process in the mid-1980's. Recent efforts involved not only top-level management, but

also lower level managers and external stakeholders from metropolitan planning organizations, federal agencies, private trucking companies, and contractors' associations (319). These efforts resulted in the adoption of eight strategic goals, which emphasized customer service, intermodalism, improved maintenance, and the adoption of newer technology. The strategic management committee also provides guidance in the budget proposal development process. Finally, PDOT monitors the agency's performance and compares it with the expectation set forth by the strategic management process. As a final step, it publishes those results to senior management.

City-Level Planning for Service Provision in Charlotte: The First Phase of Rightsizing

During the 1980's, Charlotte's City Council became substantially more diverse due to redistricting and the switch to a mix of district and at-large council seats. Each year, the City Council established their priorities during a retreat; upon returning from that retreat, however, the Council tended to lose focus on those priorities, as their attention diverted to other issues. As a result, the City administration often lacked a clear sense of the Council's priorities. At the 1990 retreat, the City Council decided to establish a new goal-setting process by identifying a set of focus areas that would remain consistent over time. During the FY 1992 budget discussions, the City Council decided on five focus areas: community safety, City-Within-a-City,¹⁹ economic development, transportation, and restructuring government (City of Charlotte 2000, 23). The City Council structured its committee system into Focus Area Committees, which draft or review policy items before they are submitted to the entire City Council. Each Focus Area Committee, furthermore, develops annual focus area plans, which have become

¹⁹ The City-Within-a-City focus area directs efforts towards revitalizing Charlotte's older downtown area.

strategic plans that cover the city's activities in that particular focus area and are implemented as part of Charlotte's Balanced Scorecards. Prior to their integration into the Balanced Scorecards, the focus area plans listed one to three broad objectives and a list of accomplishments for each of those activities over the previous year. Until the development of the two-year Strategic Plan built on the Balanced Scorecards, then, the focus areas presented little input into planning for future service delivery (City of Charlotte 2000, 26).

Another factor that assisted in the development of Rightsizing was the development of Charlotte's statements of vision, mission, and core values (City of Charlotte 2000, 17-22). In 1989, City Manager Wendell White initiated a visioning process that provided the City with a tool with which the government could orient itself to meet future needs. That is, he sought to change the cultural orientation of Charlotte's government from one of direct service producer to one that focused on the outcomes of its actions. Focus groups of employees provided input for the development of all statements. Once this process was completed, the City distributed a Mission Statement Survey to its employees that asked thirty questions about the core value areas and then provided space for each respondent to provide one suggestion that would improve the organization. The results of this survey indicated support for the organization and for the vision, mission, and core values statements (City of Charlotte 2000, 20).

Figure 3.1 contains the results of the 1989 visioning process. Notice that the focus Charlotte took reflects the key principles of the New Public Management. The key principle is the business orientation inherent in its mission statement, "Public Service is our Business." This mission statement provides the foundation by which city

management practices could become more business-like by comparing the city's government to a business, the goal of which is public service, not profit. This business-like approach is outwardly stated in the third core value, that of productivity. The three functions that Charlotte lists to achieve its mission are partnerships, employee development, and planning. Again, these functions are akin to those listed in NPM, such as steering instead of rowing, relying on external service producers and employee training. Notice that Charlotte does not list effective service provision. What is also not prominent in Charlotte's statements is the customer-orientation found prominently in the NPM literature. Charlotte's mission statement instead focuses on the "delivery of quality public services (to)...its citizens," while its core values prioritize community, openness, and accountability to citizens. Only in the Teamwork Core Value is the term "customer" even mentioned.

The vision, mission, and core values statements are still prominent in the culture of Charlotte's government. Key businesses are required to develop and include in their business plans vision, mission, and core values statements that relate directly back to the city's statements. During orientation, new employees are given t-shirts and coffee mugs with the city's mission statement imprinted on them.

Figure 3.1. Charlotte's Vision Statement, Mission Statement, and Core Values Derived from the 1989 Visioning Process

Vision	<p>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.</p> <hr/>
Mission	<p>"Public Service Is Our Business"</p> <p>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</p> <ul style="list-style-type: none"> ▶ creating and maintaining effective partnerships, ▶ attracting and retaining skilled, motivated employees, and ▶ using strategic business planning. <hr/>
Core Values	<ul style="list-style-type: none"> ◆ Quality and Excellence 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. ◆ Accountability As a public enterprise, we are accountable to our fellow citizens for the dollars we spend and the quality of service we render. ◆ Productivity We are a business. Our success -- the vitality and prosperity of our city -- depends on our productivity. ◆ Teamwork 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. ◆ Openness 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. ◆ Personal Development 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.

Source: City of Charlotte (2000, 18)

In order to assess which services the city should provide, the City Council, a 44-member citizen assessment panel, and city management staff engaged in a "Services Assessment" exercise between October 1992 and January 1993 (City of Charlotte 2000,

12). This exercise required each individual to compare each service (41 in all) against every other one pairwise (“in your opinion, which of the following services is of more importance and value to Charlotte”). The results indicated what would have been expected: police and fire services received higher rankings than the other services. The City of Charlotte (2000) did indicate that two benefits of conducting the exercise were, first, to establish a baseline information level and, second, to establish that the community’s preferences, rather than those of the organization, were driving city services. Following this exercise, Mayor Richard Vinroot promoted an effort to answer the question of “What might the City’s workforce and City services look like in four years?” (City of Charlotte 2000, 3). This effort consisted of an environmental scan along with citizen focus groups and resulted in the “Picture of the Future” presented in Figure 3.2.

Figure 3.2. "A Picture of Our Future:" The Results of Charlotte's 1993 Visioning Efforts

A Picture of Our Future (1993)		
<p>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.</p>		
Role of Government in the Community	Service Delivery	Workforce
<ul style="list-style-type: none"> ■ 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. 	<ul style="list-style-type: none"> ■ 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. 	<ul style="list-style-type: none"> ■ 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: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • More business and problem-solving skills • Technology-oriented • Literacy • Cross training
<p><i>This environmental scan was done in 1993. Charlotte's city manager at the time, Wendell White, considers it one of the most effective tools in the early stages of reorganization because it helped formulate a vision of the future and lay the basis for many of the strategies that would be developed in the 1990s.</i></p>		

Source: City Of Charlotte (2000, 4)

Note that the themes represented in Figure 3.2 are the same ones in the New Public Management. Steering rather than rowing is represented in several of the points: where government addresses community problems through partnerships and reduces its direct provision of services. Competition is also explicitly noted in several points. Finally, employee development, the last bullet point under workforce issues, focuses on training in technology and private sector practices.

The City Manager followed the City Council's lead by creating four Focus Area Cabinets that consist of the Key Business Executives from those Key Businesses whose activities directly affect a focus area.²⁰ Each cabinet ensures that Council priorities are being met and establishes accountability for the Council's priorities. The City of Charlotte (2000, 25) noted two outcomes from the establishment of the cabinets. First, since the cabinets are staffed by the Key Business Executives, the importance of outcome measures established by each Focus Area Committee is the top priority for each Key Business. Second, the presence of the cabinets results in each Key Business operating more in line with the council's wishes.

Changes in Planning at the Key Business Level

In the first phase after the implementation of Rightsizing, each Key Business was required to develop a Key Business plan and a five-year competition plan to inform service delivery (City of Charlotte 1997a). These plans typically defined the Key Business's vision and mission, identified the services to be subjected to competition or other market forces, and presented performance measures with which the attainment of goals can be examined (City of Charlotte 2000, 14). As part of the budget process, these plans provided additional information in budget requests that the city manager and council use to evaluate requests. Specifically, budget requests now include documentation on program impacts and accomplishments; plans to expose services to competition in the next fiscal year; and provisions to effect a smooth transition to any new service delivery methods (author's correspondence with Ed Sizer, July 25, 1999).

²⁰ The Neighborhood Cabinet jointly serves both the Community Safety and City-Within-a-City focus areas.

Examining early Key Business and Competition Plans reveals two themes. First, one of the primary foci for many of the newly formed Key Businesses' planning efforts was improving the efficiency of service delivery or, alternatively, reducing the costs of service delivery. For instance, the Aviation Key Business stated in its 1995 competition/privatization plan that it would determine the current provision cost of each of its operations and then establish as a maximum cost of providing those services the current costs less five percent. Aviation never stated why it would establish a maximum cost per job of current expenditures less five percent. Other Key Businesses, however, focused on alternative issues, such as service quality. For instance, the Charlotte-Mecklenburg Police Department (CMPD) mission statement first focuses on partnerships with the public, while its second priority is on a proactive, rather than reactive, response to crime.

The Charlotte-Mecklenburg Police Department will build problem-solving partnerships with our citizens to prevent the next crime and enhance the quality of life throughout our community, always treating people with fairness and respect (Charlotte-Mecklenburg Police Department, Privatization and Competition Plan, March 1995).

This section describes the planning efforts of several Key Businesses in order to illustrate the focus of their efforts.

Engineering and Property Management

The Engineering and Property Management Key Business (EPM) is indicative of most of Charlotte's Key Businesses, in that it places the emphasis of early planning efforts squarely on efficiency. Its mission statement state that

(EPM) is dedicated to productivity, efficiency and quality in providing professional services on behalf of the Citizens of Charlotte. We will provide services in a timely and respectful manner while projecting a positive image for ourselves and the City (EPM, December 1994).

EPM's Vision largely reflects its mission statement:

We will be an Engineering and Property Management Team whose services our Customers recognize for superior quality and exceptional value. Visionary leadership will guide our highly trained and motivated Employees, who will be known for successfully managing change and providing innovative solutions.

The focus of both EPM's mission statement and departmental vision is squarely on service delivery efficiency first and service quality second. Also important in these statements is the management of the change process. Not identified in either of these statements, however, are any external goals, such as potential outcomes that EPM may wish to orient itself towards. This orientation is reinforced in the Priority areas identified in EPM's Business Plan Objectives (Figure 3.3). The first priority listed is Competition, with the objectives of providing the right mix of services at the lowest cost and communicating with other Key Businesses to share competition ideas. EPM's second priority is Asset Management where EPM seeks to maximize the city's return on its property investments and to maintain current investments.

Figure 3.3. Engineering and Property Management Key Business's Goals and Strategies to Achieve Rightsizing.

Department Competition Goals and Strategy	
Goal #1:	Ensure that we are delivering the right services at the appropriate service level at the lowest cost. Look for services we should privatize or stop providing.
Strategy:	<ol style="list-style-type: none"> 1. Develop a 5-year services competition plan for the Department. - All services tested for competition. Compete, benchmark or periodically test all services for cost competitiveness. 2. Develop / improve costing systems at the Divisional, Departmental, and Citywide levels. 3. Develop process to test service levels and rank services 4. Hold Staff accountable in their performance plans. 5. Hold a management retreat to identify priority areas for work efforts.
Goal #2:	Create a competition mindset where all employees are looking for ways to save costs.
Strategy:	<ol style="list-style-type: none"> 1. All major Divisions will be expected to compete on at least one service by the end of FY96. 2. Upper Management must communicate and reinforce expectations as well as keep staff abreast of latest trends and directives. 3. Share experiences, celebrate successes. 4. Insure all employees are educated on costing methodology.
Goal #3:	Learn from others.
Strategy:	<ol style="list-style-type: none"> 1. Develop liaisons with other Departments. 2. Identify and publicize information regarding what other Cities and Departments are doing. 3. Have a representative on committees planning I performing work affecting our competition efforts. (for example, Activity Based Costing) 4. Periodically attend Competition / Privatization Advisory Committee meetings.
Goal #4:	Maintain a positive attitude by Staff
Strategy:	<ol style="list-style-type: none"> 1. Communicate the positive aspects of competition. 2. Work with other Departments on ideas such as gainsharing or strengthen current reward systems. (Suggestion Award program, Merit pay, etc.) 3. Communicate upward, the concerns of Staff, work to resolve concerns, communicate results / status downward. 4. Communicate our competition plan. (i.e. This latest clarification of our efforts.)
Goal #5:	Ensure timetable meets expectations of the City Manager.
Strategy:	<ol style="list-style-type: none"> 1. Maintain an aggressive but reasonable schedule realizing some Divisions are more ready to compete than others; limited availability of administrative staff to work on details of competition; and disadvantages of a "shotgun" approach. 2. Submit Services Competition plan to City Manager for approval.

Source: City of Charlotte, Engineering and Property Management Key Business. 1994. *Competition Plan*. page 5.

The remainder of EPM's 1994 Competition plan focused on the services it delivered, identified those services that could be contracted out or subjected to competition, and listed reasons why particular services could not be competed for or

contracted out. At the time of its 1994 Competition Plan, EPM contracted out more than \$72 million in services and produced approximately \$14 million of services in-house. EPM listed another \$7.5 million of services that could be opened for competition. Of those services EPM identified as being unable to open to competition, the reasons provided were 1) the need for oversight activities, 2) the necessity of maintaining in-house expertise, 3) the ability to respond to emergencies, and 4) in the case of regulatory services, conflicts of interest.

Finance

Finance provides five services: general management, debt and cash management, accounting, customer service and billing, and insurance and risk management. Customer service and billing collects payments for the city's water and sewer accounts and stormwater accounts, parking violations, and animal licenses. The Insurance and Risk management division manages the insurance policies for the city, county, and school board; handles claims for automobile and workers' compensation claims; develops and implements loss control programs; and delivers minor medical services to employees through the use of internal staff and outside contractual services (City of Charlotte, Finance Department, Competition Plan, December 1994, pages 3-4).

The Finance Key Business utilized the following mission statement to guide its Rightsizing activities:

Empower, train, and support Finance employees to provide ever improving services to the public and other employees by listening to the voices of customers, employees, and processes (City of Charlotte, Finance Department, Competition Plan, December 1994, page 1).

The Finance Key Business listed five goals, or action items, necessary to achieve its objectives: training employees, improving customer satisfaction, promoting success

while allowing its employees to fail, continuously evaluating why specific services are provided, and providing services through teams (City of Charlotte, Finance Department, Competition Plan, December 1994, page 1). The Finance Key Business listed eleven specific objectives in support of its mission. Eight of these objectives focus exclusively on internal processes and employees, incorporating such actions as receiving feedback from employees on the Key Business's vision, mission statement, values, and goals; analyzing processes to determine where teamwork and employee empowerment can be implemented; and designing and delivering training programs in quality, teamwork and technical processes. The Finance Key Business also included in its departmental objectives a customer feedback process, which could then be used to provide information about important customer service issues.

The Finance Key Business utilized Deming's *Three Voices* method towards Quality to develop its approach towards implementing Rightsizing. The three voices are the source of the Finance Key Business's values and guide the development of its actions in implementing Rightsizing. The *Voice of Employees* stresses that success depends on teamwork, cooperation, and respect; it also emphasized that education and training are vital to success and continual processes. The Finance Key Business created the Extended Leadership Team to not only communicate the vision, mission, values, and goals to employees but also to collect their feedback. The Finance Key Business also proposed establishing an employee appreciation program as of September 1, 1994. Training was a priority of the Finance Key Business; it sought to establish an employee training program focused on quality, team, empowerment, coaching, and process improvement (City of Charlotte, Finance Department, Competition Plan, December 1994, page 5). The *Voice of*

Customers stresses that internal and external customers come first. The Finance Key Business listed three initiatives to focus the Key Business on customers. First, the FKB planned to establish a method of collecting input from internal and external customers. Second, that input was used to prioritize customer service issues. Finally, each division within the FKB was to use the customer service input to analyze one major process by the end of 1994 (City of Charlotte, Finance Department, Competition Plan, December 1994, page 5). The *Voice of Processes* states that improvement depends on continuous challenge and process changes and that these depend on receiving feedback from employees and customers. In addition to each division within the FKB using the results of customer feedback to improve one process, each division also received the directive to document and flowchart every process, policy, and procedure within the division (City of Charlotte, Finance Department, Competition Plan, December 1994, page 5).

The Finance Competition Plan (1994) listed 39 services provided by the Finance Department. Of those, the Finance department listed 27 as being candidates for competition. Two reasons were cited for not including the two remaining services in the competition process: the service either had a dimension of policy development, or there were no known producers of the service (City of Charlotte, Finance Department, Competition Plan, December 1994, pages 11-12). The services opened for competition represented 57.7% of the budget for the 39 services listed (City of Charlotte, Finance Department, Competition Plan, December 1994, page 12) and included 54 positions (Memorandum from Richard D. Martin, Director of Finance to Del Borgsdorf, Assistant City Manager, September 6, 1995).

Solid Waste Services

Charlotte's Solid Waste Services Key Business (SWSKB) collects garbage, recyclables and yard wastes from residents, small businesses and public garbage containers; contracts garbage collection for multi-family units; provides street cleaning, litter control, and weed control on city streets; enforces city codes on weeds, grass, trash, and abandoned vehicles; and performs specialized maintenance activities in the CBD (City of Charlotte, Solid Waste Services Key Business, Competition Plan, January 1995).

SWSKB's mission statement states that

The Charlotte Solid Waste Services Department is committed to provide the leadership and service that promotes a healthy environment through effective refuse collections and maintenance systems, sensitive to the needs of the community (City of Charlotte, Solid Waste Services Key Business, Competition Plan, January 1995).

The SWSKB listed the following nine core values (City of Charlotte, Solid Waste Services Key Business, Competition Plan, January 1995):

1. Customer Oriented Services;
2. Motivation and Development of Our Employees;
3. Management of Human Resources;
4. Sharing of Information and Knowledge;
5. Willingness to Try New Approaches;
6. Effective Management of Our Fiscal Resources;
7. Education to Achieve Waste Reduction;
8. Selection and Utilization of Equipment to Increase Productivity; and
9. Support and Promotion of the City's Mission.

The SWSKB Vision Statement states that:

We will be the Leader within the Solid Waste business and the service provider of choice for all of our Customers. We will earn the trust, respect and support of our Team Members, Customers and Elected Officials by working in partnership to identify the needs of our community. We will strive toward excellence by providing a fiscally sound quality service which meets our customers needs and is delivered by a highly valued, well trained and empowered workforce (City of Charlotte, Solid Waste Services Key Business, Competition Plan, January 1995).

The SWSKB then identified ten priority areas and designated objectives for each area in order to achieve their objectives as set forth in their mission statement, list of core values and vision statement. **Competition**, the first priority area listed, included the objectives of examining internal work processes "...in order to provide quality services which meet the needs of the community, utilizing minimum resources;" benchmarking against the solid waste industry; cross-agency communication to share ideas and experiences; a customer satisfaction survey; developing a "competition mindset" in SWSKB; and communication with employees (SWSKB, Competition Plan, January 1995). Second, SWSKB identified the implementation of the **Rollout Collection Service**, including the response to customer requests within 24 hours and a customer satisfaction survey as a priority. The third priority is **Safety**. Fourth, SWSKB listed **Empowering the Workforce** by identifying necessary job skills and current skill levels among employees and then training the workforce where needed. SWSKB also included in its objectives an annual employee survey and, as a performance measure, an employee turnover rate below that of the solid waste industry in the Southeast. SWSKB, in addition, identified **Customer Service** as one of their priorities and defined goals of 100% customer satisfaction and high response rates to customer service requests. **Benchmarking**, also an important priority of SWSKB, includes identifying what to benchmark; linking benchmarks to the current organization; and training employees in data collection and

utilization. Finally, SWSKB listed other priorities, including communications, teamwork, technology and equipment, and the identification of industry trends.

In this instance, SWSKB focused on both outcomes and process in its planning. The first goal listed in its mission statement is *a healthy environment*. SWSKB then goes on to identify the core values, which define how it will structure its operations. These values focused on employee development, customer relations, and management effectiveness. Finally, SWSKB's priority areas specify the steps that will be taken to achieve its core values and its goal of a healthy environment.

Summary of the First Phase of Rightsizing

Charlotte largely used Strategic Planning to improve the efficiency of service delivery, as evidenced by the overwhelming focus of individual Key Business plans on efficiency and effectiveness. There were some exceptions to this pattern, most notably the Finance Key Business, which undertook planning focused on service delivery outcomes, customer satisfaction, and employee development. SWSKB also deviated from the mainstream by focusing on both process and outcomes.

The Second Phase of Rightsizing: Balanced Scorecards

Kaplan and Norton (1992a; 1992b; 1996a; 1996b; 2001) developed the Balanced Scorecard approach for businesses to link current actions with future desired states. Through strategic planning, businesses could define desired future states and then, through the linkages developed in a Balanced Scorecard, orient their activities towards achieving those desired states. Kaplan and Norton developed the Balanced Scorecard approach because existing performance measurement systems were reactive; that is, they focused on past rather than future achievement. When developed as part of a strategic

management perspective, Balanced Scorecards demonstrate how an organization intends to achieve its objectives and whether it has actually achieved them (Quinlivan 2000). The Balanced Scorecards approach thus serves as a method of translating strategic planning into results, including the feedback loop so important in Strategic Management.

Kaplan and Norton introduced the Balanced Scorecard concept into the management lexicon in the early 1990s in several articles in the *Harvard Business Review*. They believed that existing management strategies were ineffective in responding to changes then occurring, including the development of information technologies, tasks that spanned organizational units, integrated links to suppliers and customers, a customizable product line, and global competition (Kaplan and Norton 1996a, 4). The purpose of a Balanced Scorecard is to

...translate an organization's mission and strategy into a comprehensive set of performance measures that provides the framework for a strategic measurement and management system. The Balanced Scorecard retains an emphasis on achieving financial objectives, but also includes the performance drivers of these financial objectives. The scorecard measures organizational performance across four balanced perspectives: financial, customers, internal business processes, and learning and growth (Kaplan and Norton 1996a, 2).

That is, companies retain as their ultimate emphasis the financial performance of their company: their stock price, profitability, and return on investment, for example. The Balanced Scorecard compels the organization to focus on those factors that drive financial performance, forcing the organization to consider all of the assets that go into that business, including human capital and organizational relationships. This approach "...tell(s) the story of the business unit's strategy...by linking outcome and performance driver measures together via a series of cause-and-effect relationships," (Kaplan and Norton 1996, 166).

The Balanced Scorecard presents a set of causal linkages between four *perspectives* meant to translate the organization's financial goals into a set of objectives: financial, customer, internal business, and learning and growth perspectives. That is, customers drive the organization's financial success by providing that organization with its revenue. Internal business processes determine customer satisfaction and retention. The Kaplan and Norton Balanced Scorecard contains three causal links between four perspectives. The Financial Perspective is the ultimate outcome for private sector organizations since it focuses on the profitability of the firm.

The Customer Perspective defines the customers of the organization, both current and desired, and includes customer satisfaction factors that result in the firm's profitability. That is, the Balanced Scorecard presumes that success in "managing" the customer relationship will drive the financial success of the firm. Key measures include market share and customer acquisition, retention, satisfaction, and profitability. Paying attention to the attributes of the product and/or service, customer service, and the organization's image attains these goals.

The Internal Business Perspective lists the organizational processes critical to achieving the goals set out in the Customer perspective. Kaplan and Norton recommend that, after identifying critical measures in the financial and customer perspectives, organizations should trace the process from innovation to development to production to post-sale customer service to identify internal business processes, both those currently in place and those that need to be developed. The Balanced Scorecard approach thus differs from past efforts at measuring internal processes in two respects (Kaplan and Norton 1996a, 27). First, previous performance measurement efforts focus on past performance

of existing systems, while the Balanced Scorecard will also identify those processes the organization must undertake in the future so that it can achieve its objectives. Second, in addition to identifying new production or service delivery processes, the internal business perspective of the Balanced Scorecard also identifies future product or service development. The Balanced Scorecard not only presents new ways of doing things, then, it also identifies new things to do.

The Learning and Growth Perspective identifies the parts of the organization that will need development if the organization is to achieve its objectives. It thus focuses on the development of employees, information systems, and organizational processes, which Kaplan and Norton (1996a) identify as comprising the organization's *infrastructure*, needed to achieve internal business objectives.

In the development of a Balanced Scorecard, organizations start with the financial perspective and define outcome measures. They then work backwards through the perspectives, from Financial to Customer to Internal Processes and, finally, to Learning and Growth, defining objectives to be achieved at each phase that then lead to the success of the following phase.

Within each perspective are four activities: objectives, measures, targets, and initiatives. Objectives are the ultimate outcomes of each perspective. Measures are the quantification of objectives. Targets are the desired values for the measures. Initiatives are programs undertaken to achieve objectives. Combined, objectives and measures should illustrate the strategic mission of the organization and include both internal and external criteria.

Two other important factors in the Balanced Scorecard approach are those of communication and knowledge. First, Kaplan and Norton stress throughout their publications that the goals and performance measures contained in an organization's Balanced Scorecard must be made known throughout the organization. In this manner, an employee can understand how their actions influence the course of the organization.

Second, the organization must be committed to comparing past and current performance with the goals stated in the Balanced Scorecard to determine if its goals are being met and to determine if the listed factors actually influence the firm's financial performance. If the organization's goals within each of its perspectives are not being met, the organization can then direct additional resources towards those goals. If, however, individual performance goals are indeed being met, but are not being translated into the financial goals underlying the entire scorecard, then the organization needs to revisit the hypotheses it developed to determine a new set of strategies.

While Balanced Scorecards are not used extensively in government setting, Olve, Roy, and Wetter (1999) and Kaplan and Norton (2001) state that this method is appropriate for governments. However, the Financial Perspective is not an appropriate final outcome since governments do not exist to generate profit in the manner of private sector organizations. Rather, Olve, Roy, and Wetter (1999) suggest that governments should focus on mission and constituents' needs. Furthermore, they suggest replacing the customer focus with that of the government's relationship with the community. Third, they suggest replacing the internal business process focus with what they term "activity" focus. They argue that this step is necessary to describe the different municipal activities because government services should not be viewed as flows and processes. Finally, they

suggest that governments utilize a “future” focus to plan for the municipal infrastructure and future operations instead of the learning and growth focus.

Kaplan and Norton (2001) suggest a different set of changes to Balanced Scorecards so that it may be applied to government and nonprofit settings. First, they dispute the notion that the Financial perspective should not be included in a Scorecard for a government or nonprofit organization. They do acknowledge that financial indicators, while important to these groups, are not the penultimate measures that they are in the private sector. Instead, customers should be at the top of the government or nonprofit Balanced Scorecard hierarchy. But, Kaplan and Norton contend, the notion of “customer” in these settings is quite different than it is in the private sector. In the private sector, the customer both pays for the good or service and receives it. In governments and nonprofits, the purchaser of the service (the taxpayer or donor) is most often quite different from the recipient of the service. Located at the top of the government or nonprofit Balanced Scorecard, driving the organization’s mission, are the dual perspectives of the donor (including the taxpayer) and the recipient. The mission of the organization should be a broadly defined goal representing long-term objectives. However, the service recipient may be at odds with the government providing the service, as in the case of police arresting burglars or of regulatory agencies overseeing their charges. Kaplan and Norton revise the donor and recipient perspectives to focus on three objectives: total (financial and social) costs of providing the service; the value (including positive externalities) of providing the service; and the support of the legitimizing authorities (elected officials and citizenry). Kaplan and Norton believe that the Internal

Processes perspective drives the success of the three objectives listed above and that the Learning and Growth perspective drives the success of the Internal Processes perspective.

The Second Phase of Planning in Charlotte After Rightsizing: The Balanced Scorecard Approach in Charlotte

Charlotte, North Carolina, is the first city to implement Balanced Scorecards in a government setting (Quinlivan 2000). Charlotte adopted Balanced Scorecards for measuring performance so that Key Businesses could orient their activities towards the five focus areas and then determine if each focus area's goals were being met. The City Council determines broad objectives for each of the focus areas, and then each Focus Area Committee and Focus Area Cabinet collaborate with the City Council to determine each area's specific performance measures. When Balanced Scorecards were first implemented, the City would publish in a separate document a list of the focus area goals and the activities conducted over the previous year to attain those goals. In 1999, the City of Charlotte revised its Balanced Scorecard approach by developing a two-year strategic plan that includes the outcomes and activities to achieve them for each focus area for the next two years. Charlotte's Balanced Scorecards, then, have become more proactive, presenting future activities to be achieved rather than focusing on past achievements. Project planning thus examines a project's impacts on neighborhoods, the local economy, transportation, and other areas.

Poister and Streib (1999a) describe the efforts of Charlotte's Balanced Scorecards to provide a "framework for integrating goals and objectives, strategies, and performance measures across the broad spectrum of city operations" (321). Charlotte's Balanced Scorecards process, while spearheaded by the city manager, relies on the establishment of

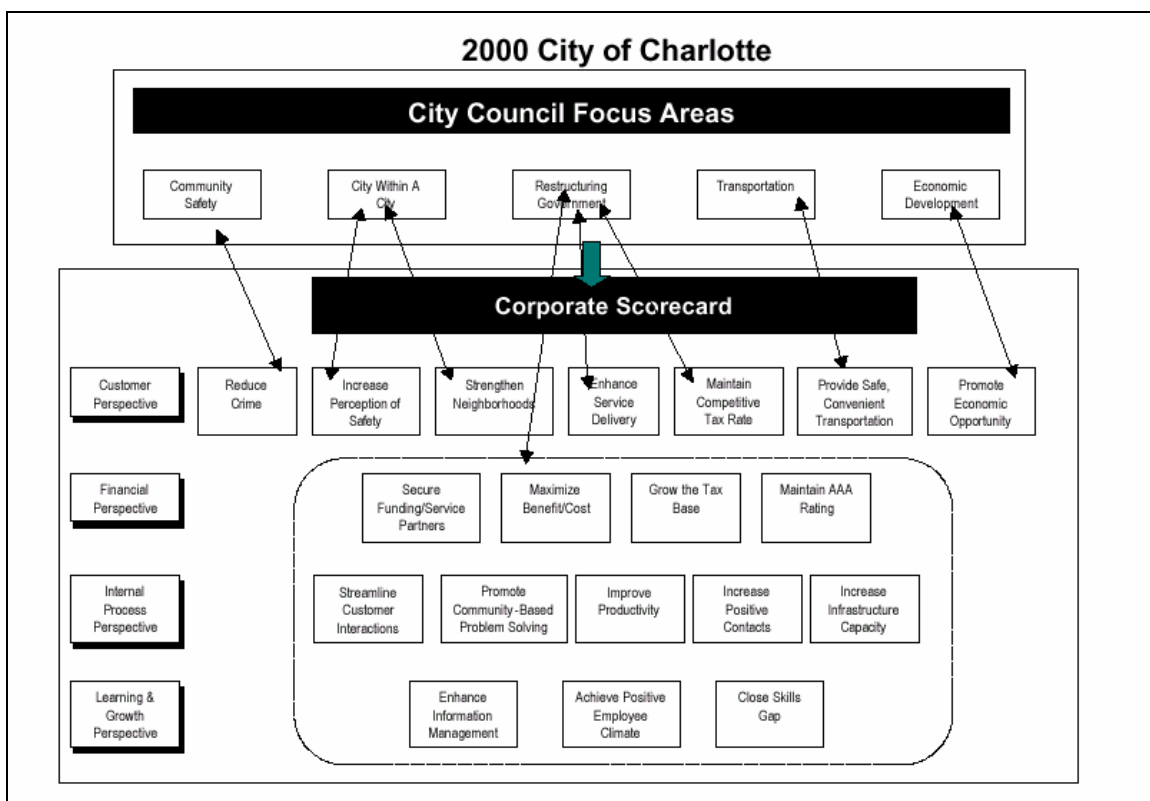
priorities by the city council in each of the four perspectives. Poister and Streib point out that this process creates ownership by both the city council and the management staff. The city council feels ownership of the goals and objectives, while the city management staff feels ownership of the strategic management process. Charlotte's Balanced Scorecards are an integral part of its planning process and are discussed at length later in this chapter.

The development of Charlotte's Balanced Scorecard utilizes both the five focus areas and four perspectives: the customer perspective ("Is the City delivering the services the citizens want?"); the financial perspective ("Is the service delivered at a good price?"); the internal process perspective ("Can the City change the way the service is delivered and improve it?"); and the learning and growth perspective ("Is the City maintaining technology and employee training for continuous improvement?") (City of Charlotte 2000, 30). Each of the nineteen corporate objectives fits within one of the perspectives and is consistent with at least one of the focus areas, although each objective may relate to several focus areas. Once the corporate objectives had been developed, the next task, currently underway, is for the City to identify at least one measure for that objective to determine if the City's activities have progressed towards the Council's goals. The fiscal year 2000 budget is the first one to include the Balanced Scorecards (City of Charlotte 2000, 33).

In developing their Balanced Scorecards, Charlotte put the Customer Perspective at the top, ahead of the Financial Perspective, and focused on how the Financial, Internal Processes, and Learning and Growth perspectives will help Charlotte achieve the Customer perspective. The City Council defined five focus areas which specify the

outcome measures used in the Customer perspective: Community Safety, City Within a City, Restructuring Government, Transportation, and Economic Development (see Figure 3.4). Charlotte then developed seven Customer perspective outcomes and twelve outcome measures within the financial, internal processes, and learning and growth perspectives. Each Key Business then identifies in its planning process how its activities are in line with the nineteen outcome measures.

Figure 3.4. Charlotte's Balanced Scorecards Model.



Source: [http://www.ci.charlotte.nc.us/cibudget/workarea/Microsoft PowerPoint - 2000 Corporate Scorecard.pdf](http://www.ci.charlotte.nc.us/cibudget/workarea/Microsoft%20PowerPoint%20-%202000%20Corporate%20Scorecard.pdf)

The use of the focus areas and Balanced Scorecards “cascades” throughout the organization (City of Charlotte 2000, 34). Each Key Business plan must address how its activities move it towards the corporate scorecard objectives; it also must list those activities that do not correspond to a corporate scorecard objective as activities necessary

for “running the business.” The business unit establishes targets, then, for its activities. One of the results of using the balanced scorecards method, aside from its emphasis on strategic planning, is that the City Council has to process less information (the fiscal year 1998 scorecard contained 266 outcome measures in total) than it had to under Management by Objective (which delivered between 800 and 900 performance measures). Finally, the business unit targets, and whether they are achieved or not, are used to evaluate employees.

In developing its Balanced Scorecard approach, Charlotte decided to put the Customer perspective ahead of the Financial perspective (Kaplan and Norton, 2001). They hypothesized that solutions to the Customer perspective would achieve its objectives in the Focus areas, which were the mission of Charlotte’s government. Two of the customer service objectives—Reduced Crime and Increased Perception of Safety—were developed to drive the Community Safety focus area. The Enhance Service Delivery and Maintain Competitive Tax Rate Customer Perspectives inform the Restructuring Government Focus area. The Strengthen Neighborhoods perspective applies to the City-Within-a-City Focus area; Provide Safe, Convenient Transportation to the Transportation Focus area; and Promote Economic Opportunity to the Economic Development Focus area. The remaining perspectives—Financial, Internal Process, and Learning and Growth—were developed to achieve the goals set out in the Customer Perspective. The Financial Objectives “...measure delivering the City’s services at a good price, securing external partners for funding and services, and maintaining its solid tax base and credit rating” (Kaplan and Norton 2001, 138). The internal process objectives sought to improve service delivery through partnerships and productivity, while the learning and growth

objectives supported the internal process objectives by developing internal capacities. Once the overall Balanced Scorecard was developed, the City established individual Balanced Scorecards for each of the five Focus Areas, which then identified the Key Businesses whose activities directly affected any particular Focus Area. These Key Business leaders could then be brought together to discuss how they could contribute to the focus area.

Once developed, Charlotte used the Balanced Scorecard annually to produce its Corporate Scorecard Measures. These are the specific measures that the City seeks to achieve in the upcoming fiscal year and are derived from the City's annual Strategic Plan. That is, for each outcome that Charlotte lists in its Balanced Scorecard, it identifies a measure, defines the metric for that measure, and identifies the source of information.

Charlotte's 1999 Strategic Plan consists of its five focus area plans. The Economic Development Plan contains statements on its urban economic policy; these statements then provide the basis for specific measures of success in its five focus areas. Charlotte's Urban Economic Policy is the set of themes that outlines how it will achieve its five-year vision (adopted by the City Council in 1995). There are three broad themes in the Urban Economic Policy: Business Support, Strategic Investments, and Urban Initiatives. Within each of these areas is a specific subsection. For instance, the 1999-2000 Strategic Plan contains business retention, neighborhood business revitalization, public safety, workforce development, urban economic development, and organization under the Business Support theme. Strategic Investments include infrastructure (water and wastewater), transportation (roads, airport, and planning), and facilities (Arena and the Carolina Theatre). Urban Initiatives focus on Center City development (such as retail

and services and other redevelopment), City-Within-a-City, Business Corridor Revitalization, and Area Strategy Plans. Charlotte then developed specific measures for each strategy listed. For instance, the Business Retention Strategy includes the following measures:

- Approval of the City Council’s business retention strategy;
- Reduction in businesses relocating from Charlotte;
- Increase in private investment in eligible areas;
- Implementation of key Business Advisory Committee recommendations;
- Participation feedback from the Mayor’s Business Breakfasts; and,
- Survey results from businesses;

The remainder of the measures for the Urban Economic Policy themes reflected City Council approval of plans, development and implementation of action plans, the development of partnerships, and the completion of projects. In few instances were outcome measures specified; where they were, they were not (with one exception) accompanied by specific targets.

Each Key Business Unit in Charlotte, as part of its business plan, identifies the objectives in the Corporate Scorecard that it will impact. The format of individual Key Business Plans follows that of the City. First, each Key Business identifies its mission statement, vision statements, and guiding principles. Engineering and Property Management Key Business (EPM), for instance, lists “Building Value for Charlotte—great employees, organization, and community” as its mission statement (EPM 2000, 5). EPM used this mission statement to develop five strategic objectives:

- Be recognized by our customers as the City’s leader in providing courteous, accessible, seamless and responsive service.

- Find ways to apply our resources to achieve City Council's priorities.
- Build our competitive edge through learning, innovation and continuous improvement.
- Find the optimum balance of cost, schedule and quality that achieves the City's CIP and operational goals and satisfies our customers.
- Create an environment that expects and values the contributions of individuals, recognizes their diverse contributions and encourages them to develop to their full potential (EPM 2000: 5).

EPM then goes on to define those goals in the City's Balanced Scorecard that its actions will impact. These are:

- Customer Perspective: Strengthen Neighborhoods; Enhance Service Delivery; Provide Safe, Convenient Transportation; and Promote Economic Opportunity
- Financial Perspective: Maximize Benefit/Cost and Grow the Tax Base
- Internal Process Perspective: Streamline Customer Interactions, Promote Community-Based Problem Solving; Improve Productivity; Increase Positive Contacts; and Increase Infrastructure Capacity
- Learning and Growth Perspective: Enhance Information Management; Achieve Positive Employee Climate; and Close Skills Gap

With its definition of strategic objectives and the City Council's Focus Areas, EPM developed its own Balanced Scorecard, which mapped 15 specific objectives along with measures for each. EPM then mapped each specific objective to the appropriate EPM strategic objective; these were then mapped to the City Council Focus Area. Thus, the EPM Balanced Scorecard could identify its intended targets of activity, define how those targets fit within its broader Strategic Objectives and Mission Statement, and identify how its activities fit within the overall goals established by the City Council. For instance, EPM's first measure in 2000 is Enhance Service Delivery. It set to improve employee customer service skills by ensuring that 95% or more of EPM employees receive the required customer service training under the employee training plan and by

achieving a customer service rating of at 4.2 on a 5-point scale (EPM 2000, 12). These objectives map to EPM's first Strategic Objective of service delivery. EPM then mapped this to the City Council Focus Area of Restructuring Government.

While individual Key Businesses may differ slightly in the individual steps taken in developing Key Business Scorecards, the overall process is the same. The Key Business establishes a mission statement, statement of values, guiding principles, and/or goals. The Key Business then identifies those measures in the City's Balanced Scorecard that its actions are meant to impact. It defines how it will impact those measures by listing outcome and output measures. Finally, it defines those measures and provides performance targets for several years beyond the current year.

Finally, Charlotte evaluates its performance each year with the publication of its Corporate Performance Report, which examines each of the Corporate Performance Objectives. The FY 2000 Corporate Performance Report is organized around each objective in the City's Balanced Scorecard. That is, the first section contains the objectives in the customer perspective and lists, for each objective, highlights performance achievements for each measure.

- The first objective in the customer perspective is Reducing Crime. The Corporate Performance Report contains eight highlights, mostly crime rates and clearance rates, but also new programs (such as one initiated by police and an Assistant District Attorney in which loitering and public consumption offenders were required to clean up the areas where they committed their offenses).
- The Strengthen Neighborhoods objective includes output measures, such as the number of inspections conducted and houses brought into compliance; outcome measures (e.g., a decrease in red light running due to the *SafeLight* program); and customer satisfaction measures (e.g., customer satisfaction with the 1998 Clean Sweep program).
- The Maximize Benefit Cost objective focuses on efforts to generate income and/or cost savings for Charlotte. For instance, Fire Prevention generated income from permits and plan reviews, recovering its goal of 60% of allocated costs. The

City Attorney's Office negotiated 17 condemnation cases rather than take them to court, while the Community Relations Committee successfully resolved 88% of 1,319 mediations, which, had they not been resolved, would have resulted in \$205,525 in court costs and 582 hours of court time. Citywide competition projects in FY99 resulted in more than \$1.7 million in estimated annual savings.

- The Improve Productivity objective includes employee recruitment, retention, and training efforts as well as productivity improvement efforts, such as the elimination of pre-printed forms and the use of new equipment in Solid Waste services which increased crew productivity by 27%. Also included in this objective is a reduction in the number of City automobile accidents. An unforeseen increase in the severity of accidents led to the City Council approving the spending for a defensive driving range in the Capital Investment Plan.
- The Learning and Growth objective presents employee satisfaction survey results, results of employee suggestion programs, and employee wellness programs.

The Corporate Performance Report, while predominantly focusing on positive outcomes, also does identify some areas where goals were not met. For instance, the FY 2000 Corporate Performance Report indicates that the 1998 homicide rate increased 7.4%. Several items of information are missing from the Corporate Performance Report that would make interpretation of Charlotte's success in achieving its total objectives easier. First, Charlotte does not list all of the measures for each objective that are identified in its Strategic Plan for that year. Thus, there is no way to determine if the items contained in the Corporate Performance Report accurately reflect the goals that had been decided upon. Second, the Corporate Performance Report does not identify what the original goals were. Thus, even though performance measures are listed in the Corporate Performance Report, they are not compared to any targets.

Summary of Planning in Charlotte

Prior to Rightsizing, Charlotte relied on management-by-objective to plan for service delivery. Planning was project-oriented, with very little analysis of the secondary impacts of projects. Furthermore, long-term goals played only a minor part in

determining the actions taken by Charlotte's government. Performance measurement was purely retroactive and relied on input and output measures. The Rightsizing process and the establishment of the five focus areas changed all of these.

In the post-Rightsizing period, planning evolved through two phases. In the first one, Charlotte established the five focus areas used to guide the activities of the Key Businesses. The five focus areas presented a framework by which the City Council could lead Key Business activities to desired outcomes. Planning activities adopted many of the tenets of Strategic Planning during this phase. Charlotte undertook environmental scanning through 1992's Services Assessment; 1993's visioning efforts resulted in Charlotte's picture of its future. Charlotte adopted a mission statement focused solely on customer satisfaction in 1989 that still drives activities in 2001. Early in the Rightsizing process, Charlotte reaffirmed its commitment to its employees through policies such as no layoffs and extensive training. Charlotte also expanded its communication efforts through the establishment of its customer service center, which serves as the central point of contact between citizens and the government. Charlotte kept employees and citizens informed of its progress in newsletters, publications, and broadcasts over the local access cable channels. Data in the form of unit costs, public satisfaction surveys, citizen contacts with the customer service center, and employee surveys were integrated into decision-making much more so than prior to Rightsizing.

Even with these changes, much of the planning activities in the first phase of Rightsizing focused on the mechanics of service delivery. With a few exceptions, Key Businesses' plans were primarily directed towards identifying those services they would open for competition or outright contracting. One exception was the Finance Key

Business, which devoted a substantial effort towards quality improvement and customer satisfaction. A second exception was the Solid Waste Key Business, which focused on service delivery efficiency (by implementing rollout collection and planning on opening portions of Charlotte for competition) and customer satisfaction (by surveying its customers' degree of satisfaction with the rollout service).

The second post-Rightsizing phase saw the development and implementation of the Balanced Scorecards approach. The Balanced Scorecards enhanced the strategic planning process by explicitly identifying those factors that would enhance the quality of life in Charlotte. In addition to being used to direct the activities of the Key Businesses, the focus areas provided a method to define and categorize the quality of life factors in Charlotte's Balanced Scorecards. One result of the use of Balanced Scorecards is that the business plans also became a performance contract between the Key Business executive and the City Council/Manager.

The transaction cost economics approach to public service delivery presented in Chapter 2 provides some understanding of why planning for service provision evolved through two stages after the implementation of Rightsizing. NPM reforms are based on a contractualist view of relationships. Planning is the establishment of a contract for future service provision and thus is one of the governance mechanisms used to ensure service delivery. There are transaction costs in the development and management of that contract. Planning evolved through two stages because Charlotte developed the understanding of the causal relationships between inputs, output, and outcomes to eventually focus on outcome-oriented planning. As Charlotte's government was viewed by employees and the community as understanding these relationships, it gained the legitimacy to have its

plans accepted by stakeholders. One proposition that derives from this examination of planning for service delivery under Rightsizing is that a municipality's understanding of the causal relationships between inputs, outputs, and outcomes will determine the transaction costs of planning for service delivery. The service delivery contracts that derive from outcome-based planning will possess higher transaction costs when those causal relationships are poorly understood. Therefore, a municipality can reduce the transaction costs of outcome-based planning by developing the knowledge about causal relationships in service delivery outcomes.

The approach developed in Chapter 2 listed five components of transaction costs that may be influential in the choice of style of planning: human asset specificity, legitimacy, physical asset specificity, frequency, and uncertainty. Only human asset specificity, legitimacy, and uncertainty are thought to affect the choice of planning focus.

Human asset specificity includes technical knowledge. In order to plan effectively for service delivery outcomes (as Charlotte has begun to do in the second phase of Rightsizing), Charlotte may have needed to gain a better understanding of service delivery efficiency and competition. That is, the knowledge about matching service delivery with outcomes may not have existed at the point Charlotte implemented Rightsizing; furthermore, there was little information about the impact that competition would have had on service provision outcomes. Only a few Key Businesses took an outcome-orientation early in the Rightsizing effort. Both the Finance and Solid Waste Key Businesses utilized techniques that focused on outcome measures, such as customer surveys and quality planning techniques. The success of these efforts for these Key Businesses and their dissemination to other Key Businesses provided the foundations of

knowledge needed for the second phase. Thus, with its focus on the mechanics of service delivery, the first phase of planning represented the most efficient governance mechanism at the time given. It was only when knowledge about service delivery outcomes existed that Charlotte could then focus on outcome-oriented planning.

The Finance and Solid Waste Key Businesses may have already had experience in focusing on service delivery efficiency, especially when in the areas of unit pricing, competition, contracting out, and the use of alternative service providers. Solid waste service is one of the most frequently contracted out services by municipalities, and, given the individual nature of most services, unit pricing is often easier to develop than in other municipal services. Financial services, such as accounting and billing, are directly analogous to private sector practices. Similar training may have exposed management employees to Strategic Management ideas and techniques.

If Charlotte had focused on outcome-oriented planning immediately after Rightsizing rather than focusing on planning of the mechanics of service delivery, uncertainty would also result in much higher transaction costs of monitoring. Without experience in understanding the relationships between service competition and service outcomes, Charlotte would not have been able to plan adequately for outcomes and implement competition simultaneously. Instead, Charlotte focused on the mechanics of service delivery early in Rightsizing and gained an understanding of the relationships between exposing service to market forces and service delivery outcomes. By reducing the uncertainty in the causal link between competition and outcome, Charlotte diminished the transaction costs of outcome-oriented planning in the second stage of planning.

Finally, in service provision, governments must organize governance mechanisms to ensure that legitimacy is maintained because both city employees and citizens must accept the plans made by the government. Thus, in planning for service delivery, governments and agencies must ensure that planning processes are recognized as serving the citizenry's interests. Given Charlotte's lack of experience with competition for service delivery and its impact on service provision outcomes early in the implementation of Rightsizing, the ideal governance mechanism for planning in the first phase of Rightsizing may have been to focus primarily on the mechanics of service delivery. By focusing marginally on outcomes early in Rightsizing, Charlotte may have maintained a greater hold on legitimacy. By focusing on the mechanics of service delivery in the first phase of Rightsizing, Charlotte tied the legitimacy of service provision to service delivery efficiency. Once Charlotte gained enough experience with competition, it shifted its focus to outcome-oriented planning. Legitimacy, then, is more closely tied to outcomes in the second phase of Rightsizing.

An alternative explanation for the evolution of planning after Rightsizing is that, in the first few years after Charlotte began Rightsizing, revenue shortfalls and increased demands for public safety compelled the city to focus on cost efficiency when planning. After the recession eased in the middle 1990's, Charlotte was able to focus more on outcome-oriented planning. Note, however, that outcome-based planning in the form of Balanced Scorecards did not begin immediately after the end of the recession in the early 1990's, but instead several years afterwards. Also, during the time when much of the planning activities focused on the mechanics of service delivery, there were still some instances of Key Businesses focusing on outcomes other than cost efficiency, as did the

Solid Waste Key Business through its use of customer surveys and the Finance Key Business's focus on quality through its use of Deming's Three Voices. An outcome-orientation, then, had already begun to filter through Charlotte's government while the recession was underway and city revenues were not meeting expectations. Thus, while financial considerations may have partially determined the timing of reforms in Charlotte, other considerations, would also have to play a role in their timing.

The City of Charlotte, then, did not simply import private sector practices into its management; rather, it adapted them to its unique circumstances. As a government, Charlotte has responsibilities not found in the private sector. With a different transaction costs structure, Charlotte could not simply adopt private sector practices. Planning in Charlotte thus evolved through two stages, with the governance mechanism in each stage (planning for the mechanics of service provision in the first stage and Balanced Scorecards in the second) matching the transaction costs of service delivery planning. The evolution of service delivery planning in Charlotte, then, is itself a transaction cost minimizing strategy.

CHAPTER 4

SERVICE DELIVERY AND THE USE OF MARKET FORCES

AFTER RIGHTSIZING

The previous chapter described the evolution of planning for service provision in Charlotte under Rightsizing. Early planning efforts focused on the mechanics of service provision, such as privatization and competition. After several years, Charlotte implemented the Balanced Scorecards approach, which oriented activities more towards outcomes established by the City Council. This evolution of service provision planning is consistent with Transaction Cost Economics explanations in that focusing on the mechanics of service delivery was a more appropriate governance mechanism for the assets of technical knowledge and legitimacy, whereas when Charlotte gained experience with market mechanisms, technical knowledge expanded and outcome-oriented activities could be viewed as legitimate.

Restructuring service production from the public sector to private markets where possible is often an attempt to improve the efficiency of service delivery (Minogue 1998). Governments worldwide are contracting service production out with the private and non-profit sectors more frequently. Furthermore, government service provision is becoming increasingly oriented towards 'customer satisfaction' instead of community principles. MacKintosh (1997) characterizes this focus of NPM on the provision of services to individuals rather than the community as creating conditions that allow for the exclusion

of those who cannot pay for government services. Cook and Kilpatrick (1994) note that the real issue in service delivery efficiency and satisfaction is not government versus private sector production, as there is little evidence that supports the superiority of one over the other. The real issue in service provision and satisfaction is monopoly ownership; that is, government is a monopoly that has few incentives to improve service delivery efficiency or satisfaction since there is no competition for the 'customer.'

Under this view, the more appropriate change in service production is the introduction of competition. NPM advocates compelling government agencies to compete for the right to provide services because competition will both improve service delivery and provide more information about the demand for that service (Minogue 1998). The competition program in the United Kingdom, begun in 1992, has resulted in average savings of about 20% of the original cost for each service opened for competition, irrespective of the eventual producer of the service (Minogue 1998). In those services competed for between 1992 and 1996, the government bidder has won the contract 71 percent of the time (Minogue 1998). Deakin and Walsh (1996) note, however, that not all has gone well with the UK's competition program. There were no bidders for many of the local services opened up for competition and, on occasion, the winners of bidding competitions were determined politically rather than according to standard bidding criteria.

This chapter examines changes in service production as Charlotte sought to introduce market forces into the production of services. After reviewing current scholarship on the use of market forces for municipal service delivery, this chapter presents data on the services Charlotte proposed for market exposure and then focuses on

those services actually opened for competition, contracting, and benchmarking. The research in this chapter uses the five transaction costs components of municipal service delivery in the model in Chapter 2 to explain the use of market forces in service delivery in Charlotte after Rightsizing.

Privatization and Competition in the Public Sector

One way to introduce competition into city government is to subdivide the city into zones and establish competitive arrangements for each zone. Economies of scale are usually exhausted in solid waste collection when the service population approaches 50,000; after that, there are usually no more cost benefits of increasing the service population (Savas 1997a, 1997b). Thus, for cities over 100,000 population, competition is possible by dividing the city into two zones of 50,000 people and opening each zone to competition separately. Ammons and Hill (1995) examine the results of competitive service arrangements in five of the six cities (Akron, Kansas City, Minneapolis, Montreal, New Orleans, and Oklahoma City) Savas (1981) used in his study examining the provision of solid waste collection under a competitive service arrangement, where local government competes with the private sector for contracts to collect solid waste. Those six cities subdivided themselves into zones, and then put each zone up separately for competitive tendering. In some instances, the private sector won the right to produce the service, while in others, the municipal department retained the right. Since Savas' (1981) study, New Orleans abandoned its competitive arrangement in favor of contracting service production out entirely while the other cities have retained their competitive arrangements. Ammons and Hill's survey results indicate that the public sector agencies improved their efficiency; cost per household for refuse collection

increased a fraction of the CPI for refuse collection in all cities except New Orleans. Akron and Minneapolis also realized dramatic increases in the amount of refuse collected per person-day in public agencies. Ammons and Hill also note several instances where the municipalities adopted process improvements which were then adopted by their private sector counterparts. Competitive service arrangements, then, may also serve to improve the cost-effectiveness of private sector production of services. Competitive arrangements also allow cities to retain the capacity to produce the service in-house in case a private provider fails, as happened in one city. Finally, the existence of a competitive arrangement provides the municipality information about the service so that it can benchmark its own performance and retain the ability to manage contracts.

Dilger et al. (1997) surveyed city administrators in the one hundred largest U.S. cities to determine the reasons behind service privatization and the overall level of satisfaction of privatized services. The predominant reason for privatizing services was to reduce their costs. Respondents did indicate, however, that improving service quality was also important in public works and transportation, health and human services, public safety, and recreation. City administrators also responded that they were generally satisfied with the quality of the services of the ten most frequently privatized services.

Globerman and Vining (1996) model government privatization of services according to the transaction costs economics perspective and then apply that model to government contracting of information technology (IT) services. They rely on three dimensions of transactions – asset specificity, contestability, and task complexity. Task complexity refers to the difficulty in specifying the terms of the contract and monitoring contractor performance. Contestability is the degree to which there would be competition

if the service were placed on the open market for bidding. Even in situations where there were only a few producers of the service, a service would be highly contestable if there were few barriers to entry into the market. Holding the other two dimensions constant, Globerman and Vining model high asset specificity, high task complexity, and low contestability as being barriers to successfully contracting a service out. Within the IT sector, there is often limited contestability, such that IT managers may open competition to foreign firms to increase the pool of competitors. IT services are also quite complex; managers will structure contracts in such a manner such that final payment will not be made until the purchasing government is satisfied with the product.

The Categorization of Services Affected by Rightsizing

This chapter examines those services that the Key Businesses in Charlotte have proposed for market force exposure between 1995 and 2005 and those services that have actually been opened to competition, outright contracting, and benchmarking between 1992 and 1999. These lists of services derive from each Key Business's competition plans and summaries of Rightsizing activities. Competition plans contain the name of the service, the amount budgeted for that service, and the number of personnel budgeted for that service. Reports of market force exposure contained different information about services; all, however, identified the Key Business and service description.

Once entered into a database, several data cleaning steps were taken. First, duplicates were removed. That is, since several different sources supplied the data for this section, they often repeated the same information. When there were duplicates, the record from the most recent source was utilized. Second, there were instances when a service had been proposed in one year and then moved to the subsequent year. In these instances,

the earlier record was removed from the database. After these data cleaning efforts, there remained 375 distinct services proposed for market force exposure (see Appendix 2 for a list of these services and the categorization results) and 144 services that were opened for competition, contracted out, or benchmarked (Appendix 3 contains the list of services exposed to market forces categorized by transaction cost components and other analysis variables).

Several different classifications are made to analyze Charlotte's exposure to market forces. Each service is classified according to service recipient, the type of service, and the transaction cost components in delivering that service. There are two possible service recipients—internal and external. Internal recipients are those within Charlotte's government while external recipients are Charlotte's citizens and the general public. For instance, various engineering services, equipment maintenance, and management activities are classified as internal services while trash collection, transit operations, landscaping, and water provision are classified as external services. Note that this classification focuses on the primary purpose of that services. For instance, the Finance Key Business listed economic forecasting as a service to be opened for competition. They would be the direct recipient of this service as they utilize economic forecasts to plan for future revenue collections and expenditures. Businesses could also benefit from these forecasts, but the primary purpose of these forecasts is to supply the city with needed information.

I also classify services by three types—direct, indirect, and support. A direct service is one where the recipient derives benefits directly from the service. For instance, a resident benefits directly from her trash being collected and the Finance Key Business

benefits directly from receiving economic forecasts. An indirect service is one where the benefits are spread out across the recipients. Landscaping and right-of-way mowing benefit all who value the aesthetic appearance of the city. Recipients of police services often do not want to receive them nor do they directly benefit from being arrested, but the benefits of arresting criminals extend across the city. Third, a support service is one that is provided in support of another service and includes such items as managerial activities, bookkeeping, and maintenance. Note that the distinction in service type does not incorporate externalities, but only focuses on the immediate purpose of the service. All residents benefit from having city vehicles maintained because of fewer accidents from brakes failing, for instance. These ancillary benefits (and costs) are less important in the decision to contract or open for competition than the direct benefits to the recipient.

Finally, I classify services according to the transaction costs components in delivering each service. The model presented in Chapter 2 identifies five transaction costs components in the delivery of public services: human asset specificity, legitimacy/political authority, physical asset specificity, frequency, and uncertainty. Recalling the discussion in Chapter 2, the more appropriate governance mechanism for a service high in asset specificity, holding the other transaction cost components constant, should be in-house production when compared to the alternative governance mechanism of purchasing that service on the open market. This holds true for human assets and physical assets as well as the legitimacy/authority needed to successfully produce that service. In this dissertation, I utilize a typology similar to Globerman and Vining (1986) and categorize as high or low the five transaction cost components for the 375 services proposed for exposure to market forces and the 144 services actually exposed to market forces. I rely

upon the service descriptions provided in the source that identifies those services and the 1992 City Services Inventory, which lists the services the city of Charlotte provides and the specific activities that comprise each service.

The first transaction cost component in the municipal service delivery model in Chapter 2 is human asset specificity. I categorize it as high or low depending on the ease with which the human skills needed to produce that service could be applied to alternative uses. If the skills used to deliver the service could be utilized in producing other goods and services, then that service was classified as having low human asset specificity. Services classified as having high asset specificity are those where the skills necessary to produce them are not easily transferable to other uses. Government accounting skills utilized in CAFO report preparation, which was categorized as high human asset specificity, differs from those of the private sector. As Hughes (1994) states,

In the business sector, corporations can be evaluated by comparing their financial data. Earnings per share, return on investments, inventory turnover, and return on sales all present a picture of a corporation's operating results in relation to other corporations. Thus, using various measures of profitability, it is possible to compare one business with another and to rank them on the basis of their performance....In the governmental sector, on the other hand, the same analyses cannot be used. There are no earnings per share, return on investments, or return on sales. The focus is not on profitability but on serving the community's needs. Governmental accounting systems are designed to prove to the appropriate legislature that moneys have been collected and spent in accordance with the law, but they do not facilitate the evaluation of performance. (321)

Thus, in moving from a government to a private organization or vice-versa, an accountant would need to learn an entirely new set of accounting criteria. Other services included in this category are water and wastewater plant treatment operations (since they require specialized skills in monitoring water quality), Critical Incident Counseling (since there is little need for critical incident counseling aside from emergency services), and Cable

Franchise Administration (which is a government-regulated monopoly subject to numerous local and federal requirements).

Services for which specific knowledge about the municipality is required to adequately produce the service were also classified as possessing high human asset specificity. For instance, the Fire Key Business identified contracts with Volunteer Fire Departments and Fire Logistics while the Neighborhood Development Key Business listed such services as Housing Development, Job Placement, and Relocation. Each of these services requires that the producer have information specific to Charlotte. That knowledge is not easily used to produce other services in other jurisdictions. Any investment the producer makes in attaining that knowledge would be wasted if the producer could no longer produce that service; the information cannot easily be sold on the open market since there would be few buyers of that information aside from the City of Charlotte.

The second transaction cost component of municipal service delivery is the need for political authority or legitimacy in order to successfully produce the service. Services that require the use of legitimacy or political authority, as in the use of police powers of the state, are identified as having a high legitimacy component. Ordinance enforcement is one clear cut example where the police power of the state is necessary to produce the service. Other services that were identified as having high legitimacy needs are Applicant Drug Testing, EEOC Charges, and Relocation Assistance. The recipient of these services (the family receiving relocation assistance) and those that oversee the delivery of these services (the Federal government in EEOC activities, for instance) must rely on the information supplied by the organization producing the service. If the recipient cannot

trust the veracity of the information, then they may refuse to receive the service (the family offered relocation assistance may not relocate, for example).

The third transaction cost component in the delivery of public services is the physical asset specificity of the inputs utilized in the production of that service. If the physical assets needed to deliver the service could be transferred on the open market, either for the same use or for other uses, then that service is classified as having low physical asset specificity. A service is classified as having high physical asset specificity if the physical inputs utilized to produce that service cannot be sold for other uses, either because no alternative uses exist or because that asset needs to be located in a certain physical location and cannot be moved. Shuttle buses, for instance, have few uses aside from transporting a small number of people a short distance. Backflow valves, microfilming equipment, and polygraph machines have no other uses than those for which they were intended nor are there other producers that would require the use of this equipment.²¹ These services, then, are categorized as having high asset specificity. Note that I classify all solid waste services as having high asset specificity. The equipment used for rollout collection services is specific to that service; furthermore, Charlotte cannot easily sell rollout collection trucks to other municipalities or private hauling companies in the area since there are only a few other service providers in the area. That is, Charlotte is the largest market for trash services in the area; therefore, the demand for equipment outside of Charlotte in the Charlotte MSA is relatively small.

The fourth transaction cost component in the municipal service delivery model is the frequency with which that service is produced. Services delivered on a regular

schedule and/or those that are not one-time services, such as special reports or single repair jobs, are classified as high frequency. For instance, removing the helicopter underground storage tanks, developing small systems software, and replacing the HVAC system in the Belmont Center are all one-time services. Cleaning up after special events is not a one-time service, but only occurs after a special event and not on a regular schedule. A producer of special event cleaning will not know when the investment in the goods and services to clean after special events will be recouped. Furthermore, different events may require different equipment for clean-up afterwards. Most services listed for exposure to market forces are categorized as high frequency.

The last transaction cost component is uncertainty. Some municipal services are delivered in an environment where there are factors beyond the producer's control that will impact whether the producer can successfully produce that service. For instance, a service producer might need to rely on other services to successfully produce their service. Fire departments, for instance, must rely on the roads department to maintain roads so that the fire department can promptly reply to fire alarms. Note that the sanitation department must also rely on the roads department, but the fire department's reliance is more critical since time is much more crucial in the fire department's response. A second factor in determining the uncertainty in the delivery of a service is the reliance on external reports for the need for that service. Many services rely on external sources to report the need for those services, as in calls for police service. If the delivery of the service required the successful production of other services or otherwise was

²¹ Libraries may have a need for microfilming equipment; however, the exponential growth of the use of digital media has sharply curtailed the use of microfilms.

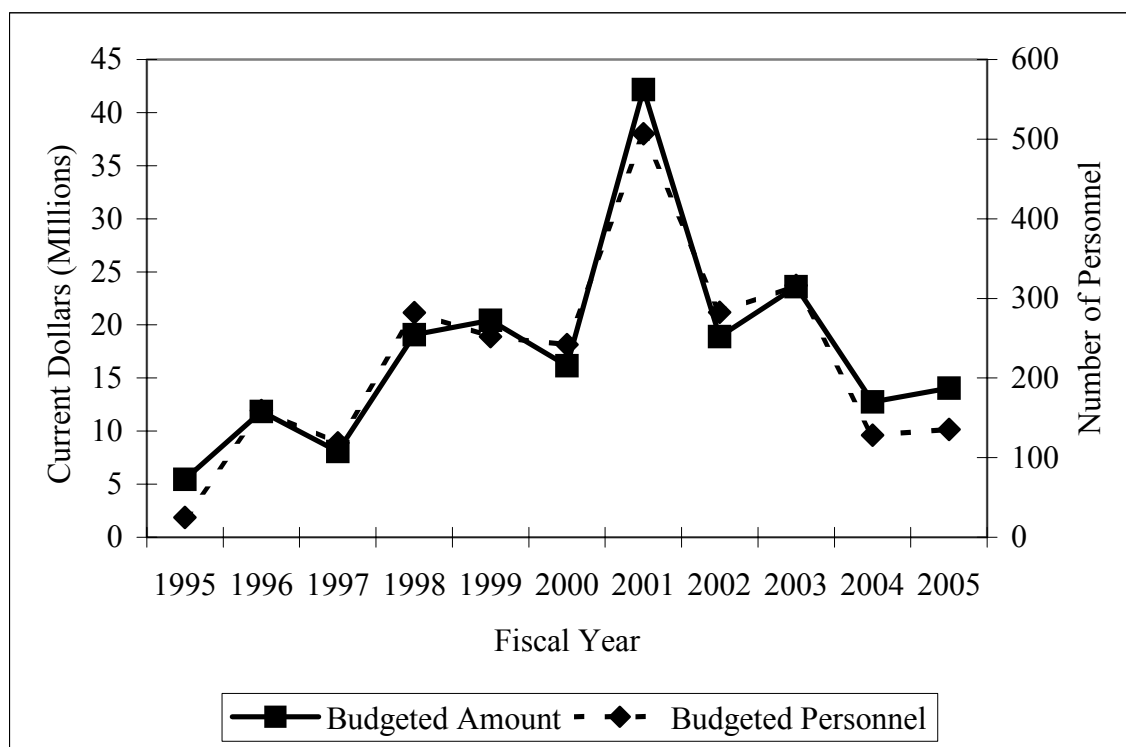
delivered in an unknown environment, then that service is classified as having high uncertainty.²² Note that almost all services are classified as having low uncertainty.

Services Proposed for Exposure to Market Forces

Charlotte's proposed competition, contracting, and benchmarking schedule places the most emphasis on activities in Fiscal Year 2001 when measured by the budgeted dollar value of the contract and the number of personnel budgeted to produce the service (Figure 4.1). Early in the post-Rightsizing period, there were relatively few services proposed and those that were proposed were relatively small. After several years, as the City became more familiar with competition, contracting, and benchmarking, the extent of the services exposed to these market forces increased. Note that, aside from Fiscal Year 2001, the dollar value and number of personnel in the services listed for market force exposure is relatively constant between 1998 and 2003. This could indicate that this level, between \$15 and \$25 million of services and 250 to 350 employees, is more indicative of the normal level of proposed services, and that FY 2001 was an anomaly.

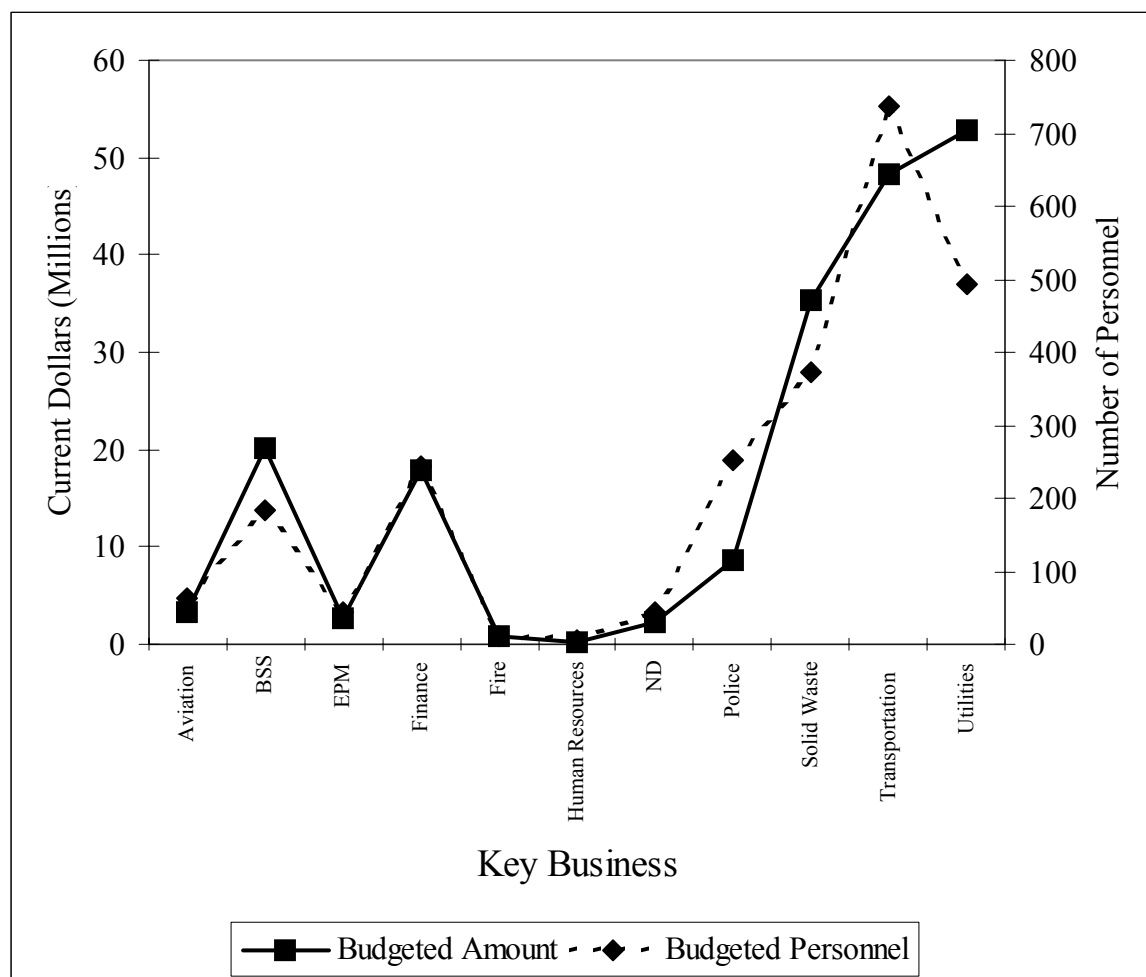
²² Uncertainty is equivalent to Globerman and Vining's task complexity.

Figure 4.1. Current Dollar Value and Number of Personnel Budgeted for Services Proposed for Exposure to Market Forces, Fiscal Years 1995 Through 2005, by Fiscal Year



Those services that typically have been found to be involved in privatization activities—transportation, utilities, and refuse collection—are also the activities that proposed the most extensive amount of market activities for their services. These three Key Businesses proposed the largest dollar value of services (Figure 4.2) and identified services for market forces that affected the largest amount of budgeted positions (Figure 4.2). The Police Key Business and two Support Businesses—Finance and Business Support Service—make up the next three in terms of both budgeted amounts and personnel. The remaining Key Businesses occasionally listed services to expose to market forces.

Figure 4.2. Current Dollar Value and Number of Personnel Budgeted for Services Proposed for Exposure to Market Forces, Fiscal Years 1995 Through 2005, by Key Business

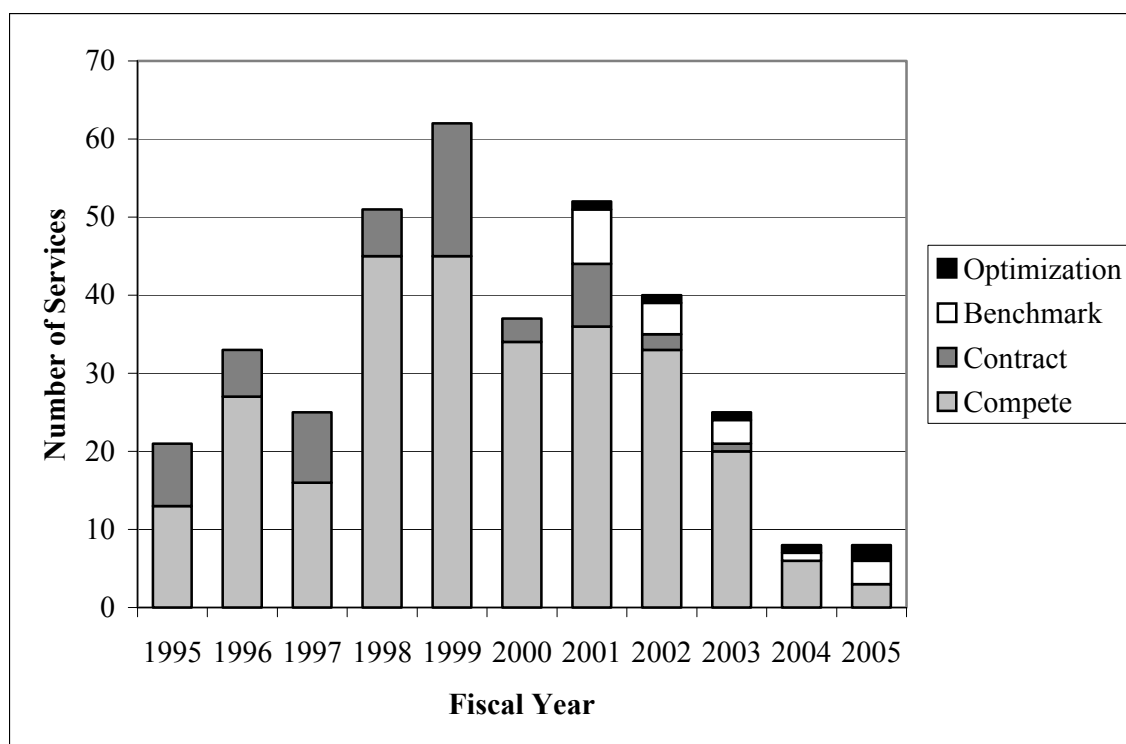


Note: BSS = Business Support Services Key Business; EPM = Engineering and Property Management Key Business; ND = Neighborhood Development Key Business.

In most instances, the competition plans identified the type of market forces to which the service would be exposed. Between fiscal years 1995 and 2000, the only forces identified were competition and contracting, with the primary method identified for market exposure being competition (Figure 4.3). After fiscal year 2000, several Key Businesses identified Benchmarking and Optimization as other market forces that would be utilized. An Optimized service is one that undertakes service production

improvements that have been brought over from another service. For instance, a water treatment plant may have been opened for competition and then won by the employees of that plant, who then institute the proposed changes. Another water treatment plant may Optimize by undertaking similar changes (learning from the first water treatment plant) without being opened for competition. Optimization constitutes the least utilized method to expose a service market forces while Benchmarking was identified more frequently.

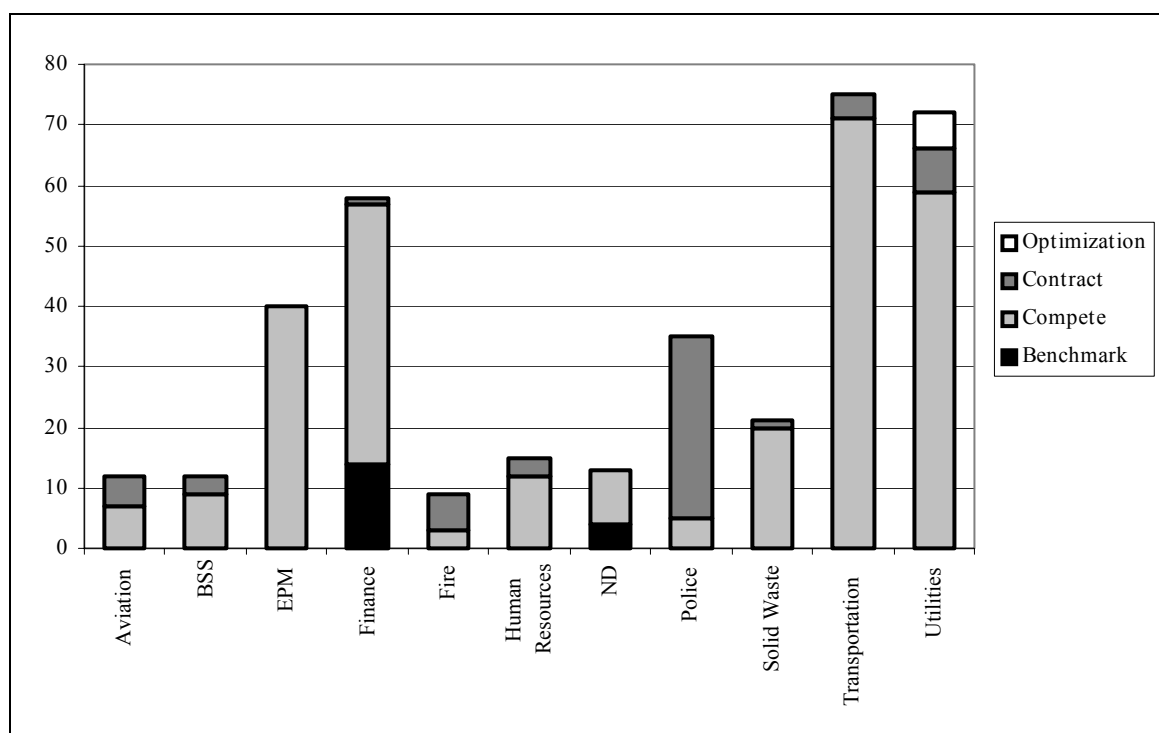
Figure 4.3. Number of Services Planned for Exposure to Market Forces, by Market Force Type and Fiscal Year, 1995 through 2005



Several interesting patterns emerge when examining the methods of exposure to market forces by each Key Business. First, the Engineering and Property Management, Finance, Transportation, and Utilities Key Businesses identified the most services that would be exposed to market forces. The Engineering and Property Management, Finance, Human Resources, Neighborhood Development, Solid Waste, Transportation, and

Utilities Key Businesses indicated that they would rely primarily on competition (Figure 4.4). The Finance Key Business also listed the most services that would be Benchmarked (Figure 4.4). The only other Key Business indicating it would utilize benchmarking was Neighborhood Development. Most Key Businesses indicated a willingness to use outright contracting (with an external entity); the Police Key Business listed the most services (Figure 4.4). Finally, the Utilities Key Business identified several services that would be Optimized. These services accounted for a relatively small portion of the total value of all of the services the Utilities Key Business proposed for exposure to market forces (Figure 4.4).

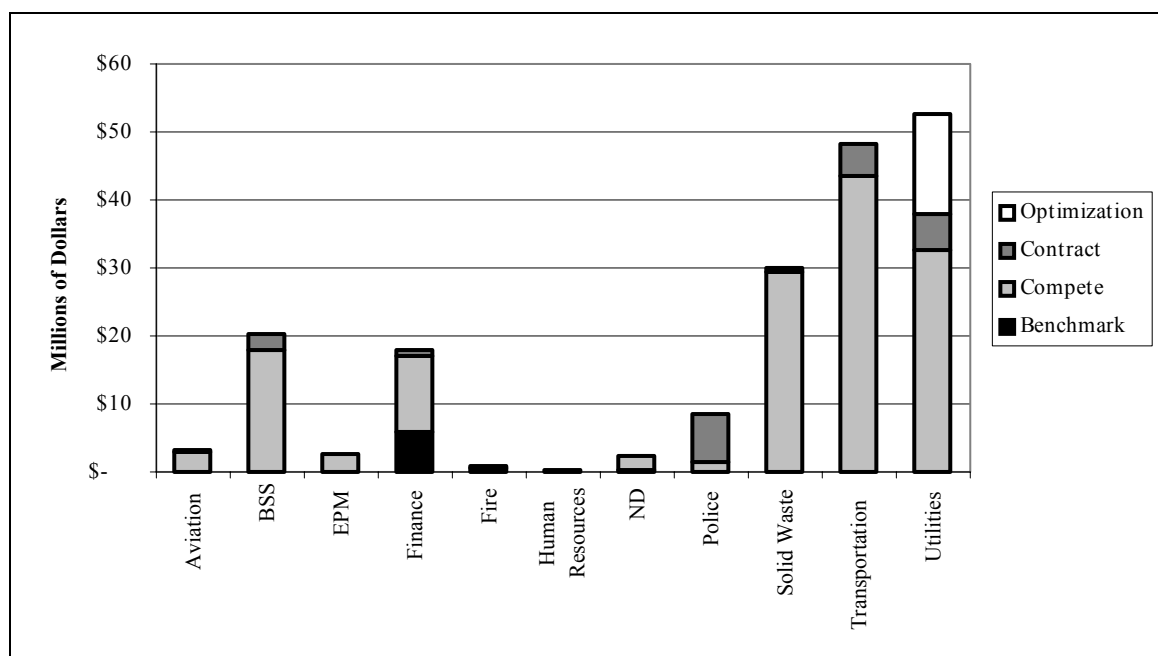
Figure 4.4. Number of Services Proposed for Exposure to Market Forces Between Fiscal Years 1995 and 2005, by Market Force and Key Business



Note: BSS = Business Support Services Key Business; EPM = Engineering and Property Management Key Business; ND = Neighborhood Development Key Business.

Comparing the number of services proposed in Figure 4.4 with the dollar value of service (Figure 4.5) and the number of personnel affected (Figure 4.6) demonstrates that some Key Businesses proposed relatively small services while other Key Businesses identified much larger services for exposure to market forces. Note that in Figure 4.4, the Engineering and Property Management Key Business proposed more services for exposure to market forces than most of the other Key Businesses. However, the budgeted dollars and number of personnel of those services were extremely small. A similar pattern exists for the Fire, Human Resources, and Neighborhood Development Key Businesses. Given the nature of the services that these Key Businesses provide, they may not have had much experience with private sector market forces and thus chose to propose smaller services as a way of protecting themselves from problems in the market exposure process.

Figure 4.5. Dollar Value of Services Proposed for Exposure to Market Forces Between Fiscal Years 1995 and 2005, by Market Force and Key Business

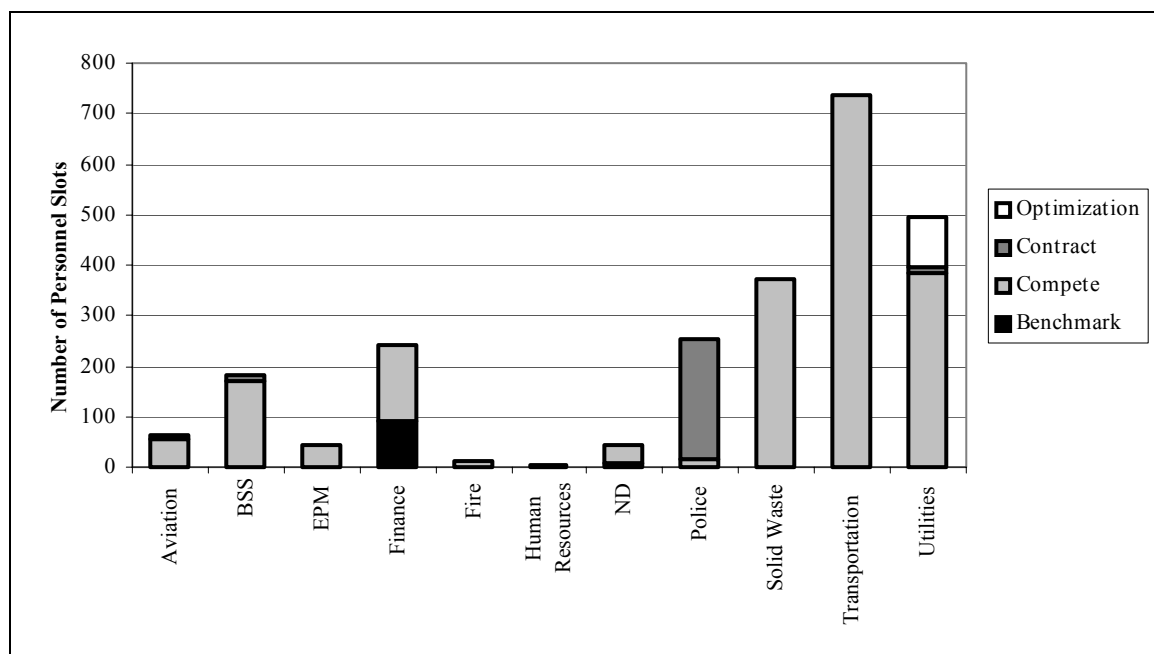


Note: BSS = Business Support Services Key Business; EPM = Engineering and Property Management Key Business; ND = Neighborhood Development Key Business.

By way of contrast, the Solid Waste Key Business only proposed 21 services, substantially fewer than the more than 70 services identified by the Transportation and Utilities Key Businesses each. However, the dollar value and number of personnel in the services listed by the Solid Waste Key Business were closer to those values identified by the Transportation and Utilities Key Businesses; thus, the Solid Waste Key Business proposed larger services for exposure to market forces. Similarly, the dollar values and number of personnel in those services identified by the Business Support Services Key Business were relatively higher than the number of services proposed. Note that these two Key Businesses, as well as the Transportation and Utilities Key Businesses, may have had substantially more experience with the private sector. That is, solid waste, transportation, and utilities activities are quite often contracted with the private sector

already. Being more familiar with the privatization of services may have facilitated the entry of these Key Businesses into market-oriented service delivery.

Figure 4.6. Number of Personnel Employed in Services Proposed for Exposure to Market Forces Between Fiscal Years 1995 and 2005, by market Force and Key Business



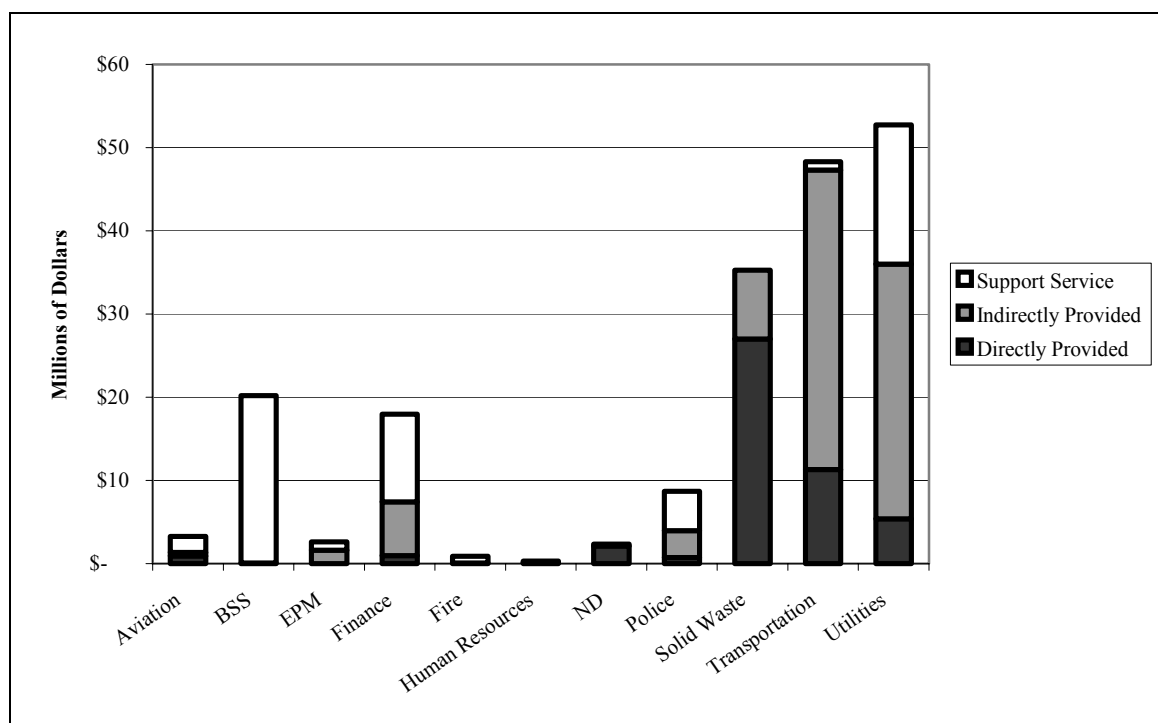
Note: BSS = Business Support Services Key Business; EPM = Engineering and Property Management Key Business; ND = Neighborhood Development Key Business.

Services Proposed for Rightsizing by the Type of Service and Service Recipient

Charlotte's Key Businesses largely focused on exposing support services and indirectly provided services to market forces (Figure 4.7). Solid Waste, because of their exposure of trash collection services to Rightsizing, identified the largest number and value of services provided directly to recipients for exposure to market forces. The remaining Key Businesses listed very little in the way of direct services for Rightsizing activities. Four Key Businesses are largely responsible for opening support services up to market forces: Business Support Services, Finance, Police, and Utilities. In the cases of the Business Support Services and Finance Key Businesses, support services comprise

the predominant proportion of services proposed for exposure to market forces. The Transportation and Utilities Key Businesses overwhelmingly listed the largest number and value of indirectly provided services exposed to market forces. Finally, the Solid Waste, Transportation, Utilities, Neighborhood Development, and Aviation Key Businesses identified directly-provided services for Rightsizing activities.

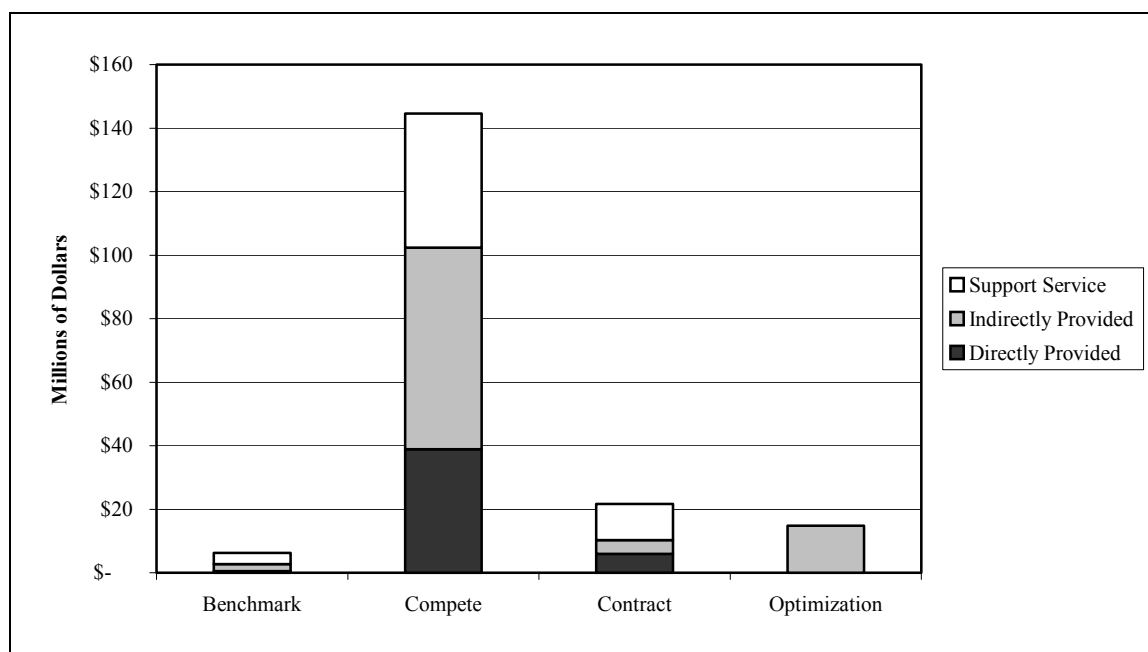
Figure 4.7. Services Proposed for Exposure to Market Forces, by Type of Service and Key Business, Fiscal Years 1995 Through 2005



Note: BSS = Business Support Services Key Business; EPM = Engineering and Property Management Key Business; ND = Neighborhood Development Key Business.

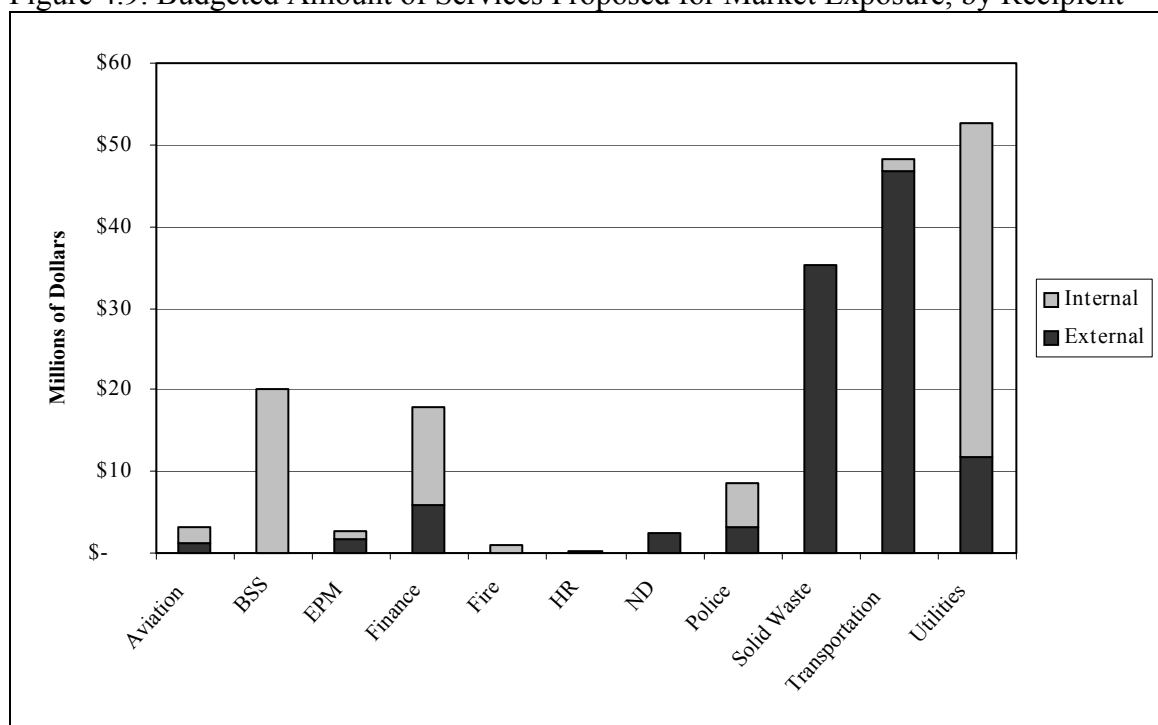
Aside from Optimization, the method of market force exposure does not differ between the types of services (Figure 4.8). Only indirectly provided services are listed for Optimization. Benchmarking, opening for competition, and outright contracting were nearly evenly divided between the types of services.

Figure 4.8. Services Proposed for Exposure to Market Forces, by Type of Service and Method of Market Force Exposure, Fiscal Years 1995 Through 2005



Second, differences in exposing services to market forces may exist between those services that are provided to the general public (external recipient) and those that units of Charlotte's government. Figure 4.9 presents the distribution of services proposed for exposure to market forces by service recipient. Business Support Services, Finance, Police, and Utilities predominantly listed internal services for exposure to market forces. This is not surprising in the cases of Business Support Services and Finance, since most of their services are in support of other Key Businesses. The large bulk of services proposed by Solid Waste and Transportation are external services, led by efforts to open solid waste collection and Charlotte's public transit system to competition.

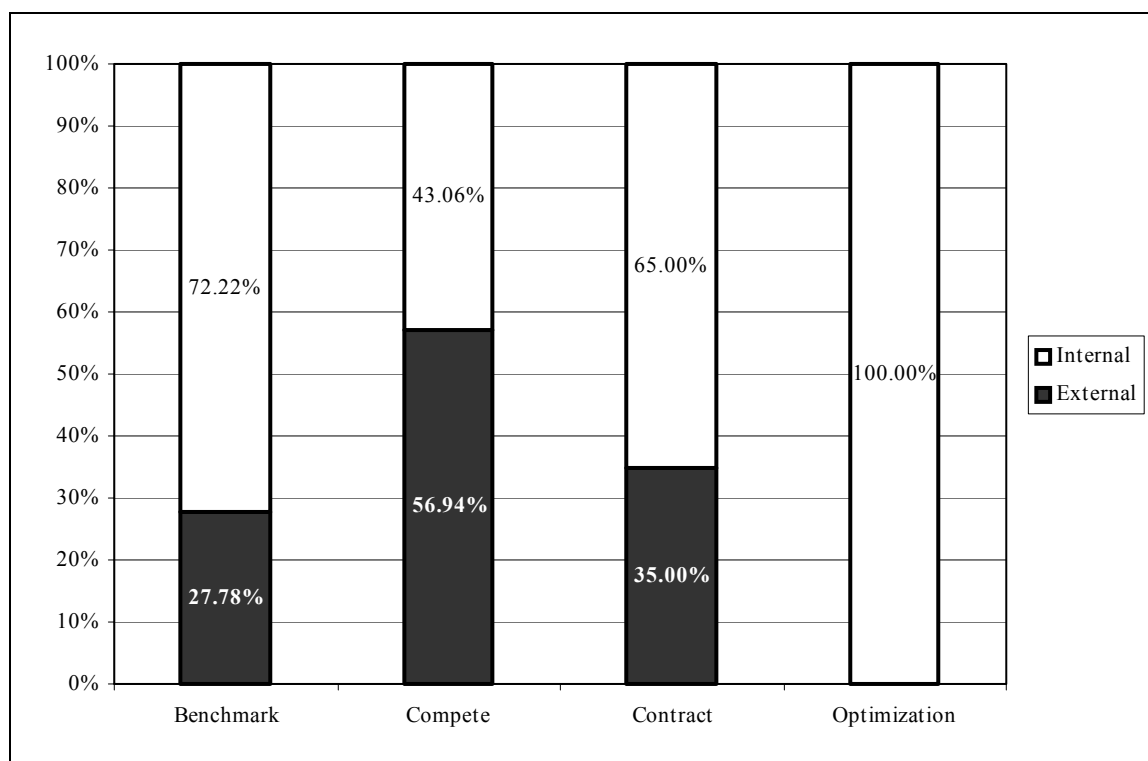
Figure 4.9. Budgeted Amount of Services Proposed for Market Exposure, by Recipient



Note: BSS = Business Support Services Key Business; EPM = Engineering and Property Management Key Business; ND = Neighborhood Development Key Business.

Figure 4.10 presents the distribution of each Rightsizing activity by the service recipient. Those services identified for competition were more likely to be provided to external service recipients, while services identified for contracting and benchmarking were somewhat more likely to be provided to internal clients. Optimization activities were exclusively internal.

Figure 4.10. Services Proposed for Exposure to Market Forces, by Recipient and Type of Market Force

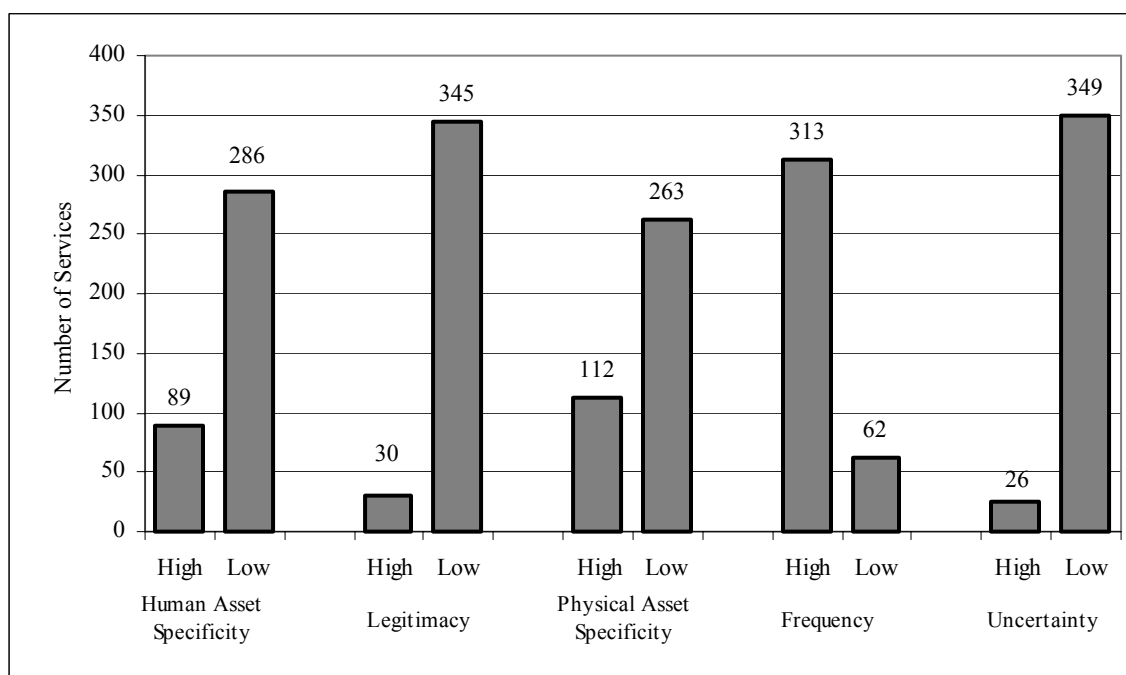


Services Proposed for Rightsizing by Transaction Cost Components

There are five components of transaction costs included in the model described in Chapter 2—human asset specificity, legitimacy, physical asset specificity, frequency of provision, and uncertainty in provision. Each service proposed for market exposure between fiscal years 1995 and 2005 was categorized as being either high or low in that component. High asset specificity means that the service is difficult to trade on the open market. High legitimacy costs indicate that the service relies on the police power of the state or on the acceptance by the service recipient of the producer of the service to produce that service. Highly frequent services are those produced regularly, while infrequently provided services are those where the service is produced on demand or is a special, one-time service. Services high in uncertainty are those where the production of

that service is not well understood or where it relies on the successful production of other services. Figure 4.11 illustrates that the typical service exposed to market forces was low in human asset specificity, legitimacy needs, and physical asset specificity, delivered frequently, and delivered in a highly certain environment.

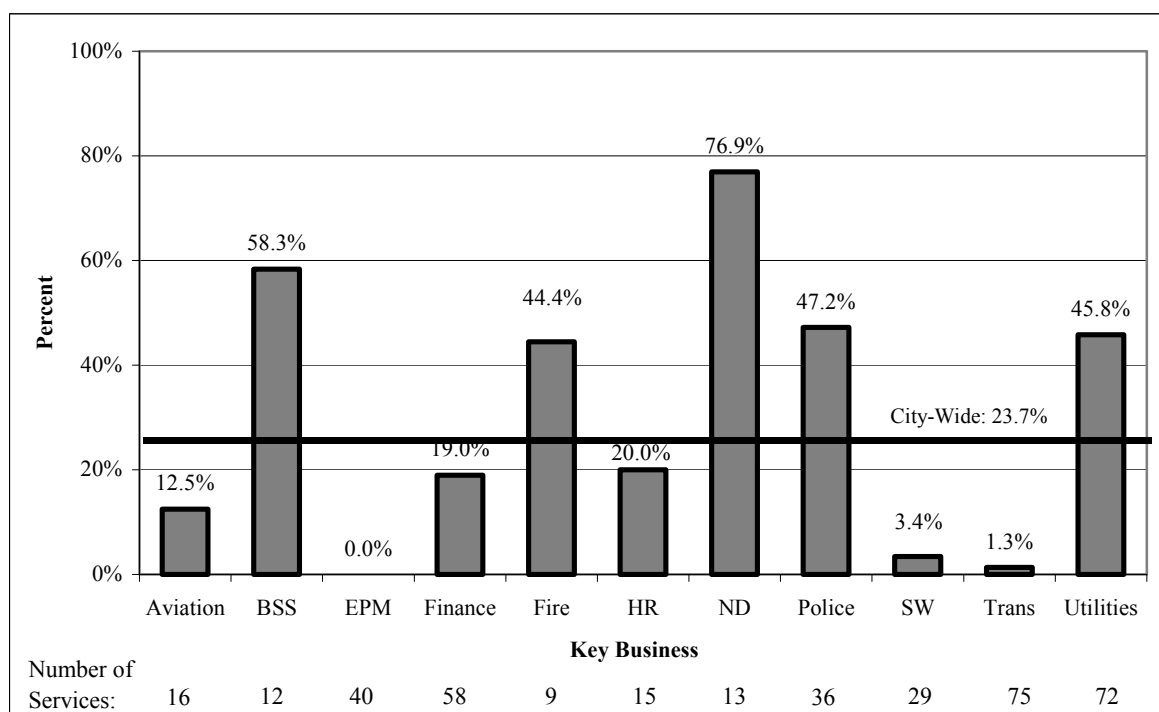
Figure 4.11. Distribution of Components of Transaction Costs for Services Identified by All of Charlotte's Key Businesses for Exposure to Market Forces, Fiscal Year 1995 Through 2005



The five following charts illustrate the percentages of services each Key Business identified for exposure to market forces by each transaction cost component. Each chart presents the percentage of services coded as high on that particular component. Figure 4.12 contains the percentage of services each Key Business proposed that are high in human asset specificity; that is, the knowledge used in the production of that service could not be easily transferred on the open market. City wide, nearly 24 percent of services proposed for exposure to market forces between 1995 and 2005 were high in human asset specificity. Examples of services proposed for exposure to market forces

include CAFO Report Preparation, Financial and Economic Forecasts, Payroll, Drug Testing, Housing Development, Alarm Ordinance Enforcement, Domestic Counseling, and Wastewater Treatment Plant Management. Note that the Business Support Services, Fire, Neighborhood Development, Police, and Utilities Key Businesses proposed a higher percentage of services where the knowledge used in the production of that service could not be easily transferred on the open market. Four of these five Key Businesses generally provide services that are labor-intensive; the exception to this is the Utilities Key Business, which provides relatively capital-intensive services.

Figure 4.12. Percentage of Services Each Key Business Proposed for Exposure to Market Forces with High Human Asset Specificity, Fiscal Years 1995 through 2005

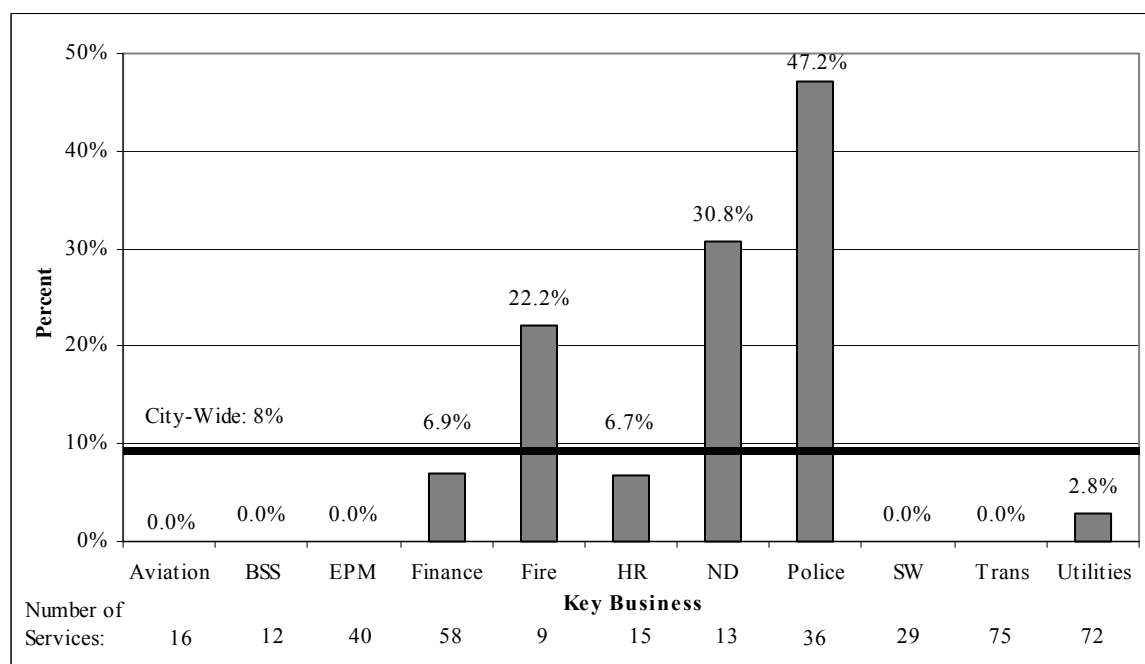


Note: BSS = Business Support Services; EPM = Engineering and Property Management; HR = Human Resources; ND = Neighborhood Development; SW = Solid Waste; and Trans = Transportation.

The second component of the transaction costs of service delivery is the legitimacy needs of the producer of the service. That is, certain services require that the

producer of the service be viewed as legitimately authorized to produce the service; for example, arresting people requires that the arresting officer have the authority actually to arrest someone. Another example where legitimacy needs are high is in the levying of property taxes. In both of these cases, the authority needs of the producer of the service (the police officer and the tax commissioner) are high in order to perform their tasks successfully. As Figure 4.13 illustrates, 8 percent of the services that all Key Businesses identified for exposure to market forces were high legitimacy services. The Fire, Neighborhood Development, and Police Key Businesses did propose a higher proportion of high legitimacy services. However, given the low number of services proposed by the Fire (9) and Neighborhood Development (13) Key Businesses, the proposal of only a few services in those cases was enough to push their percentages over the city wide figure. The Fire Key Business proposed Drug Testing and Fire Logistics, while the Neighborhood Development Key Business identified Job Placement and Relocation Services for exposure to market forces (two separate contracts each). Nearly half of the services proposed by the Police Key Business were defined as high legitimacy services, and these included Animal Control, various ordinance enforcement activities, and recruit background investigations.

Figure 4.13. Percentage of Services Each Key Business Proposed for Exposure to Market Forces with High Legitimacy, Fiscal Years 1995 through 2005

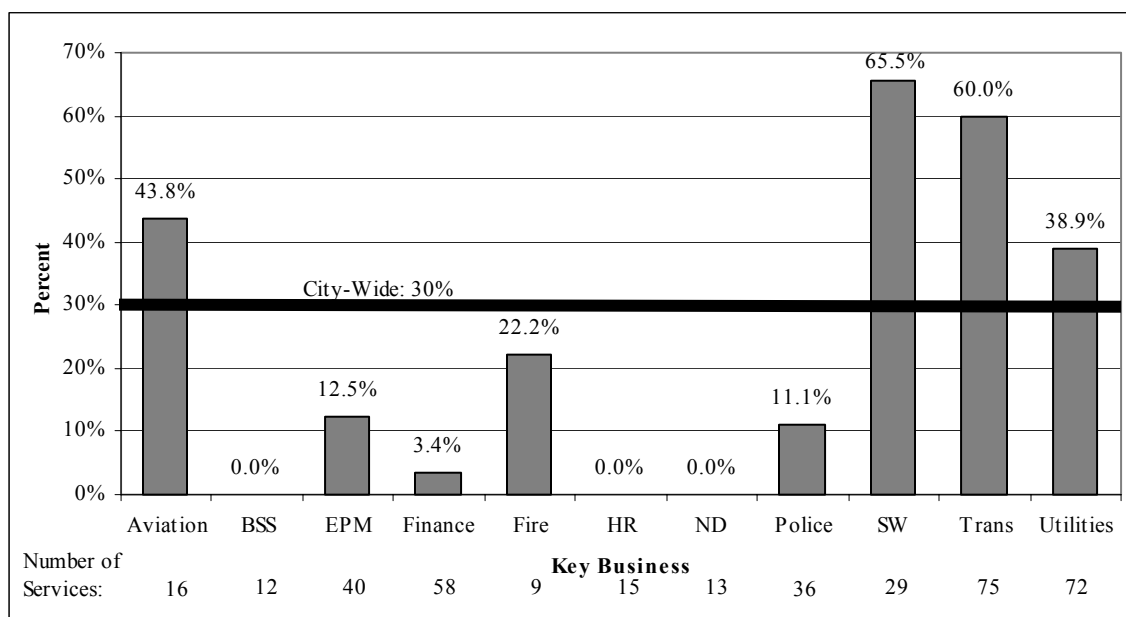


Note: BSS = Business Support Services; EPM = Engineering and Property Management; HR = Human Resources; ND = Neighborhood Development; SW = Solid Waste; and Trans = Transportation.

The third component of the transaction costs of municipal service delivery as modeled in Chapter 2 is the physical asset specificity of the service. This measures how easily the physical assets used in the production of the service can be transferred on the open market for other uses. For instance, computers used in developing the City's budget can also be used for other computer-related purposes. A municipality's water treatment plant cannot be converted into other uses, nor can it be physically moved to another municipality. Thirty percent of services proposed by all of Charlotte's Key Businesses were classified as possessing high physical asset specificity (Figure 4.14). Higher percentages were found in the Aviation, Solid Waste, Transportation, and Utilities Key Businesses. The last three Key Businesses provide services that are mostly capital intensive; thus the fact that many of the services they proposed are high in physical asset

specificity is no surprise. Several of the services proposed by the Aviation Key Business were one-time construction projects and others involved the provision of shuttle busses.

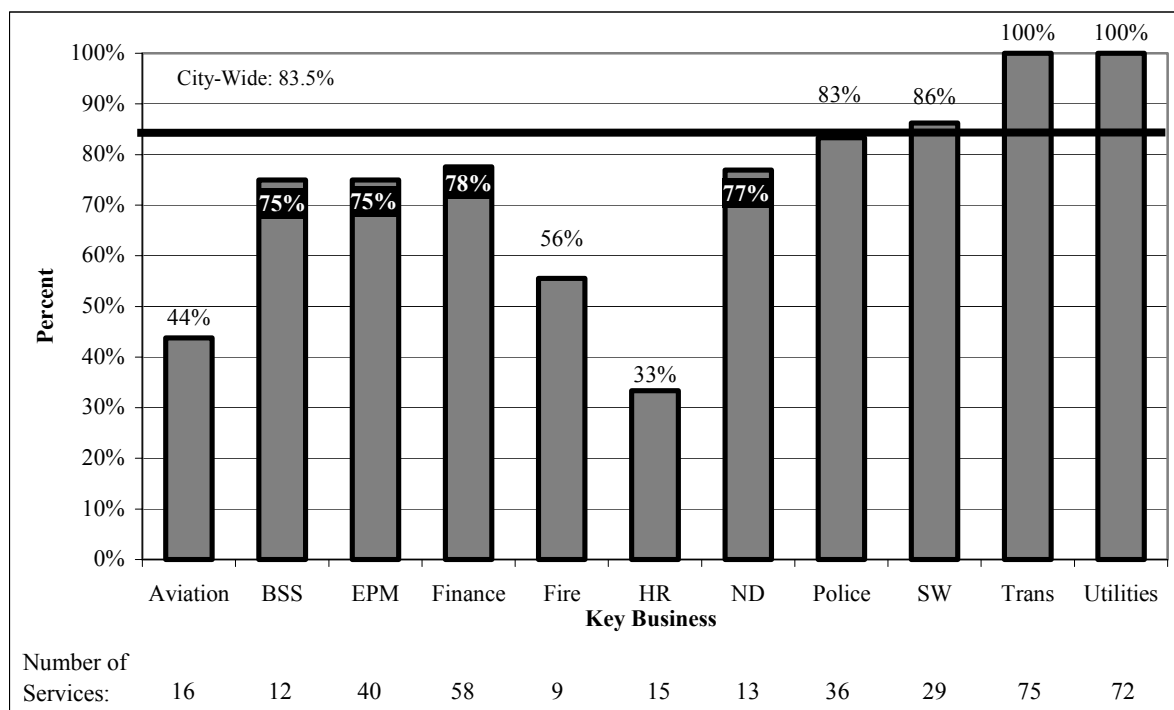
Figure 4.14. Percentage of Services Each Key Business Proposed for Exposure to Market Forces with High Physical Asset Specificity, Fiscal Years 1995 through 2005



Note: BSS = Business Support Services; EPM = Engineering and Property Management; HR = Human Resources; ND = Neighborhood Development; SW = Solid Waste; and Trans = Transportation.

The fourth component is the frequency of the transaction. Services delivered more frequently may provide more information about the unit costs of those services, allowing for greater market exposure of these services. However, infrequently provided services may also be candidates for market exposure if the service provider does not wish to undertake the costs of producing the service in-house. Most (83.5%) of the services identified for market exposure are produced highly frequently (Figure 4.15). The Aviation, Fire, and Human Resources Key Businesses identified substantially fewer services that were frequently provided than the city total. Almost all of these were one-time projects.

Figure 4.15. Percentage of Services Each Key Business Proposed for Exposure to Market Forces with High Frequency, Fiscal Years 1995 through 2005

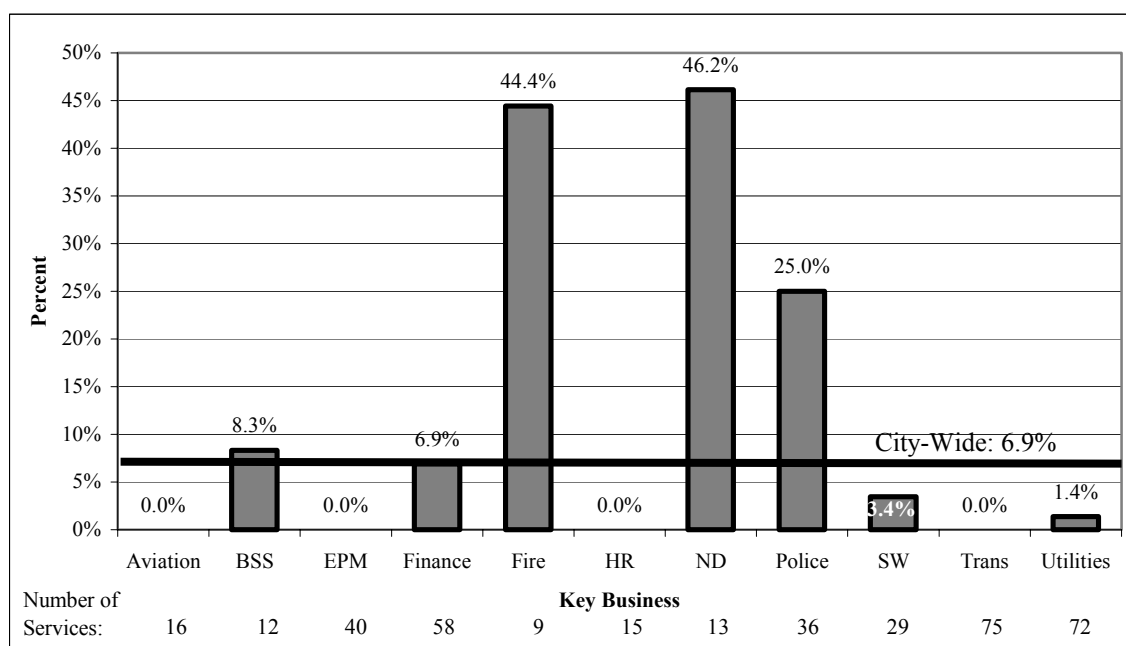


Note: BSS = Business Support Services; EPM = Engineering and Property Management; HR = Human Resources; ND = Neighborhood Development; SW = Solid Waste; and Trans = Transportation.

The last component of the transaction costs of municipal service delivery defined in the model in Chapter 2 is the uncertainty surrounding the production of the service. That is, certain services may require co-production or some other form of cooperation by citizens or the successful production of services by other agencies. These are classified as highly uncertain services, in that the producer does not have total control over the determination of the outcome. These should be harder to expose to market forces given the uncertainty in their production. City wide, only 7 percent of the services proposed for exposure to market forces are classified as being high in uncertainty (Figure 4.16). Three Key Businesses listed a substantially higher proportion: Fire, Neighborhood

Development, and Police. Services included by the Fire Key Business high in uncertainty include logistics, contracts with volunteer fire departments, critical incident counseling, and drug testing. Most of the services the Neighborhood Development Key Business identified involve citizen co-production, such as job placement and development and relocation. The services identified by the Police for exposure to market forces high in uncertainty include various ordinance enforcement programs, animal control, and counseling.

Figure 4.16. Percentage of Services Each Key Business Proposed for Exposure to Market Forces with High Uncertainty, Fiscal Years 1995 through 2005



Note: BSS = Business Support Services; EPM = Engineering and Property Management; HR = Human Resources; ND = Neighborhood Development; SW = Solid Waste; and Trans = Transportation.

Several Key Businesses, especially Transportation and Utilities, were more active in proposing services for market exposure. The most common technique proposed was competition; only Police and Fire proposed more services for outright contracting than they did for competition. Typically, services proposed were either support services or

those where the benefits are disbursed widely. The *typical* service proposed for exposure to market forces was low in all three kinds of asset specificity, delivered frequently, and low in uncertainty. The Fire, Neighborhood Development, and Police Key Businesses were the three that largely deviated from this, as they tended to propose services that were high in human asset specificity, legitimacy, and uncertainty. This result could be a function of the types of services those Key Businesses normally provide; that is, the nature of those services is such that they require specialized knowledge and legitimacy and are delivered in uncertain environments.

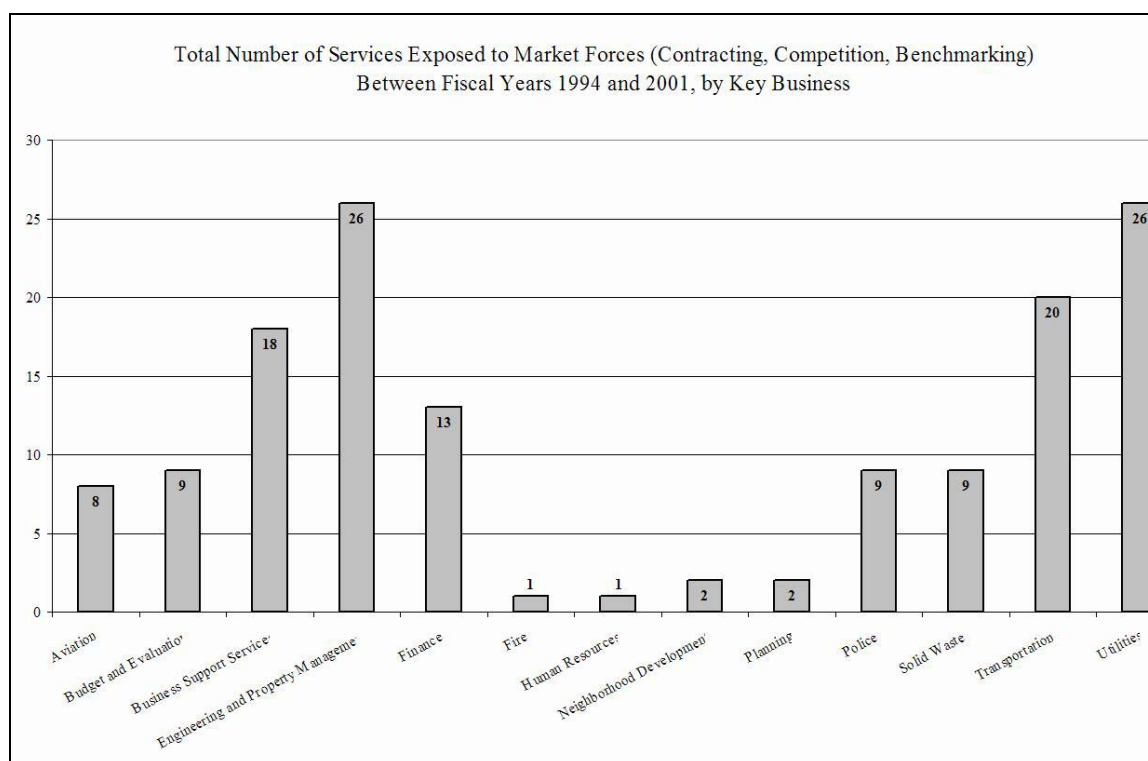
Services Exposed to Market Forces—Competition, Contracting, and Benchmarking

This section presents data on those services that Charlotte exposed to market forces, typically done through competition, contracting, and benchmarking. There are three main sources of data of services that have been exposed to market forces—Charlotte’s Competition Companion Document published in 1997, a database maintained by the Competition coordinator, and a report produced in FY 2000 of services exposed to market forces. Once merged, service descriptions were analyzed and duplicates removed. Each contains the basic set of data—service name, Key Business, fiscal year, and type of market force. To these the type of service (support service, indirectly provided, and directly provided), service recipient (internal or external client), and transaction cost component were added consistent with the description in the discussion of services proposed for contracting. Also added was whether the service was actually proposed for market force exposure.

The two most active Key Businesses in terms of exposing services to market forces between 1994 and 2001 were the Engineering and Property Management and

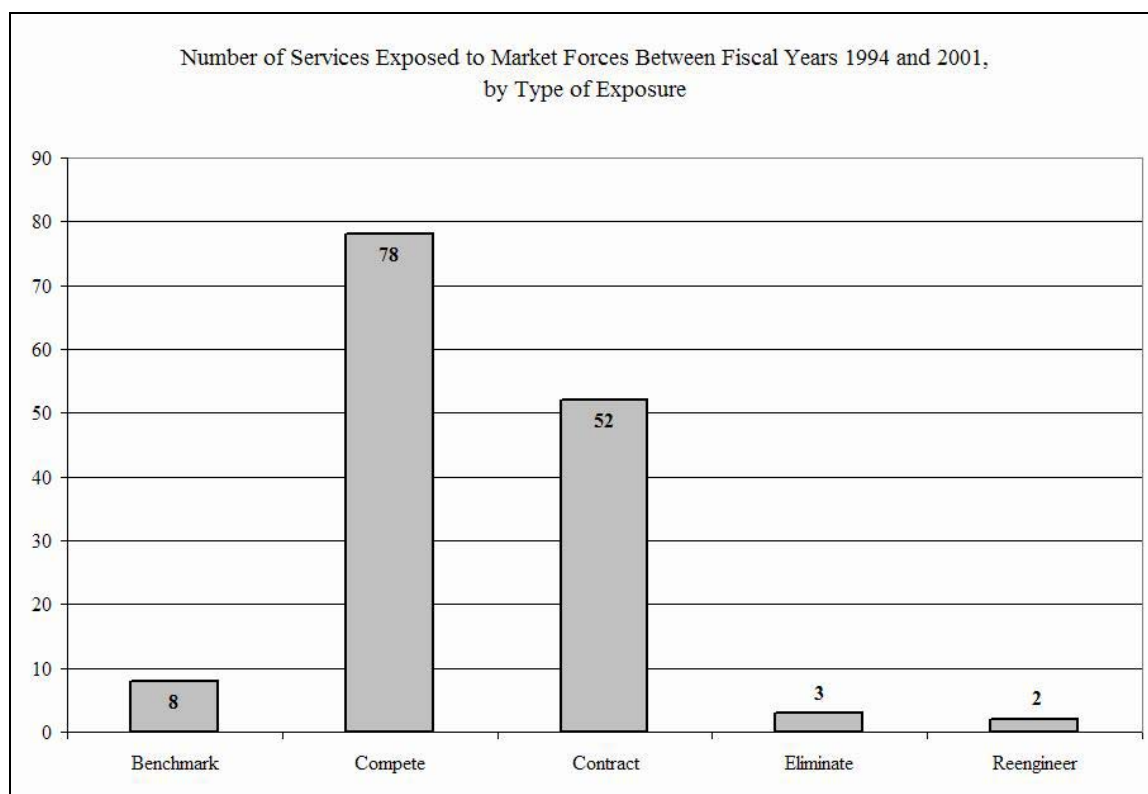
Utilities Key Businesses (Figure 4.17). The Business Support Services, Transportation, and Finance Key Businesses were in the next tier of most active, opening between ten and twenty services to competition. The remaining Key Businesses exposed fewer than ten services. This pattern is much different than what was proposed, in that the Solid Waste and Transportation Key Businesses listed more services proposed for market exposure than most other Key Businesses.

Figure 4.17. Total Number of Services Exposed to Market Forces (Contracting, Competition, and Benchmarking) Between Fiscal Years 1994 and 2001, by Key Business.



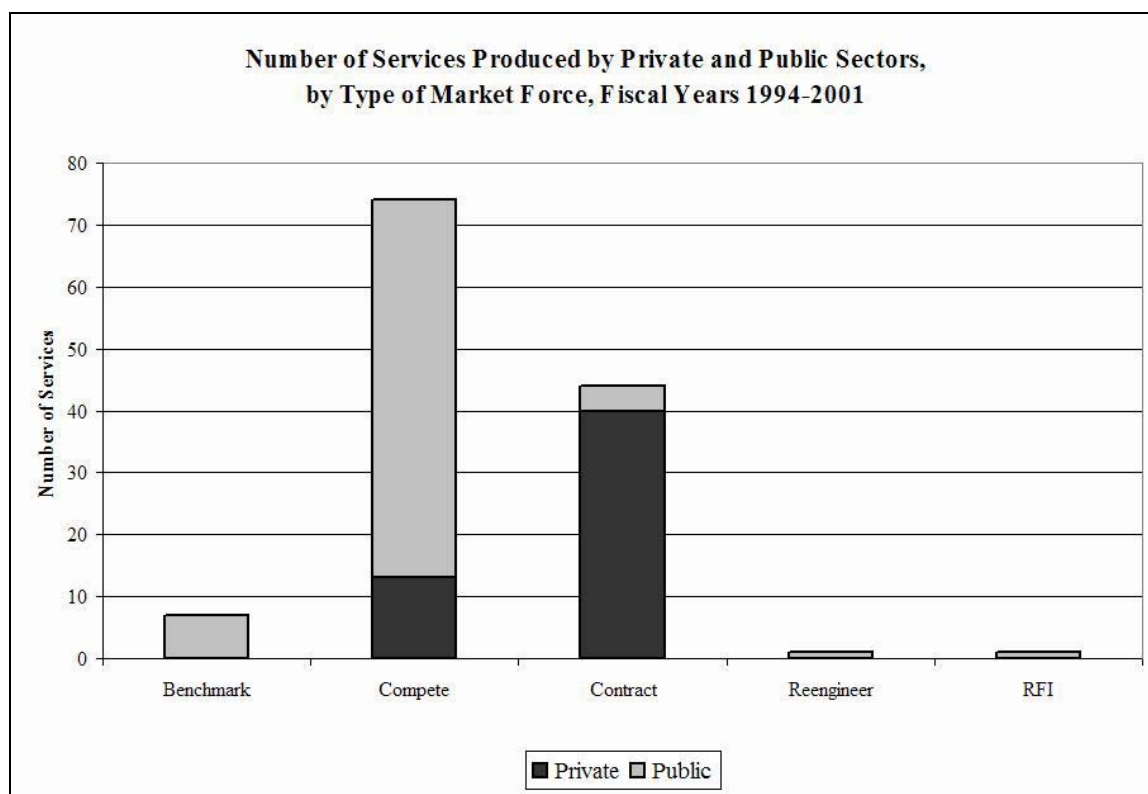
Competition and contracting were the two most frequently used methods of exposure to market forces (Figure 4.18). Benchmarking the service against other providers, eliminating the service, and reengineering the method by which the Key Business produces the service were used in thirteen instances.

Figure 4.18. Number of Services Exposed to Market Forces Between Fiscal Years 1994 and 2001, by Type of Exposure



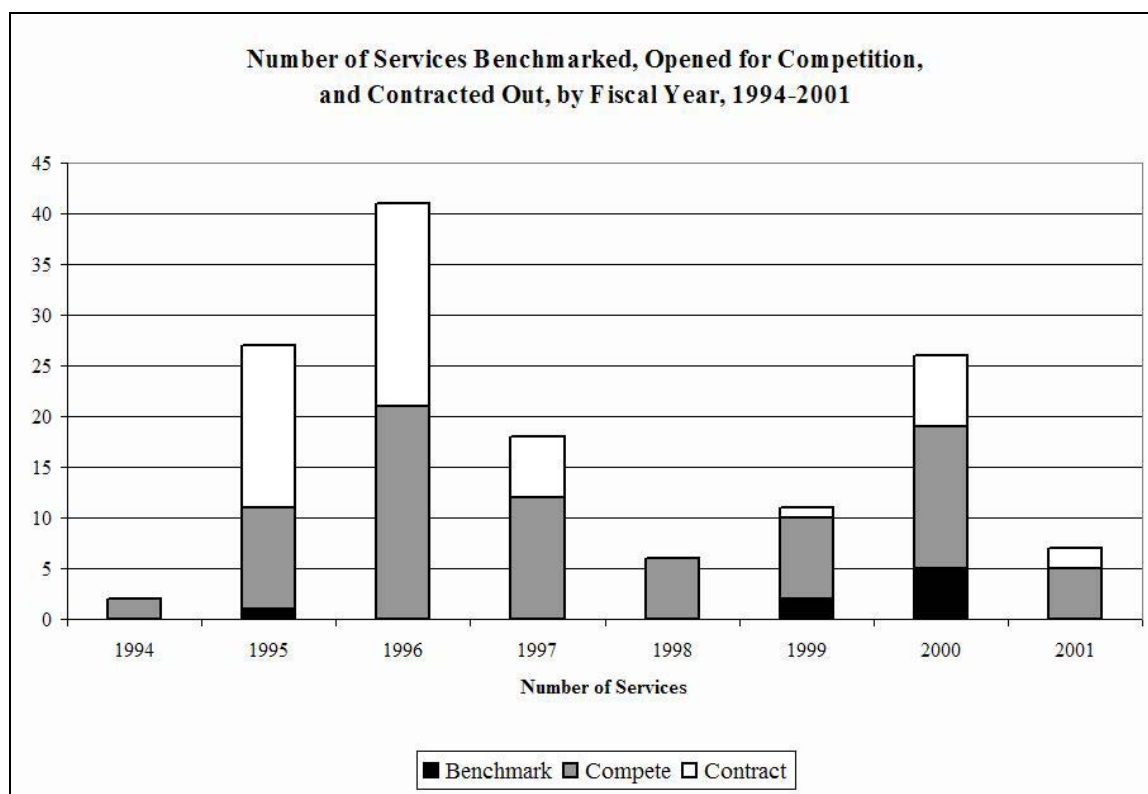
Note that the choice of producer (public or private) is significantly related to choice of market mechanism (Figure 4.19). In almost all instances of exposing the service to market forces through competition, the producer chosen was a Key Business. Contracting a service out was done primarily with a private sector producer. A service that has been benchmarked or reengineered remains produced by a Key Business.

Figure 4.19. Number of Services Produced by Private and Public Sector Producers, by Type of Market Force, Fiscal Years 1994-2001



Charlotte's Key Businesses were most active in exposing services to market forces in fiscal years 1995 and 1996 (Figure 4.20). There was also no pattern in the distribution of competition or contracting out between 1994 and 2001—Key Businesses were no more or less likely to utilize either technique over time. Note however that, with one exception, benchmarking activities occurred in fiscal years 1999 and 2000. This pattern differs markedly from the number of services proposed annually. Charlotte's Key Businesses proposed the greatest level of market force exposure between 1997 and 2001.

Figure 4.20. Number of Services Benchmarked, Opened for Competition, and Contracted Out, by Fiscal Year, 1994-2001

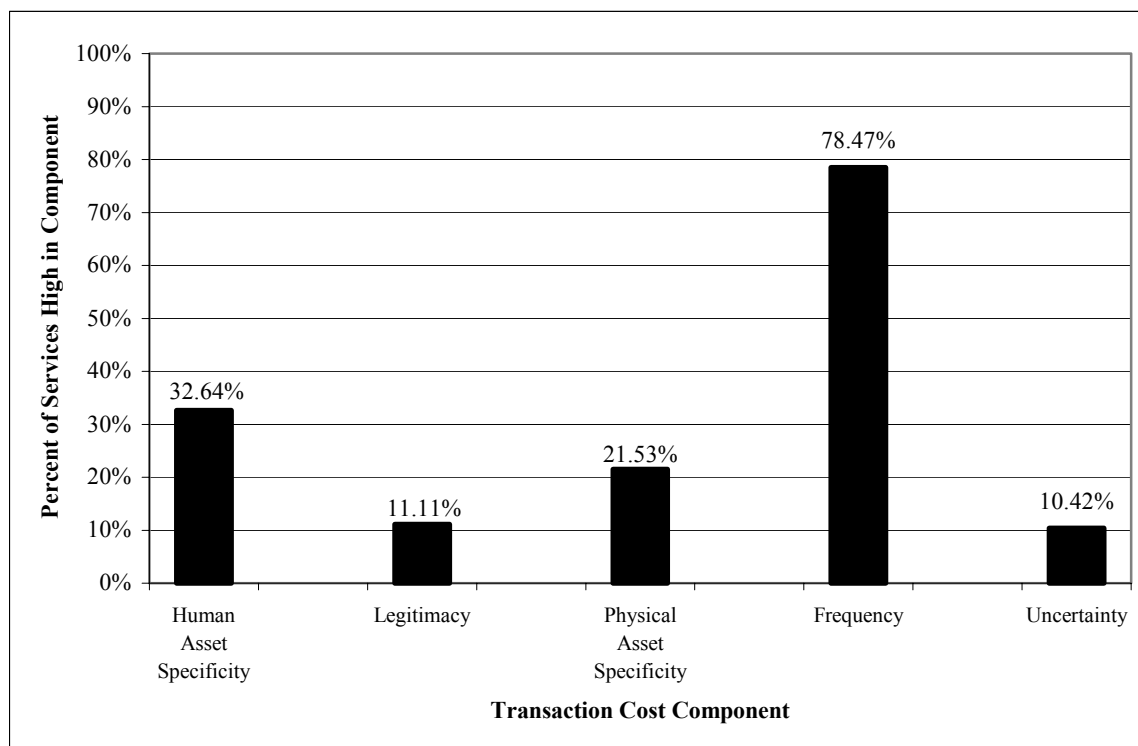


Service Exposed to Market Forces by Transaction Cost Component

The typical service that Charlotte's Key Businesses exposed to market forces is one low in human asset specificity, legitimacy, and physical asset specificity, delivered frequently, and has very few unknowns associated with its production (see Figure 4.21). Fewer than 33 percent of services exposed to market forces required knowledge specific to the job (that could not be transferred to other uses); eleven percent of services exposed to market forces possessed high legitimacy needs for the producer to effectively produce the service; and 21.5 percent of services exposed to market forces require physical assets for their production that would be difficult to transfer to other uses. Furthermore, slightly more than ten percent of services exposed to market forces are classified as being high in uncertainty, where production requires input from a source that is not under direct control

of the producer. Finally, most (78.5 percent) services exposed to market forces are delivered frequently.

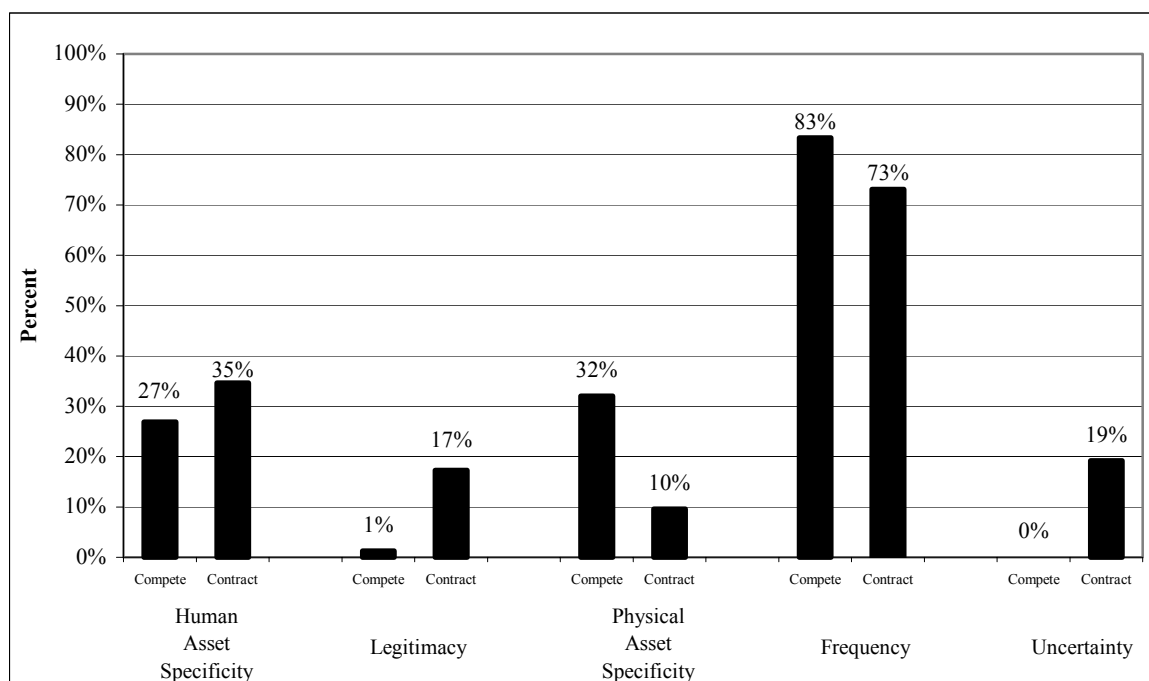
Figure 4.21. Percentage of Services Exposed to Market Forces Between Fiscal Years 1995 and 2001, by Transaction Cost Component



There were some differences between services contracted out and opened for competition when compared against the transaction cost components; however, the percentage of services that were high in a particular transaction cost component (as modeled in Chapter 2) did not differ substantially from the city wide pattern described above (see Figure 4.22). That is, in Figure 4.22, 27 percent of services opened for competition were high in human asset specificity while 35 percent of services contracted out were high in human asset specificity. Note that some differences do exist in instances of high legitimacy needs and high physical asset specificity. Seventeen percent of services contracted out had high legitimacy needs while only 1 percent of services

opened for competition had high legitimacy needs. The percentage of services opened for competition with high physical asset specificity was more than three times higher than the percentage of service contracted out with high physical asset specificity. Furthermore, 19 percent of services contracted out were classified as having high uncertainty, while no services opened for competition were designated similarly.

Figure 4.22. Percentage of Services High in Each Transaction Cost Component by Market Force (Competition or Contracting Out)



The remainder of this section focuses on the results of logit regressions that relate the transaction costs components of municipal service delivery to decisions made in the exposure of services to market forces.²³ Logit regressions predict the likelihood that an event will occur when that event is measured as a dichotomous variable. The subsequent tables, then, incorporate the logit coefficients and the odds ratios for each explanatory

²³ The logit models were estimated with the logit command in STATA 7 SE.

variable. Each explanatory variable in the four models below is also coded (0,1) to measure the absence/presence of the condition. The odds ratios are measures of the increase in the probability of the event occurring given the presence of the explanatory variable. The calculation of each odds ratio is:

$$P(DV=1||EV=1) / P(DV=1||EV=0)$$

where P is the probability, DV is the dependent variable, and EV is the explanatory variable.

Each Key Business, in undertaking the exposure of services to market forces, may act independently of every other Key Business. However, the decisions made within a Key Business may not be independent of other decisions made by the same Key Business. That is, heteroskedasticity may exist when observations are compared within a particular Key Business. While this would not affect logit coefficients or odds ratios, heteroskedasticity will impact the standard errors of the coefficients. In order to correct the standard errors, the logit commands were supplemented with the cluster option available in STATA 7, such that observations were clustered across Key Businesses.

The first analysis, included in Table 4.1, combines the data from each Key Business's plans to expose services to competition with the results of exposure to determine if a service proposed was actually exposed and if the transaction cost components of services played a role in that decision. The control model indicates that the type of service and whether the service was provided to external recipients had no bearing on whether a service that had been proposed was actually opened for market exposure. The control model itself is statistically insignificant with a chi-square of 4.41 with 3 degrees of freedom. Adding the transaction cost components in the full model

finds that proposed services high in Human Asset Specificity or delivered frequently were more likely to be exposed to market forces than those low in Human Asset Specificity or delivered infrequently. That is, a proposed service high in Human Asset Specificity was 2.64 times more likely than a proposed service low in Human Asset Specificity to be exposed to market forces. Concurrently, a proposed service delivered frequently was 3.27 times more likely to be exposed to market forces than a service delivered infrequently. Note, also, that once the transaction cost components are added, the coefficient for an Indirectly Provided service becomes significant at the 0.05-level. It predicts that Indirectly Provided services proposed for market exposure were only half as likely as other proposed services actually to be opened for some sort of market exposure. Finally, the overall fit of the model improves dramatically when the transaction cost components are introduced. The chi-square improves 59 points with an increase in only 5 degrees of freedom. The pseudo- R^2 presents a measure of the reduction in the log-likelihood from the null model (no explanatory variables) to the model with the explanatory variables, and is calculated as $1 - (L_{Full} / L_{Null})$.²⁴ It indicates that, in the Full Model, the log-likelihood decreases by 5 percent over the null model and is an improvement of 4 percent over the Control Model.

²⁴ *Interpretation of Logit Results*. (http://www.econ.ubc.ca/kevinmil/logit_handout.pdf)

Table 4.1. Logit Regression Results Predicting the Probability that a Service that Had Been Proposed for Market Exposure was Actually Exposed

	Control Model		Full Model	
	Coefficient	Odds Ratio	Coefficient	Odds Ratio
Constant	-1.277 ^c		-2.486 ^c	
Type of Service:				
Directly Provided	0.353	1.42	0.092	1.02
Indirectly Provided	-0.238	0.79	-0.608 ^b	0.54
Provided to External Recipients	-0.088	0.92	0.032	1.03
Transaction Cost Component:				
Human Asset Specificity			0.971 ^c	2.64
Legitimacy			-0.003	1.03
Physical Asset Specificity			0.188	1.21
Frequency			1.185 ^c	3.27
Uncertainty			-0.382	0.68
Fit Statistics:				
Wald Chi-Square	4.41		63.41	
Degrees of Freedom	3		8	
Pseudo R ²	0.01		0.05	
Number of Observations	376		376	

Note:

a: $p < .10$

b: $p < .05$

c: $p < .01$

The second decision analyzed was whether a service exposed to market forces was contracted out or opened for competition (regardless of the eventual producer) (see Table 4.2).²⁵ The control model is, overall, statistically insignificant (chi-square = 5.32, degrees of freedom = 3, probability = 0.15), although the coefficient for Indirectly Provided services is statistically significant at the 0.05-level. This coefficient indicates that an Indirectly Provided service was only one-third as likely to be contracted out as one that was either Directly Provided or a Support Service. However, once the transaction cost components are added in to the model, the coefficient for Indirectly Provided services is no longer statistically significant. The coefficient for Physical Asset Specificity is

²⁵ The dependent variable is coded 0 if a service was opened for competition and 1 if it was contracted out.

statistically significant at the 0.10-level. It indicates that services high in Physical Asset Specificity were less likely than services low in Physical Asset Specificity to be contracted out. The chi-square of the full model increases by 33.3, with 5 degrees of freedom, indicating that the overall set of regressors in the full model is statistically significant from zero.

Table 4.2. Logit Regression Results Predicting the Probability that a Service Exposed to Market Forces was Contracted Out

	Control Model		Full Model	
	Coefficient	Odds Ratio	Coefficient	Odds Ratio
Type of Service:				
Directly Provided	0.064	1.07	0.025	1.02
Indirectly Provided	-1.149 ^b	0.32	-1.109	-1.11
Proposed for Market Exposure	-0.501	0.61	-0.331	0.72
Transaction Cost Component:				
Human Asset Specificity			-0.139	0.87
Legitimacy			0.140	1.15
Physical Asset Specificity			-0.952 ^a	0.39
Frequency			0.447	1.56
Uncertainty			1.221	3.39
Fit Statistics:				
Wald Chi-Square	5.32		38.62	
Degrees of Freedom	3		8	
Pseudo R ²	0.06		0.11	
Number of Observation	144		144	

Note:

a: $p < .10$

b: $p < .05$

c: $p < .01$

The third outcome analyzed was whether the service, once exposed, was produced by the private sector or the public sector (Table 4.3). The control model indicates that whether a Key Business had proposed a service for market exposure had a large influence on whether that service had been awarded to the private sector. For services exposed to market forces, prior planning to expose that service largely results in that service being produced by the public sector. If a service that had been exposed to market forces

(through any of the means Charlotte listed) was actually proposed by a Key Business in the planning stage, then the odds that the service would eventually be produced by the private sector was only one in four. The relationship holds up even when the transaction cost components are included in the model. Of the transaction cost components, only the coefficient for Uncertainty is statistically significant. It indicates that highly uncertain services exposed to market forces were more likely to be produced by the private sector after exposure.

Table 4.3. Logit Regression Results Predicting the Probability that a Service Exposed to Market Forces Was Produced by the Private Sector after Exposure

	Control Model		Full Model	
	Coefficient	Odds Ratio	Coefficient	Odds Ratio
Type of Service:				
Directly Provided	0.139	1.15	-0.101	0.90
Indirectly Provided	0.269	1.31	0.263	1.30
Proposed for Market Exposure	-1.436 ^c	0.24	-1.367 ^c	0.25
Transaction Cost Component:				
Human Asset Specificity			-0.662	0.52
Legitimacy			-0.352	0.70
Physical Asset Specificity			-0.593	0.55
Frequency			0.713	2.04
Uncertainty			2.065 ^a	7.89
Fit Statistics:				
Wald Chi-Square	24.79		150.50	
Degrees of Freedom	3		8	
Pseudo R ²	0.08		0.13	
Number of Observations	144		144	

Note:

a: $p < .10$

b: $p < .05$

c: $p < .01$

Summary of Service Delivery Under Rightsizing

This chapter has examined changes in service delivery that occurred as a result of Rightsizing in Charlotte and used the Transaction Cost Economics based model in Chapter 2 to explain why these changes occurred. Rightsizing introduced new procedures

into the planning for service provision by compelling Charlotte's Key Businesses to develop and review five-year plans that list those services to be exposed to market forces. Market force exposure could involve opening services for competition, directly contracting with another producer, benchmarking that service against the private sector, and optimizing that service by using techniques found to be successful in other Key Businesses. As shown in the early part of this chapter, Charlotte's Key Businesses were active in proposing services for exposure to market forces. They identified 375 services to be exposed to market forces between 1995 and 2005. Much of this activity was slated to occur in the late 1990s and early 2000s. Between 1998 and 2003, Charlotte's Key Businesses identified about \$20 million worth of service each year, with the exception of 2001, where they listed \$45 million worth. Several Key Businesses were more active in proposing services than others; The Transportation, Utilities, Finance, Engineering and Property Management, Police, and Solid Waste Key Businesses proposed the largest number of services, while Solid Waste, Transportation, and Utilities Key Businesses identified the largest services when measured in budgeted dollars and number of personnel.

The predominant method of market exposure identified in plans was service competition. There were some differences by Key Business, however. Most of the services identified by the Police Key Business were listed for contracting out rather than competition while only. The Finance Key Business was the only one to propose services for Benchmarking while only the Utilities Key Business identified services for Optimization. There was also a relationship between the recipient of the service and the type of proposed market exposure. Services identified for competition were more likely

to be provided to external recipients while services identified for contracting and benchmarking were more likely to be provided to internal clients.

When examining services proposed for exposure to market forces by the transaction cost components, the typical service included in plans for market exposure is low in human asset specificity, legitimacy needs, and physical asset specificity. It is delivered frequently and in a relatively more certain environment. Again, there were differences by Key Business. A higher percentage of the services the Fire, Police, and Neighborhood Development Key Businesses proposed were high in human asset specificity, legitimacy needs, and uncertainty when compared to the overall city rates. The Solid Waste, Transportation, and Utilities Key Businesses identified a higher percentage of services that were high in Physical Asset Specificity for exposure to market forces relative to the city average. These services are more capital-intensive than others within local governments.

This picture changes drastically when examining services that were actually opened for market exposure. Most of the services identified for market exposure were never actually opened while a large number of the services classified as being opened for market exposure were never included in any of the five year plans. The Engineering and Property Management and Utilities Key Businesses were the most active in opening services up to market forces, followed by Transportation, Business Support Services, and Finance. This differs from the pattern of Key Businesses that had proposed services for exposure to market forces. The Police and Solid Waste Key Businesses, which had listed a relatively large number of services for market exposure, only exposed nine services

each. Business Support Services, which had proposed exposing twelve services to market exposure actually opened eighteen.

The transaction cost economics model in Chapter 2 explained some of the choices in opening services to market forces. First, human asset specificity and service delivery frequency partially determined whether services proposed for exposure to market forces would actually be exposed. Proposed services high in human asset specificity or delivered frequently were more likely to be exposed to market forces than those low in human asset specificity or delivered infrequently. Second, in examining the choice between contracting or competition, services high in physical asset specificity were less likely than those low in physical asset specificity to be contracted out. Both of these results could be explained by the lack of contracting opportunities for services that require service-specific capital investments or knowledge. Finally, the choice of producer was statistically related to whether a service had been proposed for exposure to market forces and whether that service was produced in an uncertain environment. The private sector was more likely to be the producer of choice for highly uncertain services that had been proposed for exposure to market forces. However, previously identifying a service for market exposure increased the likelihood that Charlotte's Key Businesses would continue to be the producer of choice. The transaction cost economics model presented in Chapter 2, then, provides a useful rubric with which to understand the process of exposing government services to private sector forces. There are, however, other forces that also determine these outcomes, resulting in several testable propositions.

The first proposition is that municipal governments and individual departments may decide to expose those services they know best to market forces. The statistically

significant relationship between choice of producer and whether the service was included in a competition plan indicates that those services that had been included in a plan were much more likely to be produced by Charlotte's Key Businesses after the market exposure process. Several potential reasons for this relationship exist. First, Charlotte's Key Businesses may have been *gaming the system*, proposing and exposing those services it knew it could win. Second, Charlotte may have proposed services it better understood and thus felt more confident about when evaluating proposals from other potential producers. But, since it understood those services, then the Key Businesses could have put in proposals most likely to be accepted.

Second, when there are contingencies beyond the local government's control that result in a service being produced in a highly uncertain environment, local governments may try to reduce their risks by utilizing external producers when feasible. This could be an attempt by Charlotte's government to reduce the costs it faces in service production by contracting highly uncertain services out to the private sector for production. That is, where a service is produced in a highly uncertain environment, a municipal government may have to undertake additional expenses to ensure that the service is produced properly. Municipalities may avoid these costs by utilizing external producers.

Third, municipalities may decide that the risks of exposing a service high in human asset specificity may outweigh the costs of producing that service in house. In Charlotte, services high in human asset specificity were more likely to be exposed to market forces than those that were low in human asset specificity. Utilizing external producers for services high in human asset specificity exposes the trading partners to losses if either should decide to end the arrangement or ask for better contract terms.

However, municipalities may view in house production as a long term commitment and thus use the market instead of that commitment.

In closing, Charlotte actively identified services for Rightsizing activities. However, Charlotte was less active when actually exposing services. Furthermore, it appears that transaction costs did have some relationship with Charlotte's exposure of services to market forces. This relationship is somewhat weak, however. The following chapter presents results detailing changes in expenditures from Rightsizing.

CHAPTER 4

CHANGES IN SERVICE DELIVERY SPENDING RESULTING FROM RIGHTSIZING

One of the primary reasons Charlotte introduced Rightsizing was to control rising expenditures for certain functions, permitting the City to increase expenditures for public safety. Rightsizing includes private sector practices such as a customer-service focus and outcome-based planning and the introduction of market forces through opening services for competition. Proponents of the New Public Management argue that these forces should result in more efficient service provision, since services match demands while competition results in greater cost-savings activities undertaken by bureaucrats.

The two previous chapters contain analyses of changes in planning for service provision and service delivery resulting from Rightsizing. Charlotte introduced private sector practices into planning and service delivery in order to control expenditures and align service provision with perceived needs and citizens' demands. Planning evolved through two stages after Rightsizing. In the first stage, Charlotte introduced strategic planning, but still remained focused on the mechanics of service delivery. In the second stage, Charlotte introduced Balanced Scorecards in order to more closely align the services being delivered with desired outcomes. The planning component also included service delivery, identifying those services that would be exposed to market forces. However, proposing a service for market exposure did not necessarily lead to that service being opened for competition or contracting, while a host of other services not proposed

were in fact exposed to market forces. That is, the number of services exposed to market forces was small relative to the number of services proposed.

This chapter contains the results of analyses that estimate changes in service provision expenditures resulting from Rightsizing. The two potential impacts studied are changes in overall expenditures and changes in expenditures for labor. The following section presents hypotheses as to why changes in Charlotte should impact its expenditures for service provision. After this are descriptions of the method of data analysis utilized and the sources of data. The discussion of the results and their implications round out this chapter.

Hypotheses, Variables, and Data

There are two outcomes analyzed in this chapter—changes in overall expenditures and changes in expenditures for personnel. In examining changes in total expenditures resulting from Rightsizing, expenditures are measured in constant (1996) dollars for the service to control for inflation. The hypothesis tested is that expenditures for services other than public safety declined after Rightsizing, while public safety expenditures increased.

The second set of outcome variables analyze the impact of Rightsizing on personnel expenditures. Personnel expenditures in non-public safety functions should also decline after Rightsizing, especially as a result of competition and contracting activities, while personnel for public safety functions should increase. One way for KBEs to realize permanent budgetary savings is to substitute capital for labor. There are two outcome variables of interest to estimate the impact on personnel expenditures. The first one is the constant (1996) dollar value of expenditures. The second outcome variable is

the percentage of a program's budget spent on personnel. Decreases in the proportion of a program's budget devoted to personnel indicate a shift away from labor to either capital or to alternative means of service provision. If Rightsizing impacted personnel expenditures without also impacting total expenditures, then reforms did little more than shift the labor/capital ratio, or permit substitution of contract monitoring for service production.

This analysis must include controls for demands for services to determine if the impacts on the expenditures, if any, were due to the reforms. Two variables, in particular, could impact expenditures significantly and confound the impacts of the reforms: population and size of the city. As stated earlier, Charlotte has pursued an aggressive annexation policy, such that population and city size over the time period analyzed are highly correlated. Thus, population will be used as the measure for service demand. As population increases over time, expenditures should also rise. One potential method of controlling for population is to enter it into the analyses as an explanatory variable. The other method is to create a dependent variable that measures expenditures per unit of population. The latter method creates a difficulty with the analysis and interpretation of results such that the first method will be employed. Both the numerator and the denominator of the new dependent variable may be influenced by the reform. If, for instance, the reforms have resulted in Charlotte being viewed as a more desirable place to live, then population should increase faster after the reforms than before. Such an impact, if included in the dependent variable, would then demonstrate that the reform served to reduce expenditures per person, if only because they increased the denominator. The

results may then lead to the failure to reject the null hypothesis, even when it should be rejected. In testing the hypotheses, population will be used as a control variable.

Given the goals of Rightsizing, the analyses should find that expenditures for functions provided for in the general fund aside from public safety decline after Rightsizing, while public safety expenditures increase after Rightsizing. The functions analyzed are Administration (which includes the City Manager, City Clerk, Personnel, Legal Services, and Warehouse), Parks and Recreation, Police, Fire Services, Sanitation, Engineering/Transportation, Water/Sewer, and Transit.²⁶ Note that the last two functions, Water/Sewer and Transit, are operated as enterprise funds.

Changes in expenditures may be mitigated by Key Businesses' activities in identifying services for market exposure and/or actually exposing services through competition or contracting. Key businesses may reduce expenditures by proposing a service for market exposure, even if that service is never actually opened for competition or contracting. That is, those producing the service may find more cost-effective ways of producing the service if they perceive that another producer may be brought in. Alternatively, exposing a service to market forces may provide the impetus for reducing expenditures. Competition, as proponents argue, would lead to reductions in service delivery expenditures. Finally, it is possible that neither competition nor contracting, either planned or actually implemented, reduce service delivery expenditures. Any service delivery expenditure reduction, then, would be the result of other Rightsizing activities. In Charlotte's case, the other main change resulting from Rightsizing is

²⁶ As described later in this chapter, accounts are combined into functions to permit the estimation of panel data model utilizing correlations between individual panels and individual autoregressive parameters for individual panels.

planning, first through Strategic Management and then through Balanced Scorecards. If service delivery expenditures reductions are found, but the coefficients do not conform to patterns of market exposure identified in Chapter 4, then one possible conclusion is that planning for service delivery resulted in controlling expenditures. The final section of this chapter compares the coefficients for each function in the models presented with the results in Chapters 3 and 4 to describe any relationships that may exist between planning and market force exposure with service delivery expenditures.

The primary source of data is Charlotte's annual operating budget. Each year, Charlotte publishes its operating budget which contains, in addition, expenditure data for the second fiscal year prior to the current year. Although Charlotte reorganized its government in 1992, the program designations have largely remained the same, allowing consistency in the variables before and after the reform period under consideration in this dissertation. Annual expenditure data between 1983 and 1999 are used. Each model uses two separate measures of change—a level variable and a slope variable for each function. Level variables are coded 0 prior to 1992 and 1 from 1992 onwards. The level variables measures if there was a change in the dependent variable that remained constant in the time period after 1992. Slope variables are coded 0 prior to 1992 and 1,2,3,... onwards for each year after 1991. This measures whether there are increasing or decreasing changes in the dependent variable. The nature of the hypotheses and data calls for the utilization of panel data analysis, which is discussed in the following section.

Methodology: Panel Data Analysis

The method of analysis is a series of models developed by econometricians for the analysis of panel data: datasets that combine cross-sectional and time-series data into

one dataset for analysis. There are several benefits to causal analysis using panel data not available when observations are either collected cross-sectionally or temporally. First, the researcher is not able to establish temporal ordering in purely cross-sectional data. Most causal analyses, however, require a temporal relationship to establish a causal relationship (Finkel 1995). Second, panel data present the researcher more options with fewer restrictions than either cross-sectional or temporal data. The researcher may, for instance, include a non-recursive model in the analysis or control for variables that might be unobserved but related to a class of observations in the model (Finkel 1995). The analysis of panel data creates some problems, however, due to properties of the error term in the analysis. Econometricians have developed numerous models that are useful in compensating for heteroskedasticity, autocorrelation, or both, including the random effects model and the decomposition model of Kaufman (1993).

Typical OLS regression, the most common form of analysis of pooled data, treats each observation as one case and thus ignores the problems inherent in pooling data (Stimson 1985). Pooled cross-sectional data entered into an OLS regression to determine the effects of some x on y will most likely violate OLS assumptions regarding the stochastic error term and if left uncorrected, present biased results (Sayrs 1989). Consider the following OLS regression equation for an interrupted time series design:

$$Y = \alpha + \sum_{i=1}^k \beta_k x_k + \lambda i + \gamma s + \varepsilon \quad (\text{eq. 1})$$

where β_k is the regression estimate for k control variables, i is the impact intercept (0 before the intervention, 1 afterwards), λ is the regression estimate for the impact

intercept, s is the slope variable to measure increasing or decreasing change (0 before intervention, 1,2,3,... afterwards), γ is the OLS regression estimate for s , and ε is the error term. If this analysis relies on panel data, heteroskedasticity and autocorrelation could influence the results of the regression estimates. That is, the OLS assumptions of the stochastic error terms are:

1. The expected value of each error $\varepsilon_{ot} = 0$.
2. The variance of $\varepsilon_{ot} = \sigma^2$.
3. The covariance of $(\varepsilon_{ot} \varepsilon_{nt}) = 0$ for any o, n, t .
4. The covariance of $(\varepsilon_{ot} \beta_{ot}) = (\varepsilon_{ot} \lambda_{ot}) = (\varepsilon_{ot} \gamma_{ot}) = 0$ for any o, t .
5. The error term is normally distributed.

Heteroskedasticity enters into the analysis if the variance of the error term varies across cross-sections, producing a non-constant error variance. Autocorrelation may be present in instances where values of the error term are correlated across time series.

Either or both of these effects may be present, requiring different methods to correct.

Miller (1996), in his study of national growth rates, illustrates that omitted variables can be classified as class-varying, time-invariant variables (such as a country's geographic location and climate); class-invariant, time-varying variables (such as the global business cycle); and class- and time-varying variables. Thus,

$$\varepsilon_{ct} = \delta C_c + \mu T_t + \nu_{ct} \quad (\text{eq. 2})$$

where C is the class-varying, time-invariant unobserved variable, T is the time-varying, class-invariant unobserved variables, and v are the time- and class-varying variables.

Substituting back yields,

$$Y = \alpha + \sum_{i=1}^k \beta_k x_k + \lambda i + \gamma s + \delta C_c + \mu T_t + v_{ct} \quad (\text{eq. 3})$$

Estimating the regression equation without C and T can seriously mislead ordinary least squares (OLS) results if they correlate with any of \mathbf{X}_k (Hsiao 1986, 7). If C and/or T correlate with either of the impact variables (s or i), then, estimates of the impact of any program or policy shift will also be biased.

Several issues arise when examining panel data of municipal expenditures. First, autocorrelation is likely to be present in each panel, in that expenditures in year t are very likely to be partially dependent on expenditures in year $t-1$. This autocorrelation will probably not be constant across panels, but rather will differ from panel to panel. That is, the relationship in expenditures across years for fire services may be quite different than the relationship in expenditures across years for the city manager's office. The model estimated takes this into account by specifying that results are calculated with using a panel-specific AR(1) component.

The second issue that arises is that expenditures across functions for the same year are likely to be correlated with each other. That is, as staff is added in the fire department, for instance, additional demands are placed on other support functions such as personnel. However, under panel data analysis (as in OLS regression), the panels are

assumed to be uncorrelated with each other. Thus, a further correction must be made by specifying in the model that the panels should be correlated.

Several steps must be taken in order to make these corrections. First, the dataset must be balanced. That is, each panel must contain data for each time period in the analysis. In order to do this, three accounts were removed from the analysis. Information Systems Support and Remote Water Pumping were removed because they did not exist in the earlier part of the time series. The McDowell Creek Plant was removed from the analysis because it was closed for the latter part of the period analyzed. The second step is the direct result of having to correlate the panels. This requires estimating a variance-covariance matrix based on the number of panels. With a large number of panels relative to the number of time periods, there will not be enough information to estimate the matrix fully. In the original data set, there are 47 panels (account) over 17 time periods (years). In that form, the variance-covariance matrix could not be estimated. In order to overcome this limitation yet still be able to analyze expenditure patterns meaningfully in Charlotte, panels were combined according to function. The analysis, then, focuses on 8 functions over 17 time periods. Given this distribution, the variance-covariance matrix could be estimated and model results obtained. For each function, two variables were specified to estimate the change in expenditure patterns after Rightsizing. First is a level variable, which is coded 0 prior to 1992 and 1 in 1992 and thereafter. This indicator measures whether there was an immediate change in expenditures. Second is a slope variable coded 0 prior to 1992 and 1, 2, 3, ..., 8 thereafter, increasing by 1 each year from 1992 onward.

This will measure whether there has been a change in the rate of change in expenditures from Rightsizing.²⁷

Results

Each row in Table 5.1 contains the results of regressing spending for each function on population, specifying an AR(1) error structure, over the 1983-1999 time period. That is, each row is an individual equation predicting spending on that function. Individually, population impacts expenditures in 6 of the 8 functions analyzed (Table 5.1).²⁸ Analyzing expenditures against population for each function indicates that population has very little impact on spending for Administration (including City Manager, City Clerk, Personnel, and Purchasing), Parks and Recreation, and Sanitation. Coefficients for population were statistically significant for the other six functions. The lack of a statistically significant relationship between population and expenditures for Administration is understandable since the demand for administrative services results more directly from other services provided than from demands from the population. The lack of a relationship between Population and Parks and Recreation spending may be because spending maintenance on Parks and Recreation is more due to the size of parkland in the City than the population. The lack of a relationship between expenditures for Sanitation and population is less easily explained; the autoregressive component in that model explains changes in expenditures (it is statistically significant with a Z-score of 3.94), indicating that current year expenditures are more a function of last year's

²⁷ Results were obtained using the `-xtgls-` routine in STATA 7 SE specifying the `panels(correlated)` and `corr(psar1)` options.

²⁸ Each row in Table 5.1 is the result of regressing expenditures on population for that specific function utilizing an AR(1) error structure for the time period 1983 through 1999. Estimates in Table 5.1 were derived using the `-arch-` procedure in Stata specifying the AR1 error structure in each model.

expenditures rather than population demand for that service. Note that the Wald statistic for each equation is statistically significant at the .05 level, indicating that, taken as a set, the coefficients in each equation are statistically different from zero.

Table 5.1. Results of AR(1) Models Predicting Expenditures for Each Function (Measured in 1,000's of Constant 1996 Dollars) Over the 1983-1999 Time Period

Function	Constant	Population Coefficient	AR1 Coefficient	Wald Chi-Square
Administration	-1,429.57	21.17	1.03 ^a	343.20
Parks	5,645.56	-2.77	0.57 ^a	5.95
Police	-127,595.60	439.72 ^a	0.87 ^a	98.14
Fire	-43,417.35	173.09 ^a	0.55	52.36
Sanitation	-5,150.68	40.96	0.87 ^a	64.01
Engineering/ Transportation	-16,970.83	82.28 ^a	0.65	52.49
Water/Sewer	-41,657.58	169.00 ^a	0.03	281.02
Transit	-20,688.47	86.05 ^a	0.50	106.57

Note: a indicates $p < .01$

Number of time periods in each equation: 17

Table 5.2 contains the results of the panel data model predicting the change in expenditures in eight different service categories resulting from Rightsizing. The Wald chi-square for this model is 757.72, with 16 degrees of freedom. Population is still a significant predictor of expenditures. Note too the relative stability of the parameter estimates for the constant and the coefficient for population between the two models. This could indicate that the variance explained by the Rightsizing variables is unique from the variance explained by population. Expenditures for Administration (City Manager, City Clerk, Personnel, Legal Services) and Parks and Recreation did not change immediately as a result of Rightsizing (statistically insignificant coefficient for the Level variable) but declined annually after 1992. Police and Water/Sewer expenditures also did not change immediately after Rightsizing, but increased annually

afterwards. Expenditures for Fire services increased immediately after Rightsizing, and continued to slowly increase after 1992. Expenditure for Sanitation and Engineering/Transportation increase significantly after Rightsizing but declined thereafter. Finally, there was no statistically significant change in Transit expenditures.

Table 5.2. Panel Data Model Predicting the Impact of Rightsizing on Total Expenditures for Functional Areas Controlling for Population

		Coefficient	Standard Error	Z-Score	P>z
Constant		-17864.25	5509.43	-3.24	0.00
Population (1,000's)		89.91	14.96	6.01	0.00
Administration	Level	513.02	1173.48	0.44	0.66
	Slope	-1207.23	374.32	-3.23	0.00
Parks	Level	-632.12	2095.48	-0.30	0.76
	Slope	-2625.72	578.73	-4.54	0.00
Police	Level	3667.78	4545.68	0.81	0.42
	Slope	8965.60	1099.11	8.16	0.00
Fire	Level	8409.18	1650.69	5.09	0.00
	Slope	571.54	473.06	1.21	0.23
Sanitation	Level	1711.83	1246.34	1.37	0.17
	Slope	-1697.35	397.79	-4.27	0.00
Engineering/ Transportation	Level	3403.12	1200.03	2.84	0.01
	Slope	-1029.61	323.21	-3.19	0.00
Water/Sewer	Level	890.26	2760.73	0.32	0.75
	Slope	1809.66	658.51	2.75	0.01
Transit	Level	-847.43	1198.22	-0.71	0.48
	Slope	-356.79	397.65	-0.90	0.37

Note: Number of panels: 8
 Number of time periods in each equation: 17
 Number of observations: 136
 Wald Statistic: 757.72, df=16, p<.000

Thus, after Rightsizing, spending on public safety increased as moneys that would have been spent on administration, parks and recreation, sanitation, and engineering/transportation were shifted to public safety. What is also interesting to note is

that spending on Water/Sewer and the transit system, both enterprise funds, did not decline in response to Rightsizing.

The second set of analyses focuses on the impact Rightsizing had on expenditures for personnel, by major function. Table 5.3 contains the estimates for changes in expenditures for personnel (measured in 1,000's of constant 1996 dollars). The Wald Chi-Square for the model is 447.42 with 16 degrees of freedom, indicating that the overall fit of the model is statistically significant. Population has a statistically significant impact on personnel expenditures. The level of spending on personnel for Administration and Parks and Recreation did not change as a result of Rightsizing; rather, it declined for both functions each year after Rightsizing. For police services, there was an increase of over \$8 million in spending for personnel services that held over each after Rightsizing; additionally, there was an annual increase of over \$6 million. For Fire services, there was a one-time increase of over \$9 million that remained in each year after Rightsizing. In Sanitation, Engineering/Transportation, and Water/Sewer, there was an initial increase in spending for personnel services followed by annual decreases. The rate of decreasing expenditures was highest for Sanitation services. Finally, spending on personnel for Mass Transit did not change significantly from Rightsizing.

Note that the patterns of changes in expenditures for personnel nearly mirrors those changes for total expenditures in Table 5.3. The exceptions are Police and Water/Sewer services. Total police expenditures did not have the increase in the level of expenditures that expenditures for personnel services did. Total spending for Water/Sewer services increased annually after Rightsizing; spending for personnel decreased after an initial increase.

Table 5.3. Panel Data Model Predicting the Impact of Rightsizing on Personnel Expenditures for Functional Areas Controlling for Population

		Coefficient	Standard Error	Z-Score	P>z
Constant		-17356.83	2124.23	-8.17	0.00
Population (1,000's)		76.29	5.76	13.25	0.00
Administration	Level	935.21	852.49	1.10	0.27
	Slope	-1400.70	243.28	-5.76	0.00
Parks	Level	395.76	1437.29	0.28	0.78
	Slope	-2352.27	386.85	-6.08	0.00
Police	Level	8452.64	3642.92	2.32	0.02
	Slope	6084.13	920.73	6.61	0.00
Fire	Level	9159.90	1627.81	5.63	0.00
	Slope	423.26	429.35	0.99	0.32
Sanitation	Level	2458.63	888.20	2.77	0.01
	Slope	-1898.48	255.30	-7.44	0.00
Engineering/ Transportation	Level	3279.44	712.53	4.60	0.00
	Slope	-1062.83	170.59	-6.23	0.00
Water/Sewer	Level	2396.26	624.37	3.84	0.00
	Slope	-511.50	136.92	-3.74	0.00
Transit	Level	-665.29	843.52	-0.79	0.43
	Slope	-324.25	252.98	-1.28	0.20

Note: Number of panels: 8
 Number of time periods in each equation: 17
 Number of observations: 136
 Wald Statistic: 447.42, df=16, p<.000

Lastly, this chapter examines changes in the percentage of its total expenditures spent by each function on personnel services (see Table 5.4). The overall fit of the model is statistically significant, as the Wald Chi-Square is 1258.78 with 16 degrees of freedom. The percentage of Administrative, Sanitation, and Water/Sewer expenditures going to personnel services declines over time (the p-value of the coefficient for the slope variable is slightly above .05 for Administration). There are drastic changes in the percentage of expenditures for Parks and Recreation that purchase personnel services. First, there is an increase in the level by almost six percent. However, after Rightsizing, the percentage of

expenditures going to personnel services declines by more than five percent. Changes in the percentages of expenditures going to personnel for Police, Fire, and Engineering/Transportation were statistically insignificant. Finally, the percentage of expenditures for Transit going to personnel increases annually by one percent.

Table 5.4. Panel Data Model Results Predicting the Impact of Rightsizing on the Percent Each Service Spent on Personnel

		Coefficient	Standard Error	Z-Score	P>z
Constant		67.48	0.35	193.96	0.00
Administration	Level	2.15	3.58	0.60	0.55
	Slope	-1.70	0.88	-1.94	0.05
Parks	Level	5.91	1.43	4.14	0.00
	Slope	-5.38	0.27	-19.79	0.00
Police	Level	5.53	3.26	1.70	0.09
	Slope	-0.14	0.84	-0.17	0.87
Fire	Level	4.18	3.76	1.11	0.27
	Slope	1.01	0.99	1.02	0.31
Sanitation	Level	4.91	5.03	0.98	0.33
	Slope	-2.99	1.04	-2.88	0.00
Engineering/ Transportation	Level	2.76	2.50	1.10	0.27
	Slope	0.20	0.51	0.40	0.69
Water/Sewer	Level	0.48	2.53	0.19	0.85
	Slope	-1.87	0.72	-2.59	0.01
Transit	Level	-1.95	1.69	-1.15	0.25
	Slope	1.01	0.39	2.60	0.01

Note: Number of panels: 8
 Number of time periods in each equation: 17
 Number of observations: 136
 Wald Statistic: 1258.78, df=16, p<.000

Summary of Changes in Expenditures Patterns

Rightsizing achieved its intended goal of allowing Charlotte to reduce expenditures in non-public safety functions so that it may spend more on public safety.

Table 5.5 summarizes findings of the model that examines the total expenditures for

functions. Of the six functions in the general fund, expenditures for four of the six—all non-public safety—decreased over time while only one—Engineering/Transportation—had an initial increase that lasted over time. Expenditures for the two public safety functions increased after Rightsizing. Spending for Fire services increased initially and maintained that higher level of spending throughout the period analyzed. Expenditures for Police increased steadily after Rightsizing. Also interesting in these findings is that spending for the two enterprise funds—Water/Sewer and Transit—did not decrease after Rightsizing. The only significant change in these two funds was that spending for Water/Sewer increase annually.

Table 5.5 Summary of Results: Total Expenditures

	Level	Slope
Administration	No Change	Decrease
Parks	No Change	Decrease
Police	No Change	Increase
Fire	Increase	No Change
Sanitation	No Change	Decrease
Engineering/ Transportation	Increase	Decrease
Water/Sewer	No Change	Increase
Transit	No Change	No Change

Rightsizing also altered expenditure patterns for personnel throughout the city. Of the general fund functions, Administration, Parks and Recreation, Sanitation, and Engineering/Transportation all experienced a decrease in total personnel expenditures, either in the level or the slope. Spending on public safety functions, however, increased. Of the enterprise funds analyzed, only Water/Sewer experienced a change in total expenditures for personnel as the level increased but then declined annually after Rightsizing.

Table 5.6. Summary of Results: Expenditures on Personnel

	Total Expenditures on Personnel		Percent of Expenditures on Personnel	
	Level	Slope	Level	Slope
Administration	No Change	Decrease	No Change	Decrease
Parks	No Change	Decrease	Increase	Decrease
Police	Increase	Increase	No Change	No Change
Fire	Increase	No Change	No Change	No Change
Sanitation	Increase	Decrease	No Change	Decrease
Engineering/ Transportation	Increase	Decrease	No Change	No Change
Water/Sewer	Increase	Decrease	No Change	Decrease
Transit	No Change	No Change	No Change	Increase

The changes resulting from Rightsizing in the percentage of a function's expenditures that go to personnel are somewhat different than the changes in total expenditures for personnel. First, there was only one statistically significant change in the level of the percent of expenditures on personnel, for Parks and Recreation. This is in sharp contrast to absolute expenditures, where the levels of expenditures for personnel increased in five of the eight functions. Second, the percentage of expenditures funding personnel services declined annually in four of the eight functions, and increased for Transit. Thus, in Administrative Services, Parks and Recreation, and Sanitation, reducing total expenditures was aided by reducing spending on labor. In those functions, total expenditures and expenditures on personnel declined after Rightsizing; additionally, the percentage of expenditures on personnel declined for those functions. That is, personnel expenditures for those functions declined more rapidly than total expenditures, indicating a shift away from labor. For Engineering and Transportation services, there was an initial increase in both total and personnel expenditures; however, the percentage of expenditures purchasing labor did not change. Spending on public safety increased as a

result of Rightsizing; however, the percentage spent on personnel did not change. The two enterprise funds did not follow the patterns of the general fund functions.

Expenditures for Water/Sewer increased over time; however, Water/Sewer services shifted spending away from personnel. There was no statistically significant change in Transit's total expenditures; the percentage of its expenditures purchasing labor did increase over time, however.

Chapter 4 identifies those Key Businesses that were most active in both proposing services for market exposure and actually exposing them to competition or outright contracting. The Engineering and Property Management, Utilities (Water/Sewer), and Transportation (which incorporates both Transit and Transportation) Key Businesses were most active in opening services to market forces. However, in the analyses of expenditures, there were no consistent patterns of changes in total expenditures or expenditures on personnel. The Business Support Services, Finance, and Budget and Evaluation Key Businesses, incorporated into Administration expenditures here, were the next most active Key Businesses in exposing services to market forces. Total and personnel expenditures for Administration declined annually after Rightsizing. However, it also did for Sanitation, which only exposed nine services between fiscal year 1994 and 2001 to market forces. The lack of any consistent relationship between exposure to market forces and changes in expenditures prevents one from making the conclusion that under Charlotte's reforms, exposure to market forces reduced expenditures.

A similar conclusion holds when examining the relationship between proposing services for exposure to market forces and expenditures. The Transportation and Utilities Key Businesses identified the largest number of services they would expose to market

forces. The Finance, Engineering and Property Management, and Police Key Businesses comprise the next group most active in listing services. Businesses Support Services and Human Resources proposed a much smaller list of services to expose to market forces. Changes in total expenditures and those for personnel did not follow any of the patterns found in proposing services for exposure to market forces.

There are several reasons as to why expenditures changed after Rightsizing. One possible explanation for the change in expenditures is that planning for service delivery through Strategic Management and Balanced Scorecards may have permitted Charlotte to align service delivery with citizens' demands and focus its efforts on core functions. Planning may also have allowed Charlotte the ability to focus on service production processes and find more efficient ways to produce services. An alternate explanation is that the existence of the threat of having a service opened for competition may compel line managers and employees to produce services more cost effectively. That is, faced with the prospect of losing their employment if a service were outsourced, new processes could be implemented to reduce the overall cost of service production. Recall that Charlotte, early in the Rightsizing process, implemented numerous training courses available to employees on teamwork and skill improvement. These may have enabled employees to improve the cost efficiency of service production so that exposing services to market forces became unnecessary. The implications of these conclusions are discussed in the final chapter.

CHAPTER 6

SUMMARY AND CONCLUSIONS

I employed the case of Rightsizing in Charlotte, North Carolina to introduce the premise that municipal reforms are searches for new governance mechanisms that align service delivery with their transaction costs. Rightsizing, along with Reinventing Government and the National Performance Review, is a NPM-style reform, in that it proceeds with the view that government should be more customer-focused, enterprising, and market-driven. The New Public Management (NPM) is a set of recent public sector management reforms that relies on market forces, such as contractual relationships within government, decentralized management, pay-for-performance, customer service, teamwork, privatization, and benchmarking to achieve goals in customer service and responsiveness. Under the NPM style of government organization, contracts between elected officials and bureaucrats for outcomes replace controls to agencies over the inputs as the main control over service provision. Employing several different methods and data sources, the research presented here relies on Transaction Cost Economics to explain why the methods of planning utilized by Charlotte could be considered as reducing the transaction costs of service delivery and why market exposure occurred the way it did. Finally, I assessed whether Rightsizing led to a shift in expenditures. This chapter reviews the research findings and discusses their implications, identifies limitations of the research, and poses additional research questions.

Review of Findings

There are three components of transaction costs that determine the costs associated with any governance mechanism: asset specificity, frequency, and uncertainty. I have used three types of asset specificity, plus frequency and uncertainty, to describe the transaction costs in delivering public services. Human asset specificity consists of technical knowledge (which includes training and experience) and the legitimacy/authority of the public servant in the discharge of his/her duties. Physical asset specificity simply refers to the extent to which physical assets can be traded on the open market. The frequency of the service delivery transaction also affects monitoring costs, with more frequent transactions potentially reducing the costs of monitoring in some cases and increasing them in others. Uncertainty increases the transaction costs of monitoring the provision of government services because first, citizen input and other characteristics of the populace partially determine the quality of many of those services.

NPM strives to separate politics from administration distinctly. Elected officials establish the goals for their communities, states, or policy area, and then direct agencies to achieve those goals. The benefits of the NPM system of government, according to proponents, are that it becomes more mission-driven, decentralized, entrepreneurial, and reliant on individual incentives. Planning for service provision evolved through several stages as a result of Rightsizing. Prior to 1992, Charlotte relied on Management by Objective, creating new agencies when new services had to be introduced and never thinking strategically about service delivery outcomes or interrelationships within the government. That is, planning was largely project-oriented, with very little analysis of the secondary impacts of projects. Furthermore, long-term goals played only a minor part in

determining the actions taken by Charlotte's government. Performance measurement was purely retroactive and relied largely on input and output measures. Charlotte set the stage for the implementation of Rightsizing by adopting a mission statement focused solely on customer satisfaction in 1989 that still drives activities.

Once Rightsizing was implemented, Key Businesses began producing five-year plans which identified the services it would expose to market forces through competition or outright contracting. Planning activities adopted many of the tenets of Strategic Planning during this, the first phase of planning under Rightsizing. Key businesses also developed vision and mission statements. However, most of the planning during this phase focused on the mechanics of service delivery, stressing efficiency in service provision and production. The Finance Key Business stands as one exception to this, preferring instead to focus its planning efforts by strategically orienting itself towards customer satisfaction and employee development. The Solid Waste Services Key Business is also an exception, focusing its planning efforts on a specified outcome and developing procedures to achieve that outcome. The second post-Rightsizing phase saw the development and implementation of the Balanced Scorecards approach. The Balanced Scorecards enhanced the strategic planning process by explicitly identifying those factors that would enhance the quality of life in Charlotte. One result of this is that the business plans also became a performance contract between the Key Business executive and City Council/Manager.

Chapter 4 examines changes in service delivery that occurred as a result of Rightsizing in Charlotte. Rightsizing introduced new procedures into the planning for service provision by compelling Charlotte's Key Businesses to develop and review five-

year plans that listed those services that would be exposed to market forces. Market force exposure could involve opening services for competition, directly contracting with another producer, benchmarking that service against the private sector, and optimizing that service by using techniques found to be successful in other Key Businesses. As shown in the early part of this chapter, Charlotte's Key Businesses were active in proposing services for exposure to market forces. They identified 375 services to be exposed to market forces between 1995 and 2005. Much of this activity was slated to occur in the late 1990s and early 2000s. The predominant method of market exposure identified in plans was service competition. Typically, services proposed were either support services or those where the benefits are disbursed widely. When evaluated by transaction cost component, the typical service proposed for exposure to market forces was low in all three kinds of asset specificity, delivered frequently, and low in uncertainty. The Fire, Neighborhood Development, and Police Key Businesses were the three that largely deviated from this, as they tended to propose services that were high in human asset specificity, legitimacy, and uncertainty. This result could be a function of the types of services those Key Businesses normally provide; that is, the nature of those services is such that they require specialized knowledge and legitimacy and are delivered in uncertain environments.

When examining services that were actually opened for market exposure, the picture changes drastically. Most of the services identified for market exposure were never actually opened while a large number of the services classified as being opened for market exposure were never included in any of the five year plans. The transaction cost components of service delivery were somewhat influential in some of the decisions

surrounding the actual exposure of services to market forces. Services included in five-year plans for market exposure that were high in human asset specificity or delivered frequently were more likely to be exposed to market forces than those not high in human asset specificity or delivered infrequently. These components of transaction cost did not determine the choice of contracting or competition. Rather, services high in physical asset specificity were less likely than those low in physical asset specificity to be contracted out. Both of these results could be explained by the lack of contracting opportunities for services that require service-specific capital investments or knowledge. Finally, the choice of producer was statistically related to whether a service had been proposed for exposure to market forces and whether that service was produced in an uncertain environment. The private sector was more likely to be the producer of choice for highly uncertain services. This could be an attempt by Charlotte's government to reduce the uncertainty it faces in service production by contracting highly uncertain services out to the private sector for production.

Rightsizing achieved its intended goal of allowing Charlotte to reduce expenditures in non-public safety functions so that it may spend more on public safety. Of the six functions in the general fund, expenditures for four of the six—all non-public safety—decreased over time while only one—Engineering/Transportation—had an initial increase that lasted over time. Expenditures for the two public safety functions increased after Rightsizing. Spending for Fire services increased initially and maintained that higher level of spending throughout the period analyzed. Expenditures for Police increased steadily after Rightsizing. Also interesting in these findings is that spending for the two enterprise funds—Water/Sewer and Transit—did not decrease after Rightsizing.

Rightsizing also altered expenditure patterns for personnel throughout the city. Of the functions in the general fund, Administration, Parks and Recreation, Sanitation, and Engineering/Transportation all experienced a decrease in total personnel expenditures, either in the level or the slope. Public safety functions, however, experienced an increase. Of the enterprise funds analyzed, only Water/Sewer experienced a change in total. The changes resulting from Rightsizing in the percentage of a function's expenditures that go to personnel are somewhat different than the changes in total expenditures for personnel. In Administrative Services, Parks and Recreation, and Sanitation, reducing total expenditures was aided by reducing spending on labor. In those functions, total expenditures and expenditures on personnel declined after Rightsizing; additionally, the percentage of expenditures on personnel declined for those functions. That is, personnel expenditures for those functions declined more rapidly than total expenditures. For Engineering and Transportation services, there was an initial increase in both total and personnel expenditures; however, the percentage of expenditures purchasing labor did not change. Spending on public safety increased as a result of Rightsizing; however, the percentage spent on personnel did not change. The two enterprise funds did not follow the patterns of the general fund functions. Expenditures for Water/Sewer increased over time; however, Water/Sewer services shifted spending away from personnel. There was no statistically significant change in Transit's total expenditures; the percentage of its expenditures purchasing labor did increase over time, however.

Research Implications

Perhaps the most startling finding is the failure to connect market exposure of services to changes in expenditures. The lack of any consistent relationship between

exposure to market forces and changes in expenditures prevents one from making the conclusion that under Charlotte's reforms, exposure to market forces reduced expenditures. A similar conclusion holds when examining the relationship between proposing services for exposure to market forces and expenditures. Thus, competition under Rightsizing was not responsible for the reductions in service delivery expenditures.

This finding concurs with recent developments in the empirical literature examining the introduction of competition in the delivery of government services. Sclar (2000), for instance, uses numerous examples of privatization efforts, such as that of fire suppression in Rye Brook, NY, to illustrate that the use of the private sector to produce government services does not necessarily result in cost savings or service delivery improvement. Rather, an effective strategy combines employee training and empowerment, as in the case of Indianapolis's fleet management and repair shop, with contracting where appropriate to achieve the goals of service delivery improvement and increased efficiency. Handler (1996) cites the cases of contracting service production out in New Jersey and Massachusetts to illustrate that, not only can contracting out not result in cost savings or service delivery improvement, it can actually reduce competition, responsiveness, and flexibility. The Massachusetts Department of Mental Health contracted service production with over 500 vendors in the state. Service delivery costs did decline immediately after contracting. However, service delivery quality suffered and eventually workers unionized and were afforded civil service protections, negating much of the cost savings. Second, the dramatic increase in the number of providers created a large interest group that was influential in determining state policy; thus, the state actually lost some of its control over mental health policy and thus could not react in the

manner it determined that it needed. Contracting out, then, reduced flexibility. Lastly, contracting out created disparities in the level and quality of service delivery across Massachusetts.

One explanation for the change in expenditures after Rightsizing is that planning for service delivery through Strategic Management and Balanced Scorecards permitted Charlotte to align service delivery with demands and focus its efforts on core functions. Planning also allowed Charlotte the ability to focus on service production processes and find more efficient ways to produce services. Sclar (2000) concludes that effective management through improving employee skills combined with the use of the private sector is an effective strategy to improve the efficiency and effectiveness of municipal service delivery. One proposition, then, is that outcome-oriented planning is an effective means for targeting expenditures towards publicly-desired services.

A second explanation is that the use of market mechanisms in government settings is a poor fit in some instances. Williamson (1999) argues that the government purchase of products available on the spot market as well as the management of broad-based redistributational programs are strong candidates for the utilization of market forces. Other government functions, such as regulatory and those which involve the power of the state, are best left within government. Vincent-Jones and Harries (1998) also argue against the use of market forces in government. They state that trust and collaboration are important in the use of quasi-markets to deliver services to overcome problems of bounded rationality, information asymmetry, and opportunism. Trust may reduce the transaction costs of managing these services in a quasi-market environment. McMaster (1998), for instance, argues that utilizing a “soft quasi-market,” an arrangement where the

purchaser and the provider are not clearly separate, will leave to more substantial efficiency gains over “hard quasi-markets,” where the purchaser and the provider are completely separate. In a soft quasi-market, trust and cooperation form the bases of relationships in which long-term cooperative contracting can occur. That is, the trust that develops in a soft quasi-market can reduce the transaction costs of monitoring and improve staff morale. Indeed, even in a “hard quasi-market,” mechanisms develop which eventually allow the use of trust (Vincent-Jones and Harries 1998). Another proposition that derives from this is that the lack of market force exposure in many of Charlotte’s Key Businesses where there is extensive reliance on the police powers of the state or where there is a substantial human service component may be an attempt to maintain relationships built on trust and cooperation.

A third alternate explanation is that the existence of the threat of having a service opened for competition may compel line managers and employees to produce services more cost effectively. That is, faced with the prospect of losing their employment if a service were outsourced, new processes could be implemented to reduce the overall cost of service production. Recall that Charlotte, early in the Rightsizing process, implemented numerous training courses available to employees on teamwork and skill improvement. These may have enabled employees to improve the cost efficiency of service production so that exposing services to market forces became unnecessary. Another proposition is that providing government employees the means to produce services more efficiently through training and devolved decision-making and then providing the incentive to apply the skills learned in that training is an effective way to improve the cost-effectiveness of municipal service delivery.

Lastly, Charlotte's public servants may still be guided by norms of public service rather than effective market operations. Mannion and Smith (1998) find that social workers neglected price signals in a quasi-market structure. Instead, their decisions were guided by professional norms of client satisfaction and what is in the client's best interest. Furthermore, when social workers lacked evidence of the quality of care facilities, they relied on trust to decide on the client's placement. However, in a series of experiments with social workers where they were presented with information about a client and asked to make a choice under the quasi-market environment, Lapsley and Llewellyn (1998) found that even though social workers were largely guided by their professional norms, cost considerations were beginning to influence their decisions. Charlotte's employees may have bought into the new mission statement and culture of providing the best services for the least cost. With the training delivered by Charlotte, employees may have accepted these values as they realized the City was also committed to improving its employees. The implication of this finding is not that exposure to market forces does not work; rather, other efforts to more closely align service delivery through outcome-based planning (as in Balanced Scorecards), train employees, develop reward-based compensation schemes, and instill values of public service may be equally adept at reducing expenditures as opening the service to market forces such as competition and contracting. A third proposition deriving from this case study is that commitment from organizational leaders combined with training of rank-and-file employees may result in the inculcation of norms consistent with the New Public Management. Municipal reforms, then, may have their best chances of success when accompanied by training

employees to operated under the new set of rules and activities designed to stress the new values of the organization.

Another implication of the findings concerns the evolution of service delivery planning in Charlotte. It represented the best governance mechanism for service provision at the time. Early in Rightsizing, Charlotte lacked substantial experience with using the private sector and market forces to produce services. Outcome-based planning had not been attempted, so there was little information to connect service delivery output with outcomes. That is, the City did not completely understand the causal linkage between service outputs and service delivery outcomes. As that knowledge was developed, Charlotte's Key Businesses could then undertake more outcome-based planning. This illustrates that reform efforts, especially at the scale undertaken by Charlotte, may need time to develop. Information may not be immediately available so that intermediate steps are necessary before implementing a reform. Thus, when assessing the implementation of a reform, researchers should be open to the existence of intermediate steps. Other governments can also learn that intermediate steps in reforms, while delaying their eventual outcomes, may improve the end result of reforms.

Limitations and Future Research

One of the limitations that prevents the drawing of stronger conclusions is the inability to link both planning and market exposure directly with changes in expenditures at the level of analysis of individual service. That is, while data on expenditures are available at the program level, market exposure occurs at the service level while planning occurs at the Key Business level. Key businesses contain many programs, and programs

contain many services. Drawing causal linkages between them beyond the suppositions made here is impossible.

Second, the lack of a consistent set of output measures prevents the incorporation of changes in the level of service delivery into any of the models. That is, changes in the amount of services delivered could also reduce expenditures. Communication with officials in Charlotte indicates that there may have been some decrease in the amount of services provided, but this was quickly addressed. Furthermore, customer survey results indicate increasing levels of satisfaction with the overall performance of Charlotte's government; thus, there may not have been much of a reduction in the level of service delivery.

Third, data collection for this research began nearly six years after the beginning of Rightsizing. Many of the people who were responsible for its implementation were no longer employed in Charlotte, preventing the collection of any information from them. As such, this research largely relies on data and reports generated by the city itself. Thus, there may be some bias, especially in those reports that describe the Rightsizing process. Other reports, such as the five year plans, lists of services exposed to market forces, and expenditures, should not be biased. Five year plans and other reports such as Balanced Scorecards are actual statements of plans and are treated as raw data in this research.

Future research could overcome these limitations by beginning to collect data on services prior to reforms. That is, when a government indicates it is going to implement a reform, data collection should begin immediately, trying to assess the services the government provides, including the method of production as well as the amount produced. Interviews could be conducted with key actors while the process is ongoing,

improving the ability of research to identify specific events in the process and link those events to outcomes. For example, tracking specific services that had been proposed for exposure to market forces would have permitted the identification of the reasons why that service may not have been exposed and other important decisions in the process. Other important research questions, such as those concerning the equity of service delivery and whether it improves after reforms, can be assessed.

Finally, the inclusion of other cases, both where NPM-style reforms are implemented as well as counterfactuals where no reforms are implemented, can enhance the generalizability of research conclusions to other units of government. By comparing several cases, a body of research about the viability of NPM-style reforms in local government can develop and provide useful information to other governments who wish to undertake them.

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Appendix 1. List of Charlotte Documents Consulted

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Appendix 2. Services Proposed for Exposure to Market Forces by Type of Service, Service Recipient, and Transaction Cost Components

Key Business	Service Description	Type of Service	Service Recipient	Asset-Knowledge	Legitimacy	Physical	Frequency	Uncertainty
Aviation	Aircraft Ramp Marking	Support Service	External	Low	Low	Low	Low	Low
Aviation	Core Drilling	Indirectly Provided	Internal	Low	Low	High	Low	Low
Aviation	Engineering Services	Support Service	Internal	High	Low	Low	Low	Low
Aviation	Equipment Maintenance	Support Service	Internal	Low	Low	Low	High	Low
Aviation	Helicopter Underground Storage Tank Removal	Support Service	Internal	High	Low	High	Low	Low
Aviation	Landscape Maintenance: Landside Terminal	Indirectly Provided	External	Low	Low	Low	High	Low
Aviation	Landscaping: Grass Maintenance	Support Service	External	Low	Low	Low	High	Low
Aviation	Landscaping: tree planting	Indirectly Provided	External	Low	Low	Low	Low	Low
Aviation	Locksmithing Work	Indirectly Provided	Internal	Low	Low	Low	Low	Low
Aviation	Painting: B Concourse	Support Service	External	Low	Low	Low	Low	Low
Aviation	Parking Facilities Maintenance	Indirectly Provided	Internal	Low	Low	Low	High	Low
Aviation	Parking Shuttle Bus Operators	Directly Provided	External	Low	Low	High	High	Low
Aviation	Parking: Shuttle Bus Operators	Directly Provided	External	Low	Low	High	High	Low
Aviation	Removal Underground Storage Tanks: New Satellite Parking	Indirectly Provided	Internal	Low	Low	High	Low	Low
Aviation	Shuttle Bus Operation	Directly Provided	External	Low	Low	High	High	Low
Aviation	Special Services: Equipment Maintenance	Support Service	Internal	Low	Low	High	Low	Low
Business Support Services	Cable franchise administration	Indirectly Provided	External	High	Low	Low	High	High
Business Support Services	Fleet Vehicle Maintenance	Support Service	Internal	Low	Low	Low	High	Low
Business Support Services	Help Desk Software Support: Expanded	Support Service	Internal	High	Low	Low	High	Low
Business Support Services	Help Desk Support Services: Existing	Support Service	Internal	High	Low	Low	High	Low
Business Support Services	Local Area Network Support	Support Service	Internal	Low	Low	Low	High	Low
Business Support Services	Local Area Network Support	Support Service	Internal	Low	Low	Low	High	Low
Business Support Services	Mainframe Computer Center Operations	Support Service	Internal	High	Low	Low	High	Low
Business Support Services	MWBD Certification (presently outsourced)	Support Service	Internal	Low	Low	Low	Low	Low
Business Support Services	Quality Assurance	Support Service	Internal	High	Low	Low	Low	Low
Business Support Services	Small System Software Development	Support Service	Internal	High	Low	Low	Low	Low
Business Support Services	Utility Milling & PeopleSoft System Mntce. & Ops.	Support Service	Internal	High	Low	Low	High	Low
Business Support Services	Vehicle Maintenance	Support Service	Internal	Low	Low	Low	High	Low
Engineering and Property Management	Amy James Center Painting	Indirectly Provided	External	Low	Low	Low	Low	Low
Engineering and Property Management	Backflow Installations	Support Service	Internal	Low	Low	High	High	Low
Engineering and Property Management	Backflow Installations	Support Service	Internal	Low	Low	High	High	Low
Engineering and Property Management	Backflow Installations	Support Service	Internal	Low	Low	High	High	Low
Engineering and Property Management	Backflow Installations	Support Service	Internal	Low	Low	High	High	Low
Engineering and Property Management	Backflow Installations	Support Service	Internal	Low	Low	High	High	Low
Engineering and Property Management	Belmont Center HVAC Replacement	Support Service	Internal	Low	Low	Low	Low	Low
Engineering and Property Management	Belmont Center Painting	Indirectly Provided	External	Low	Low	Low	Low	Low
Engineering and Property Management	City ROW Mowing-Dist. 1	Indirectly Provided	External	Low	Low	Low	High	Low
Engineering and Property Management	City ROW Mowing-Dist. 1	Indirectly Provided	External	Low	Low	Low	High	Low
Engineering and Property Management	City ROW Mowing-Dist. 2	Indirectly Provided	External	Low	Low	Low	High	Low
Engineering and Property Management	City ROW Mowing-Dist. 3	Indirectly Provided	External	Low	Low	Low	High	Low
Engineering and Property Management	City ROW Mowing-Dist. 4	Indirectly Provided	External	Low	Low	Low	High	Low
Engineering and Property Management	City ROW Mowing-Dist. 4	Indirectly Provided	External	Low	Low	Low	High	Low

Appendix 2. Services Proposed for Exposure to Market Forces by Type of Service, Service Recipient, and Transaction Cost Components

Key Business	Service Description	Type of Service	Service Recipient	Asset-			Asset-		
				Knowledge	Legitimacy	Physical	Frequency	Uncertainty	
Engineering and Property Management	City ROW Mowing-Dist. 5	Indirectly Provided	External	Low	Low	Low	High	Low	
Engineering and Property Management	City ROW Mowing-Dist. 5	Indirectly Provided	External	Low	Low	Low	High	Low	
Engineering and Property Management	City ROW Mowing-Dist. 6	Indirectly Provided	External	Low	Low	Low	High	Low	
Engineering and Property Management	City ROW Mowing-Dist. 6	Indirectly Provided	External	Low	Low	Low	High	Low	
Engineering and Property Management	CMGC Parking Deck Management	Support Service	Internal	Low	Low	Low	High	Low	
Engineering and Property Management	CMGC-Mail Room and Courier Service (Bldg. Services)	Support Service	Internal	Low	Low	Low	High	Low	
Engineering and Property Management	CMGC-Management/Admin (Bldg. Serv. Div.)	Support Service	Internal	Low	Low	Low	High	Low	
Engineering and Property Management	CMGC-Mechanical/HVAC Maint. (Bldg. Serv.)	Support Service	Internal	Low	Low	Low	High	Low	
Engineering and Property Management	Cultural Arts Facilities Grounds Maint.	Indirectly Provided	External	Low	Low	Low	High	Low	
Engineering and Property Management	Discovery Place Restroom Renovations	Indirectly Provided	External	Low	Low	Low	Low	Low	
Engineering and Property Management	Evergreen Cemetery Admin. Bldg. HVAC Replacement	Support Service	Internal	Low	Low	Low	Low	Low	
Engineering and Property Management	Fire Station #16 HVAC Replacement	Support Service	Internal	Low	Low	Low	Low	Low	
Engineering and Property Management	Fire Station Kitchen Renovations	Support Service	Internal	Low	Low	Low	Low	Low	
Engineering and Property Management	Fire Station Kitchen Renovations	Support Service	Internal	Low	Low	Low	Low	Low	
Engineering and Property Management	Fire Station Kitchen Renovations	Support Service	Internal	Low	Low	Low	Low	Low	
Engineering and Property Management	Grounds Maint. - Phase 2	Indirectly Provided	External	Low	Low	Low	High	Low	
Engineering and Property Management	Grounds Maint. - Phase 3	Indirectly Provided	External	Low	Low	Low	High	Low	
Engineering and Property Management	Grounds Maint.-Phase 1	Indirectly Provided	External	Low	Low	Low	High	Low	
Engineering and Property Management	Grounds Maint.-Phase 3	Indirectly Provided	External	Low	Low	Low	High	Low	
Engineering and Property Management	Grounds Maintenance-Phase 1	Indirectly Provided	External	Low	Low	Low	High	Low	
Engineering and Property Management	Mint Museum Grounds Maintenance	Indirectly Provided	External	Low	Low	Low	High	Low	
Engineering and Property Management	Mint Museum Grounds Maintenance	Indirectly Provided	External	Low	Low	Low	High	Low	
Engineering and Property Management	North, East, West Dists. Median Maint. And Landscaping	Indirectly Provided	External	Low	Low	Low	High	Low	
Engineering and Property Management	ROW Mowing-Districts 1,4,5	Indirectly Provided	External	Low	Low	Low	High	Low	
Engineering and Property Management	ROW Mowing-Districts 2,3	Indirectly Provided	External	Low	Low	Low	High	Low	
Engineering and Property Management	Sweden Rd. HVAC Replacement	Support Service	Internal	Low	Low	Low	Low	Low	
Finance	Accounts Payable Checks and Reports	Support Service	Internal	Low	Low	Low	High	Low	
Finance	Accounts Receivable-Loans	Support Service	Internal	Low	Low	Low	High	Low	
Finance	Accounts Receivable-Misc.	Support Service	Internal	Low	Low	Low	High	Low	
Finance	Animal Licensing	Directly Provided	External	Low	High	Low	High	Low	
Finance	Automobile/General Liability Claims	Support Service	Internal	Low	Low	Low	High	Low	
Finance	Automobile/General Liability Claims	Support Service	Internal	Low	Low	Low	High	Low	
Finance	Billing Services (incl Cashiers)	Indirectly Provided	External	Low	Low	Low	High	Low	
Finance	Billing Services (including cashiers)	Indirectly Provided	External	Low	Low	Low	High	Low	
Finance	CAFO Report Preparation	Directly Provided	Internal	High	High	Low	High	Low	
Finance	Cash Management	Support Service	Internal	Low	High	Low	High	Low	
Finance	Cash Management	Support Service	Internal	Low	High	Low	High	Low	
Finance	Cash Management	Support Service	Internal	Low	High	Low	High	Low	
Finance	Collection of Bad Debts	Directly Provided	Internal	Low	Low	Low	High	Low	
Finance	Collection of Bad Debts	Directly Provided	Internal	Low	Low	Low	High	Low	
Finance	Debt Management	Support Service	Internal	Low	Low	Low	High	Low	
Finance	Debt Management	Support Service	Internal	Low	Low	Low	High	Low	

Appendix 2. Services Proposed for Exposure to Market Forces by Type of Service, Service Recipient, and Transaction Cost Components

Key Business	Service Description	Type of Service	Service Recipient	Asset-Knowledge	Asset-Physical	Legitimacy	Frequency	Uncertainty
Finance	Financial and economic forecasting	Directly Provided	Internal	High	Low	Low	Low	High
Finance	Financial Systems Maint/Coord	Support Service	Internal	Low	Low	Low	High	Low
Finance	Financial Systems Support (from FY2000)	Support Service	Internal	High	Low	Low	High	Low
Finance	Financial/economic Forecasts	Indirectly Provided	Internal	High	Low	Low	Low	High
Finance	Financial/economic Forecasts	Directly Provided	Internal	High	Low	Low	Low	High
Finance	Financial/economic Forecasts	Directly Provided	Internal	High	Low	Low	Low	High
Finance	Industrial Hygiene	Support Service	Internal	Low	Low	Low	Low	Low
Finance	Industrial Hygiene Services	Support Service	Internal	Low	Low	Low	Low	Low
Finance	Insertion of Utility Bills	Indirectly Provided	External	Low	Low	Low	High	Low
Finance	Insurance Management (from FY2000)	Support Service	Internal	High	Low	Low	High	Low
Finance	Loan Receivables	Support Service	Internal	Low	Low	Low	High	Low
Finance	Mail Insertion & Printing (from FY2000)	Support Service	Internal	Low	Low	Low	High	Low
Finance	Maintain Records and Prepare Reports	Support Service	Internal	Low	Low	Low	High	Low
Finance	Maintain records and Prepare reports	Support Service	Internal	Low	Low	Low	High	Low
Finance	Microfilming	Support Service	Internal	Low	Low	Low	High	Low
Finance	Micrographic Utility Service	Support Service	Internal	Low	Low	Low	High	Low
Finance	Miscellaneous Receivables	Support Service	Internal	Low	Low	Low	High	Low
Finance	OTC Payment Processing and dropbox	Directly Provided	External	Low	Low	Low	High	Low
Finance	Parking Citation Management	Directly Provided	Internal	Low	Low	Low	High	Low
Finance	Payment Processing	Support Service	Internal	Low	Low	Low	High	Low
Finance	Payment Processing	Support Service	Internal	Low	Low	Low	High	Low
Finance	Payroll	Support Service	Internal	High	Low	Low	High	Low
Finance	Prepare Bank Reconciliation	Support Service	Internal	High	Low	Low	High	Low
Finance	Process Employee Payroll	Support Service	Internal	High	Low	Low	High	Low
Finance	Property/Casualty Claims	Support Service	Internal	High	Low	Low	High	Low
Finance	Quality/Team Process	Support Service	Internal	Low	Low	Low	High	Low
Finance	Quality/Team Processes-Review	Support Service	Internal	Low	Low	Low	Low	Low
Finance	Quality/Teamwork	Support Service	Internal	Low	Low	Low	Low	Low
Finance	Receivables & Collections	Support Service	Internal	Low	Low	Low	High	Low
Finance	Receivables and Collections	Support Service	Internal	Low	Low	Low	High	Low
Finance	Remittance Processing (from FY2000)	Support Service	Internal	Low	Low	Low	High	Low
Finance	Remittance Processing Utility Mail	Indirectly Provided	Internal	Low	Low	Low	High	Low
Finance	Risk Control	Support Service	Internal	Low	Low	Low	Low	Low
Finance	Safety Program	Support Service	Internal	Low	Low	Low	Low	Low
Finance	Safety Program	Support Service	Internal	Low	Low	Low	Low	High
Finance	Utility Billing System Support	Support Service	Internal	Low	Low	Low	Low	High
Finance	Utility Billing System Maintenance	Support Service	Internal	Low	Low	Low	High	Low
Finance	Utility Mail Insertion-Review	Support Service	Internal	Low	Low	Low	High	Low
Finance	Utility Mail Insertion-Review	Indirectly Provided	Internal	Low	Low	Low	High	Low
Finance	Utility Mail Remittance Processing	Indirectly Provided	External	Low	Low	Low	High	Low
Finance	Worker's Compensation Claims	Indirectly Provided	Internal	Low	Low	Low	High	Low
Finance	Workers' Compensation Claims	Support Service	Internal	Low	Low	Low	High	Low
Finance	Workers' Compensation Claims	Support Service	Internal	Low	Low	Low	High	Low

Appendix 2. Services Proposed for Exposure to Market Forces by Type of Service, Service Recipient, and Transaction Cost Components

Key Business	Service Description	Type of Service	Service Recipient	Asset-Knowledge	Asset-Physical	Legitimacy	Frequency	Uncertainty
Fire	Contracts with VFD	Directly Provided	Internal	High	Low	Low	High	High
Fire	Critical Incident Counseling	Support Service	Internal	High	Low	Low	Low	High
Fire	Drug Testing	Support Service	Internal	High	High	High	Low	High
Fire	Fire Garage	Support Service	Internal	Low	Low	Low	High	Low
Fire	Fire Logistics	Support Service	Internal	High	High	High	High	High
Fire	Firefighter Applicant Background Checks	Support Service	Internal	Low	Low	Low	Low	Low
Fire	Janitorial	Support Service	Internal	Low	Low	Low	High	Low
Fire	Medical Examinations	Support Service	Internal	Low	Low	Low	Low	Low
Fire	Physical Fitness Coordination	Support Service	Internal	Low	Low	Low	High	Low
Human Resources	Child Care Referral Services (new program)	Support Service	Internal	High	Low	Low	Low	Low
Human Resources	COBRA Administration	Support Service	Internal	Low	Low	Low	Low	Low
Human Resources	EEOC Charges	Indirectly Provided	Internal	Low	High	High	Low	Low
Human Resources	Elder Care Referral Services (new program)	Directly Provided	Internal	High	Low	Low	Low	Low
Human Resources	Employee Recruitment	Support Service	Internal	High	Low	Low	High	Low
Human Resources	Flexible Benefits Administration	Indirectly Provided	Internal	Low	Low	Low	High	Low
Human Resources	Flexible Benefits Administration	Indirectly Provided	Internal	Low	Low	Low	High	Low
Human Resources	Flexible Benefits Administration	Indirectly Provided	Internal	Low	Low	Low	High	Low
Human Resources	Retirement Counseling	Directly Provided	Internal	Low	Low	Low	Low	Low
Human Resources	Retirement Counseling	Directly Provided	Internal	Low	Low	Low	Low	Low
Human Resources	Salary Market Surveys	Support Service	Internal	Low	Low	Low	Low	Low
Human Resources	Selected Performance Management Consulting Services	Support Service	Internal	Low	Low	Low	Low	Low
Human Resources	Training	Directly Provided	Internal	Low	Low	Low	High	Low
Human Resources	unemployment Compensation Program Mgmt	Support Service	Internal	Low	Low	Low	Low	Low
Human Resources	unemployment Compensation Program Mgmt	Support Service	Internal	Low	Low	Low	Low	Low
Neighborhood Development	Corridor Liaison	Directly Provided	External	High	Low	Low	Low	High
Neighborhood Development	Corridor Liaison	Directly Provided	External	High	Low	Low	Low	High
Neighborhood Development	Housing Development	Indirectly Provided	External	High	Low	Low	High	Low
Neighborhood Development	Housing Technical Services	Directly Provided	External	High	Low	Low	High	Low
Neighborhood Development	Job Development	Directly Provided	External	High	High	High	High	High
Neighborhood Development	Job placement	Directly Provided	External	High	High	High	High	High
Neighborhood Development	Job Training	Directly Provided	External	Low	Low	Low	Low	Low
Neighborhood Development	Landlord/Tenant mediation (from FY 2000)	Directly Provided	External	High	Low	Low	High	Low
Neighborhood Development	Loan Collections	Indirectly Provided	External	Low	Low	Low	High	Low
Neighborhood Development	Neighborhood Matching Grants	Directly Provided	External	High	Low	Low	Low	Low
Neighborhood Development	Relocation	Directly Provided	External	High	High	High	High	High
Neighborhood Development	Relocation	Directly Provided	External	High	High	High	High	High
Neighborhood Development	Small Business Loans	Directly Provided	External	Low	Low	Low	High	Low
Police	Administrative Services (Payroll)	Support Service	Internal	Low	Low	Low	High	Low
Police	Alarm Ordinance Enforcement (new program)	Indirectly Provided	External	High	High	High	High	High
Police	Animal Control Ordinance Enforcement	Indirectly Provided	External	High	High	High	High	High
Police	Animal Shelter Management and Operations	Support Service	Internal	High	High	High	High	High
Police	Courier Service for City Finance	Indirectly Provided	Internal	Low	Low	Low	High	Low

Appendix 2. Services Proposed for Exposure to Market Forces by Type of Service, Service Recipient, and Transaction Cost Components

Key Business	Service Description	Type of Service	Service Recipient	Asset-Knowledge	Legitimacy	Physical	Frequency	Uncertainty
Police	Courier Service for City Finance	Indirectly Provided	Internal	Low	Low	Low	High	Low
Police	Custodial Services--Law Enforcement Center	Support Service	Internal	Low	Low	Low	High	Low
Police	Data Processing Service	Support Service	Internal	Low	Low	Low	High	Low
Police	Domestic Counseling services	Directly Provided	External	High	High	Low	High	High
Police	Facilities Management	Support Service	Internal	Low	Low	Low	High	Low
Police	Funeral Escorts	Directly Provided	External	Low	Low	Low	High	Low
Police	Funeral Escorts	Directly Provided	External	Low	Low	Low	High	Low
Police	Helicopter Maintenance	Support Service	Internal	Low	Low	High	High	Low
Police	Helicopter Services & Maint.	Support Service	Internal	Low	Low	High	High	Low
Police	Mail Courier Service	Indirectly Provided	Internal	Low	Low	Low	High	Low
Police	Mail Courier Service	Indirectly Provided	Internal	Low	Low	Low	High	Low
Police	Noise Control Ordinance Enforcement	Indirectly Provided	External	High	High	Low	High	High
Police	On-Street Parking Enforcement	Indirectly Provided	External	High	High	Low	High	Low
Police	Parking Enforcement	Indirectly Provided	External	Low	Low	Low	High	Low
Police	Passenger Vehicle for Hire Insp./Permit (from FY2000)	Indirectly Provided	External	High	High	Low	High	Low
Police	Physical Fitness Coordination	Support Service	Internal	Low	Low	Low	High	Low
Police	Police Counselor	Directly Provided	Internal	High	High	Low	High	High
Police	Polygraph Unit	Directly Provided	Internal	High	High	High	High	Low
Police	Polygraph Unit	Directly Provided	Internal	High	High	High	High	Low
Police	Radio Services	Support Service	Internal	Low	Low	Low	High	Low
Police	Records Management and Storage	Support Service	Internal	Low	Low	Low	High	Low
Police	Recruit Background Investigations	Support Service	Internal	High	High	Low	Low	Low
Police	Recruit Background Investigations	Support Service	Internal	High	High	Low	Low	Low
Police	Recruit Background Investigations	Support Service	Internal	High	High	Low	Low	Low
Police	School Crossing Guards	Indirectly Provided	External	Low	High	Low	High	Low
Police	School Crossing Guards	Indirectly Provided	External	Low	High	Low	High	Low
Police	Secondary Employment Management (from FY2000)	Support Service	Internal	Low	Low	Low	Low	High
Police	Sergeants Promotional Process	Support Service	Internal	Low	Low	Low	Low	High
Police	Taxi Cab Permits and Inspections	Directly Provided	External	High	High	Low	Low	Low
Police	Taxi Cab Permits and Inspections	Directly Provided	External	High	High	Low	High	Low
Police	Business Garbage	Directly Provided	External	Low	Low	High	High	Low
Solid Waste	Business Garbage	Directly Provided	External	Low	Low	High	High	Low
Solid Waste	Central Business District Maintenance	Indirectly Provided	External	Low	Low	Low	High	Low
Solid Waste	Central Business District Maintenance	Indirectly Provided	External	Low	Low	Low	High	Low
Solid Waste	Commercial Trash Collection (from FY2000)	Directly Provided	External	Low	Low	High	High	Low
Solid Waste	Dead Animal Collection	Indirectly Provided	External	Low	Low	Low	High	Low
Solid Waste	Dead Animal Collection	Indirectly Provided	External	Low	Low	Low	High	Low
Solid Waste	Multi-family bulky item collection (from FY2000)	Directly Provided	External	Low	Low	Low	High	Low
Solid Waste	Neighborhood Investment	Indirectly Provided	External	Low	Low	Low	High	Low
Solid Waste	Residential Bulky Garbage Collection (25%)	Directly Provided	External	High	Low	High	High	High
Solid Waste	Residential Collection--West (1st extension yr)	Directly Provided	External	Low	Low	High	High	Low

Appendix 2. Services Proposed for Exposure to Market Forces by Type of Service, Service Recipient, and Transaction Cost Components

Key Business	Service Description	Type of Service	Service Recipient	Asset-			Asset-		
				Knowledge	Legitimacy	Physical	Frequency	Uncertainty	
Solid Waste	Residential Garbage Collection (25%)	Directly Provided	External	Low	Low	High	High	Low	
Solid Waste	Residential Recyclables Collection (25%)	Directly Provided	External	Low	Low	High	High	Low	
Solid Waste	Residential Solid Waste Collection (South)	Directly Provided	External	Low	Low	High	High	Low	
Solid Waste	Residential Solid Waste Collection (West)	Directly Provided	External	Low	Low	High	High	Low	
Solid Waste	Residential SW Collection (EQ)	Directly Provided	External	Low	Low	High	High	Low	
Solid Waste	Residential SW Collection (NQ)	Directly Provided	External	Low	Low	High	High	Low	
Solid Waste	Residential SW Collection (SQ)	Directly Provided	External	Low	Low	High	High	Low	
Solid Waste	Residential Yard Waste Collection (25%)	Directly Provided	External	Low	Low	High	High	Low	
Solid Waste	Residential Collection-East (1st extension yr)	Directly Provided	External	Low	Low	High	High	Low	
Solid Waste	Rollout Cart Delivery	Indirectly Provided	External	Low	Low	High	High	Low	
Solid Waste	ROW Cleaning Services	Indirectly Provided	External	Low	Low	Low	High	Low	
Solid Waste	ROW Cleaning Services	Indirectly Provided	External	Low	Low	Low	Low	Low	
Solid Waste	Special Events Cleaning Services	Indirectly Provided	External	Low	Low	Low	Low	Low	
Solid Waste	Special Events Cleaning Services	Indirectly Provided	External	Low	Low	High	High	Low	
Solid Waste	Street Cleaning	Indirectly Provided	External	Low	Low	High	High	Low	
Solid Waste	Street Sweeping	Indirectly Provided	External	Low	Low	High	High	Low	
Solid Waste	Street Sweeping/Flushing	Indirectly Provided	External	Low	Low	High	High	Low	
Solid Waste	Tryon Street Mall Maintenance	Indirectly Provided	External	Low	Low	High	High	Low	
Transportation	Asphalt Maintenance and Repair	Indirectly Provided	External	Low	Low	High	High	Low	
Transportation	Base Repair	Indirectly Provided	External	Low	Low	High	High	Low	
Transportation	Concrete Maintenance and Repair (25%)	Indirectly Provided	External	Low	Low	Low	High	Low	
Transportation	Curb, Gutter, and Utility Repair (Concrete)	Indirectly Provided	External	Low	Low	Low	High	Low	
Transportation	Detector Loop Maintenance	Indirectly Provided	External	Low	Low	Low	High	Low	
Transportation	Drainage Maintenance and Repair (25%)	Indirectly Provided	External	High	Low	High	High	Low	
Transportation	Installation & Fabrication Signs (100%)	Indirectly Provided	External	Low	Low	Low	High	Low	
Transportation	Installation Pavement Markings (33%)	Indirectly Provided	External	Low	Low	Low	High	Low	
Transportation	Installation Pavement Markings (67%)	Indirectly Provided	External	Low	Low	Low	High	Low	
Transportation	New Signal Installation	Indirectly Provided	External	Low	Low	Low	High	Low	
Transportation	New Signal Installation	Indirectly Provided	External	Low	Low	High	High	Low	
Transportation	New Signal Installation	Indirectly Provided	External	Low	Low	High	High	Low	
Transportation	Patching	Indirectly Provided	External	Low	Low	High	High	Low	
Transportation	Pavement Marking: Intersection	Indirectly Provided	External	Low	Low	High	High	Low	
Transportation	Pavement Marking: Intersection	Indirectly Provided	External	Low	Low	High	High	Low	
Transportation	Pavement Marking: Paint	Indirectly Provided	External	Low	Low	High	High	Low	
Transportation	Pavement Marking: Tape	Indirectly Provided	External	Low	Low	High	High	Low	
Transportation	Pavement Marking: Tape	Indirectly Provided	External	Low	Low	High	High	Low	
Transportation	Pavement Marking: Thermoplastic	Indirectly Provided	External	Low	Low	High	High	Low	
Transportation	Pavement Marking: Thermoplastic	Indirectly Provided	External	Low	Low	High	High	Low	
Transportation	Pavement Marking: Thermoplastic	Indirectly Provided	External	Low	Low	High	High	Low	
Transportation	Pavement Markings	Indirectly Provided	External	Low	Low	High	High	Low	
Transportation	Sidewalk Repair (concrete)	Indirectly Provided	External	Low	Low	High	High	Low	
Transportation	Sidewalk Repair (concrete)	Indirectly Provided	External	Low	Low	Low	High	Low	

Appendix 2. Services Proposed for Exposure to Market Forces by Type of Service, Service Recipient, and Transaction Cost Components

Key Business	Service Description	Type of Service	Service Recipient	Asset-Knowledge	Asset-Physical	Asset-Frequency	Asset-Uncertainty
Transportation	Sign Fabrication	Indirectly Provided	External	Low	Low	High	Low
Transportation	Sign Fabrication	Indirectly Provided	External	Low	Low	High	Low
Transportation	Sign Fabrication & Installation	Indirectly Provided	External	Low	Low	High	Low
Transportation	Sign Fabrication & Installation	Indirectly Provided	External	Low	Low	High	Low
Transportation	Sign Installation	Indirectly Provided	External	Low	Low	High	Low
Transportation	Sign Installation	Indirectly Provided	External	Low	Low	High	Low
Transportation	Signal Installation	Indirectly Provided	External	Low	Low	High	Low
Transportation	Signal Interconnected Cable	Indirectly Provided	External	Low	Low	High	Low
Transportation	Signal Loop Installation	Indirectly Provided	External	Low	Low	High	Low
Transportation	Signal Loop Installation	Indirectly Provided	External	Low	Low	High	Low
Transportation	Signal Maintenance	Indirectly Provided	External	Low	Low	High	Low
Transportation	Signal Maintenance	Indirectly Provided	External	Low	Low	High	Low
Transportation	SMD District Facility #1	Indirectly Provided	External	Low	Low	High	Low
Transportation	SMD District Facility #1	Indirectly Provided	External	Low	Low	High	Low
Transportation	SMD District Facility #1 (from FY2000)	Indirectly Provided	External	Low	Low	High	Low
Transportation	SMD District Facility #2	Indirectly Provided	External	Low	Low	High	Low
Transportation	SMD District Facility #2	Indirectly Provided	External	Low	Low	High	Low
Transportation	SMD District Facility #3	Indirectly Provided	External	Low	Low	High	Low
Transportation	SMD District Facility #3	Indirectly Provided	External	Low	Low	High	Low
Transportation	Storm Drainage Cleaning and Repair	Indirectly Provided	External	Low	Low	High	Low
Transportation	Storm Drainage Cleaning and Repair	Indirectly Provided	External	Low	Low	High	Low
Transportation	Storm Drainage Repair and Construction	Indirectly Provided	External	Low	Low	High	Low
Transportation	Storm Drainage Repair and Construction	Indirectly Provided	External	Low	Low	High	Low
Transportation	Street Grading (Contract A)	Indirectly Provided	External	Low	Low	High	Low
Transportation	Street Grading (Contract B)	Indirectly Provided	External	Low	Low	High	Low
Transportation	Street Reconstruction	Indirectly Provided	External	Low	Low	High	Low
Transportation	Street Reconstruction	Indirectly Provided	External	Low	Low	High	Low
Transportation	Street Reconstruction (25%)	Indirectly Provided	External	Low	Low	High	Low
Transportation	Street Repair: Asphalt	Indirectly Provided	External	Low	Low	High	Low
Transportation	Street Repair: Asphalt	Indirectly Provided	External	Low	Low	High	Low
Transportation	Street Repair: Asphalt	Indirectly Provided	External	Low	Low	High	Low
Transportation	Street Repair: Asphalt	Indirectly Provided	External	Low	Low	High	Low
Transportation	Street Widening	Indirectly Provided	External	Low	Low	High	Low
Transportation	STS (nighttime, weekend, holiday)	Indirectly Provided	External	Low	Low	High	Low
Transportation	STS (weekday)	Directly Provided	External	Low	Low	High	Low
Transportation	STS Operation (2nd extension year)	Directly Provided	External	Low	Low	High	Low
Transportation	STS Operation (Current Contract with CDOT/STS)	Directly Provided	External	Low	Low	High	Low
Transportation	Surface Treatment (Contract A for Graded Streets)	Indirectly Provided	External	Low	Low	High	Low
Transportation	Surface Treatment (Contract B for Widened Streets)	Indirectly Provided	External	Low	Low	High	Low
Transportation	Traffic Sign Maintenance	Indirectly Provided	External	Low	Low	High	Low
Transportation	Transit: Eastland Hub Service (3 yr contract)	Directly Provided	External	Low	Low	High	Low

Appendix 2. Services Proposed for Exposure to Market Forces by Type of Service, Service Recipient, and Transaction Cost Components

Key Business	Service Description	Type of Service	Service Recipient	Asset-Knowledge	Asset-Physical	Frequency	Uncertainty
Transportation	Transit: SouthPark Hub Service (3 yr contract)	Directly Provided	External	Low	Low	High	Low
Transportation	Transit: SouthPark Hub Service (3 yr contract)	Directly Provided	External	Low	Low	High	Low
Transportation	Transportation Operations	Directly Provided	External	Low	Low	High	Low
Transportation	Transportation Operations (signs/signals/markings)	Indirectly Provided	External	Low	Low	High	Low
Transportation	Utility Cut Restoration	Indirectly Provided	Internal	Low	High	High	Low
Transportation	Utility Cut Restoration	Indirectly Provided	Internal	Low	High	High	Low
Transportation	Utility Cut Restoration	Indirectly Provided	Internal	Low	High	High	Low
Transportation	Utility Cut Restoration	Indirectly Provided	Internal	Low	High	High	Low
Transportation	Utility Cut Restoration	Indirectly Provided	Internal	Low	High	High	Low
Transportation	Utility Cut Restoration	Indirectly Provided	Internal	Low	High	High	Low
Transportation	Utility Cut Restoration	Indirectly Provided	Internal	Low	High	High	Low
Utilities	Alum Sludge	Support Service	Internal	Low	Low	High	Low
Utilities	Fire Hydrant Maintenance	Indirectly Provided	External	Low	Low	High	Low
Utilities	Franklin WTP	Indirectly Provided	Internal	High	Low	High	Low
Utilities	Grounds Maintenance	Indirectly Provided	Internal	Low	Low	High	Low
Utilities	Herbicide/TV Sewer Lines	Indirectly Provided	External	Low	Low	High	Low
Utilities	Hydrant Maintenance	Indirectly Provided	External	Low	Low	High	Low
Utilities	Hydrant Maintenance	Indirectly Provided	External	Low	Low	High	Low
Utilities	Hydraulic and Mech Sewer Cleaning	Indirectly Provided	Internal	Low	Low	High	Low
Utilities	Instrumentation Maintenance	Support Service	Internal	Low	Low	High	Low
Utilities	Instrumentation Maintenance	Support Service	Internal	Low	Low	High	Low
Utilities	Irwin Creek Wastewater Treatment Facility	Indirectly Provided	Internal	High	Low	High	Low
Utilities	Irwin Creek WWTP	Indirectly Provided	Internal	High	Low	High	Low
Utilities	Janitorial	Support Service	Internal	Low	Low	High	Low
Utilities	Laboratory Services	Support Service	Internal	High	Low	High	Low
Utilities	Labs	Support Service	Internal	High	Low	High	Low
Utilities	Large Meter Maint.	Indirectly Provided	External	Low	High	High	Low
Utilities	Large meter maintenance	Indirectly Provided	External	Low	High	High	Low
Utilities	Lateral Installation and Replacement	Indirectly Provided	External	Low	High	High	Low
Utilities	Lift Station Operation and Maintenance	Indirectly Provided	Internal	High	Low	High	Low
Utilities	Low Pressure system maintenance	Support Service	Internal	High	Low	High	Low
Utilities	Maintain Lift Stations	Indirectly Provided	Internal	Low	Low	High	Low
Utilities	Mallard Creek WWTP	Indirectly Provided	Internal	High	Low	High	Low
Utilities	McAlpine Creek WWTP	Indirectly Provided	Internal	High	Low	High	Low
Utilities	McDowell Creek WWTP	Indirectly Provided	Internal	High	Low	High	Low
Utilities	Meter Maintenance	Indirectly Provided	External	Low	Low	High	Low
Utilities	Meter Maintenance (25%)	Indirectly Provided	External	Low	Low	High	Low
Utilities	Meter Reading	Directly Provided	External	Low	Low	High	Low
Utilities	Meter Reading	Directly Provided	External	Low	Low	High	Low
Utilities	Meter Reading (25%)	Directly Provided	External	Low	Low	High	Low
Utilities	Meter Reading (25%)	Directly Provided	External	Low	Low	High	Low
Utilities	Meter Reading (50% Resid.)	Directly Provided	External	Low	Low	High	Low
Utilities	Meter Reading (50% Resid.)	Directly Provided	External	Low	Low	High	Low
Utilities	New Sewer Service Connections (From FY2000)	Directly Provided	External	Low	Low	High	Low

Appendix 2. Services Proposed for Exposure to Market Forces by Type of Service, Service Recipient, and Transaction Cost Components

Key Business	Service Description	Type of Service	Service Recipient	Asset-			Asset-		
				Knowledge	Legitimacy	Physical	Frequency	Uncertainty	
Utilities	North Mecklenburg Water Plant	Indirectly Provided	Internal	High	Low	Low	High	Low	
Utilities	Odor Control	Indirectly Provided	External	High	Low	Low	High	Low	
Utilities	Permanent Flow Monitoring	Indirectly Provided	Internal	High	Low	High	High	Low	
Utilities	Preventive and Corrective Maintenance	Support Service	Internal	Low	Low	Low	High	Low	
Utilities	Residuals Application	Support Service	Internal	Low	Low	Low	High	Low	
Utilities	Residuals Compost Mgt Facility	Support Service	Internal	Low	Low	Low	High	Low	
Utilities	Residuals Land Application	Support Service	Internal	Low	Low	Low	High	Low	
Utilities	Residuals Management Facility	Support Service	Internal	Low	Low	Low	High	Low	
Utilities	Routine Water Main Repairs	Indirectly Provided	External	Low	Low	Low	High	Low	
Utilities	Routine Water Main Repairs	Indirectly Provided	External	Low	Low	Low	High	Low	
Utilities	ROW Clearing	Indirectly Provided	External	Low	Low	Low	High	Low	
Utilities	Service Renewals	Directly Provided	External	Low	High	Low	High	Low	
Utilities	Sewer Cleaning (Large Lines)	Indirectly Provided	External	High	Low	High	High	Low	
Utilities	Sewer Cleaning (Large Lines)	Indirectly Provided	External	High	Low	High	High	Low	
Utilities	Sewer Cleaning (small lines)	Indirectly Provided	External	High	Low	High	High	Low	
Utilities	Sewer Main Repairs	Indirectly Provided	External	High	Low	High	High	Low	
Utilities	Soils and Materials Testing	Support Service	Internal	Low	Low	High	High	Low	
Utilities	Soils and Materials Testing	Support Service	Internal	Low	Low	High	High	Low	
Utilities	Soils and Materials Testing (from FY2000)	Support Service	Internal	Low	Low	High	High	Low	
Utilities	Solids Management	Support Service	Internal	Low	Low	High	High	Low	
Utilities	Solids Processing	Support Service	Internal	Low	Low	High	High	Low	
Utilities	Solids Processing	Support Service	Internal	Low	Low	High	High	Low	
Utilities	Sugar Creek Wastewater Treatment Facility	Indirectly Provided	Internal	High	Low	Low	High	Low	
Utilities	Sugar Creek WWTP	Indirectly Provided	Internal	High	Low	Low	High	Low	
Utilities	System Locates	Indirectly Provided	Internal	High	Low	Low	High	Low	
Utilities	Trunk Line Monitoring/Basin	Indirectly Provided	Internal	High	Low	Low	High	Low	
Utilities	Tving Sewer Lines	Indirectly Provided	External	High	Low	High	High	Low	
Utilities	Tving Sewer Lines	Indirectly Provided	External	High	Low	High	High	Low	
Utilities	Tving Sewer Lines	Indirectly Provided	External	High	Low	High	High	Low	
Utilities	Tving Sewer Lines	Indirectly Provided	External	High	Low	High	High	Low	
Utilities	Tving Sewer lines	Indirectly Provided	External	High	Low	High	High	Low	
Utilities	Vest Water Plant	Indirectly Provided	Internal	High	Low	Low	High	Low	
Utilities	Vest Water Treatment Plant	Indirectly Provided	Internal	High	Low	Low	High	Low	
Utilities	Wastewater Treatment Plant	Indirectly Provided	Internal	High	Low	Low	High	Low	
Utilities	Water Locates	Indirectly Provided	Internal	High	Low	High	High	Low	
Utilities	Water Locates	Indirectly Provided	Internal	High	Low	High	High	Low	
Utilities	Water Main Repairs	Indirectly Provided	Internal	Low	Low	High	High	Low	
Utilities	Water Service Renewals	Directly Provided	External	Low	High	Low	High	Low	
Utilities	Water Treatment Plant	Indirectly Provided	Internal	High	Low	Low	High	Low	

Appendix 3. Services Exposed to Market Forces by Type of Market Force, Public/Private Producer, Type of Service, Service Recipient, Proposed for Rightsizing, and Transaction Cost Component

Key Business	Service Description	Fiscal Year	Competition/Contract	Private/Public	Type of Service	Service Recipient	In Plan?	Same Year Knowledge	Asset-Logitimacy	Physical	Frequency	Uncertainty
Aviation	Irrigation Repairs	1996	Contract	Private	Support Service	Internal	No	.	low	low	low	low
Aviation	Landscape Bedding	1996	Contract	Private	Indirectly Provided	External	Yes	No	low	low	high	low
Aviation	Mowing/Landscape Maintenance	1996	Contract	Private	Indirectly Provided	External	Yes	No	low	low	high	low
Aviation	Part 150 Building Demolition	1996	Contract	Private	Support Service	Internal	No	.	low	low	low	low
Aviation	Terminal/Jetway Painting	1996	Contract	Private	Support Service	External	Yes	No	low	low	low	low
Aviation	Tree Planting	1996	Contract	Private	Indirectly Provided	External	Yes	No	low	low	high	low
Aviation	Misc. Civil Engineering Design	1997	Contract	Private	Support Service	Internal	No	.	high	low	low	high
Aviation	Perimeter Security Fencing	1997	Contract	Private	Indirectly Provided	Internal	No	.	low	low	low	low
Budget and Evaluation	City Council Agenda Format & Production	1995	Contract	Private	Support Service	Internal	No	.	low	low	high	low
Budget and Evaluation	Evaluation of the Community Safety Plan	1995	Contract	Public	Directly Provided	Internal	No	.	high	low	low	high
Budget and Evaluation	Political Consolidation	1995	Contract	Private	Support Service	Internal	No	.	high	low	low	high
Budget and Evaluation	Activity Based Management	1996	Contract	Private	Support Service	Internal	No	.	low	low	low	low
Budget and Evaluation	Citizen Survey	1996	Contract	Public	Directly Provided	Internal	No	.	low	low	low	low
Budget and Evaluation	Fire Department Organizational Study	1996	Contract	Private	Directly Provided	Internal	No	.	high	low	low	high
Budget and Evaluation	Political Consolidation	1996	Contract	Private	Directly Provided	Internal	No	.	high	low	low	high
Budget and Evaluation	User Fee Pricing Study	1996	Contract	Private	Directly Provided	Internal	No	.	low	low	low	low
Budget and Evaluation	Balanced Scorecard	1997	Contract	Private	Directly Provided	Internal	No	.	high	low	low	high
Business Support Services	Tire Service-Louise Shop	1994	Complete	Public	Directly Provided	Internal	No	.	low	low	low	low
Business Support Services	Computer Classroom Training	1995	Contract	Private	Directly Provided	Internal	No	.	low	low	high	low
Business Support Services	Mainframe Computer Operations	1995	Contract	County	Support Service	Internal	No	.	low	low	low	low
Business Support Services	Material Management Distribution Center	1995	Contract	Private	Support Service	Internal	No	.	high	high	low	low
Business Support Services	MWBD Firm Certification	1995	Contract	Private	Support Service	Internal	No	.	high	low	high	low
Business Support Services	MWBD Firm Educational Services	1995	Contract	Private	Support Service	Internal	No	.	high	low	low	low
Business Support Services	Transit Imprest Account Audit	1995	Benchmark	Public	Support Service	Internal	No	.	high	low	low	low
Business Support Services	Fleet Accident Repair Program	1996	Contract	Private	Indirectly Provided	Internal	No	.	low	low	high	low
Business Support Services	Fleet Fueling Services	1996	Contract	Private	Directly Provided	Internal	No	.	low	low	high	low
Business Support Services	Print/Copier Operations	1996	Contract	Private	Directly Provided	Internal	No	.	low	low	high	low
Business Support Services	Radio Install/Remove -- Public Safety Vehicles	1996	Complete	Public	Directly Provided	Internal	No	.	low	low	low	low
Business Support Services	Telephone Installation/Maintenance/Repair	1996	Complete	Public	Directly Provided	Internal	No	.	low	low	low	low
Business Support Services	Radio Inst./Removal-Public Safety	1997	Complete	Private	Directly Provided	Internal	No	.	low	low	high	low
Business Support Services	Radio Install/Remove -- Non Public Safety Vehicles	1997	Contract	Private	Directly Provided	Internal	No	.	low	low	high	low
Business Support Services	Telephone Installation and Repair	1997	Contract	Public	Directly Provided	Internal	No	.	low	low	high	low
Business Support Services	Vehicle Maintenance	1998	Complete	Public	Directly Provided	Internal	Yes	Yes	low	low	low	low
Business Support Services	Help Desk Support Services (FY99)	1999	Contract	Public	Support Service	Internal	Yes	Yes	low	low	high	low
Business Support Services	Data Center Services	2000	Contract	Public	Support Service	Internal	Yes	Yes	low	low	high	low
Engineering and Property Management	Grounds Mntnc.- Vacant Lots	1994	Complete	Public	Indirectly Provided	External	No	.	low	low	low	low
Engineering and Property Management	Broom Bldg. Constr.	1995	Complete	Public	Support Service	Internal	No	.	low	low	low	low
Engineering and Property Management	Electrical Installation - Radio tower Building	1995	Complete	Public	Directly Provided	Internal	No	.	low	low	low	low
Engineering and Property Management	Facility Mntnc.-Painting-FS#4	1995	Complete	Public	Support Service	Internal	No	.	low	low	low	low
Engineering and Property Management	HVAC Installation - Radio Tower Building	1995	Complete	Public	Support Service	Internal	No	.	low	low	low	low
Engineering and Property Management	Map Room Operations	1995	Eliminate	County	Support Service	Internal	No	.	low	low	high	low
Engineering and Property Management	Materials Testing	1995	Contract	Private	Directly Provided	Internal	No	.	low	low	low	low
Engineering and Property Management	Painting-Two Fire Stations (#9 & #26)	1995	Complete	Public	Support Service	Internal	No	.	low	low	low	low
Engineering and Property Management	Radio Bldg.-Electrical	1995	Complete	Public	Support Service	Internal	No	.	low	low	low	low
Engineering and Property Management	Radio Bldg.-HVAC	1995	Complete	Public	Support Service	Internal	No	.	low	low	low	low
Engineering and Property Management	Systematic Tree Pruning (portion)	1995	Complete	Private	Indirectly Provided	External	No	.	low	low	high	low
Engineering and Property Management	City Property-Vacant Lot Mowing	1996	Complete	Private	Indirectly Provided	External	No	.	low	low	high	low

Appendix 3. Services Exposed to Market Forces by Type of Market Force, Public/Private Producer, Type of Service, Service Recipient, Proposed for Rightsizing, and Transaction Cost Component

Key Business	Service Description	Fiscal Year	Competitor/ Contract	Private/ Public	Type of Service	Service Recipient	In Plan?	Same Year	Asset- Knowledge	Asset- Logitimacy	Physical	Frequency	Uncertainty
Engineering and Property Management	City Shoulder-ROW Mowing (2 Districts)	1996	Complete	Public	Indirectly Provided	External	No	.	low	low	low	high	low
Engineering and Property Management	Facility Mince-Painting-FS#2	1996	Complete	Public	Support Service	Internal	No	.	low	low	low	low	low
Engineering and Property Management	Grounds Maintenance-Center City Locations	1996	Complete	Private	Indirectly Provided	External	No	.	low	low	low	high	low
Engineering and Property Management	Grounds Mince-ROW 1&4	1996	Complete	Private	Indirectly Provided	External	No	.	low	low	low	high	low
Engineering and Property Management	Grounds Mince- Vacant Lots	1996	Complete	Private	Indirectly Provided	External	No	.	low	low	low	high	low
Engineering and Property Management	Kitchen Renovation-2 Fire Stat.	1996	Complete	Public	Support Service	Internal	No	.	low	low	low	low	low
Engineering and Property Management	City ROW Mowing (Dist. 2)	1997	Complete	Private	Indirectly Provided	External	No	.	low	low	low	high	low
Engineering and Property Management	City ROW Mowing (Dist. 3)	1997	Complete	Private	Indirectly Provided	External	No	.	low	low	low	high	low
Engineering and Property Management	Grounds Maintenance-PFA & Adam Service Area	1997	Complete	Private	Indirectly Provided	External	No	.	low	low	low	high	low
Engineering and Property Management	Grounds Maintenance-Various Locations	1997	Complete	Private	Indirectly Provided	External	No	.	low	low	low	high	low
Engineering and Property Management	Grounds Mince-Outlying II	1997	Complete	Private	Indirectly Provided	External	No	.	low	low	low	high	low
Engineering and Property Management	CMGC Mailroom & Courier Services	2000	Benchmark	Public	Support Service	Internal	No	.	low	low	low	low	low
Engineering and Property Management	CMGC Management/Administration	2000	Benchmark	Public	Support Service	Internal	No	.	high	low	low	high	low
Engineering and Property Management	CMGC Mechanical/HVAC Mince.	2000	Benchmark	Public	Support Service	Internal	No	.	low	low	low	high	low
Finance	Bad Debt Collection	1996	Contract	Private	Directly Provided	Internal	Yes	No	low	low	low	high	low
Finance	Industrial Hygiene	1996	Complete	Public	Support Service	Internal	Yes	No	high	low	low	high	low
Finance	Quality/Teamwork Program	1996	RFI	Public	Support Service	Internal	Yes	Yes	high	high	low	low	high
Finance	Claims Mgmt/Adjust Services	1998	Complete	Public	Support Service	Internal	Yes	Yes	low	low	low	high	low
Finance	Cash Management (FY99)	1999	Benchmark	Public	Support Service	Internal	Yes	Yes	low	low	low	high	low
Finance	Receivables & Collections (FY 99)	1999	Benchmark	Public	Support Service	Internal	Yes	Yes	low	low	low	high	low
Finance	Safety Officer Services	1999	Complete	Public	Support Service	Internal	Yes	Yes	high	high	low	high	low
Finance	Workers' Comp. Claims (FY99)	1999	Complete	Public	Support Service	Internal	Yes	Yes	low	low	low	high	low
Finance	Financial Systems Support	2000	Complete	Public	Support Service	Internal	Yes	No	high	low	low	high	low
Finance	Financial/Economic Forecasts	2000	Benchmark	Public	Directly Provided	Internal	Yes	Yes	high	low	low	low	high
Finance	Insurance Management	2000	Complete	Public	Support Service	Internal	Yes	No	low	low	low	high	low
Finance	Mail Insertion/Printing	2000	Contract	Private	Support Service	Internal	Yes	No	low	low	low	high	low
Finance	Remittance Processing	2000	Complete	Public	Support Service	Internal	Yes	No	low	low	low	high	low
Fire	Fire Physical Fitness Contract	1995	Contract	Private	Support Service	Internal	Yes	No	low	low	low	high	low
Human Resources	COBRA Administration	1995	Contract	Private	Support Service	Internal	Yes	Yes	low	low	low	high	low
Neighborhood Development	Landlord/Tenant Mediation	2000	Benchmark	Public	Directly Provided	External	Yes	No	high	high	low	high	high
Neighborhood Development	Legal Services	2000	Contract	Public	Directly Provided	External	No	.	low	low	low	high	low
Planning	Graphics Services	1996	Contract	Private	Support Service	Internal	No	.	low	low	low	high	low
Planning	Mapping	1996	Contract	Private	Support Service	Internal	No	.	low	low	low	high	low
Police	Noise Control Ordinance Enforcement	1995	Eliminate	Private	Indirectly Provided	External	Yes	Yes	high	high	low	high	high
Police	Physical Fitness Program	1995	Contract	Private	Support Service	Internal	Yes	Yes	low	low	low	high	low
Police	Police Counselor	1995	Eliminate	Private	Directly Provided	Internal	Yes	Yes	high	high	low	high	high
Police	Sergeants Promotional Process	1995	Contract	Private	Support Service	Internal	Yes	Yes	high	high	low	low	low
Police	Alarm Ordinance Enforcement	1996	Contract	Private	Indirectly Provided	External	Yes	No	high	high	low	high	high
Police	Custodial Services	1997	Contract	Private	Support Service	Internal	Yes	No	low	low	low	high	low
Police	Polygraph Unit	2000	Reengineer	Public	Directly Provided	Internal	Yes	Yes	high	high	high	high	low
Police	Secondary Employment Management	2000	Reengineer	Internal	Support Service	Internal	Yes	No	low	low	low	low	low
Police	Taxi Cab Permits and Inspections	2000	Contract	Private	Indirectly Provided	External	Yes	No	high	high	low	high	low
Solid Waste	Residential Solid Waste Collection (South Quarter)	1996	Contract	Private	Directly Provided	External	Yes	No	low	low	high	high	low
Solid Waste	Residential Collection-West	1998	Complete	Public	Directly Provided	External	Yes	Yes	low	low	high	high	low
Solid Waste	Container Delivery	1999	Complete	Public	Indirectly Provided	External	Yes	Yes	low	low	low	high	low
Solid Waste	Dead Animal Collection (FY99)	1999	Complete	Public	Indirectly Provided	External	Yes	No	low	low	low	high	low
Solid Waste	Commercial Trash Collection	2000	Complete	Public	Directly Provided	External	Yes	No	low	low	high	high	low

Appendix 3. Services Exposed to Market Forces by Type of Market Force, Public/Private Producer, Type of Service, Service Recipient, Proposed for Rightsizing, and Transaction Cost Component

Key Business	Service Description	Fiscal Year	Competition/Contract	Private/Public	Service Recipient	In Plan?	Same Year Knowledge	Asset-Physical	Asset-Logitimacy	Frequency	Uncertainty
Solid Waste	Multi-Family Bulky Item Collection	2000	Contract	Public	External	Yes	No	low	low	high	low
Solid Waste	Residential Collection-East	2000	Complete	Public	External	Yes	Yes	low	low	high	low
Solid Waste	Residential Collection-North	2001	Complete	Public	External	Yes	Yes	low	low	high	low
Solid Waste	Residential Collection-South	2001	Complete	Public	External	Yes	Yes	low	low	high	low
Transportation	SouthPark Hub Service	2000	Contract	Private	External	Yes	Yes	high	low	high	low
Transportation	Street Widening-Annex Area	1995	Complete	Public	External	No	.	high	low	low	low
Transportation	STS Night/Weekend/Hol Service	1995	Complete	Public	External	Yes	Yes	high	low	high	low
Transportation	Asphalt Base Repair	1996	Complete	Public	External	Yes	Yes	low	low	high	low
Transportation	Bulb Replacement-Signal	1996	Complete	Public	External	No	.	low	low	high	low
Transportation	Parking Lot Construction	1996	Complete	Public	External	No	.	low	low	high	low
Transportation	Street Base Failure Repair	1996	Complete	Public	External	Yes	Yes	high	low	high	low
Transportation	Street Reconstruction, Annexation	1996	Complete	Public	External	No	.	low	low	high	low
Transportation	Sanitation Parking Lot	1997	Complete	Public	Internal	No	.	low	low	low	low
Transportation	STS Service	1997	Complete	Public	External	Yes	No	high	low	high	low
Transportation	STS-Entire Service incl. N/H/W	1998	Complete	Public	External	No	.	high	low	high	low
Transportation	Asphalt Mnnc. & Restoration	1999	Complete	Public	External	Yes	Yes	low	low	high	low
Transportation	Catch Basin & Pipe Cleaning	2000	Complete	Public	External	Yes	No	high	low	high	low
Transportation	Concrete Install and Repair	2000	Complete	Private	External	Yes	No	low	low	high	low
Transportation	Drainage Maintenance	2000	Complete	Public	External	Yes	No	low	low	high	low
Transportation	Remarketing resurface streets	2000	Complete	Public	External	Yes	Yes	low	low	high	low
Transportation	Sign Fabrication & Installation (100%)	2000	Complete	Public	External	Yes	Yes	low	low	high	low
Transportation	Street Maintenance, District Facility (33% City)	2000	Complete	Public	Internal	Yes	Yes	low	low	high	low
Transportation	Utility Cut Restoration	2000	Complete	Public	Internal	Yes	Yes	low	low	high	low
Transportation	District Yard-Sweden	2001	Complete	Public	External	Yes	Yes	low	low	high	low
Utilities	Grounds Maintenance	1995	Contract	Private	Internal	Yes	Yes	low	low	high	low
Utilities	Janitorial Services	1995	Contract	Private	Internal	Yes	Yes	low	low	high	low
Utilities	Odor Control	1995	Contract	Private	Internal	Yes	Yes	high	low	high	low
Utilities	Instrumentation Maintenance	1996	Contract	Private	Internal	No	.	low	low	high	low
Utilities	Materials Testing	1996	Complete	Public	Internal	Yes	Yes	high	low	high	low
Utilities	Residuals Compost Manangement Facility	1996	Complete	Public	Internal	Yes	Yes	low	low	high	low
Utilities	Right of Way Clearing	1996	Complete	Public	External	Yes	No	low	low	high	low
Utilities	ROM Mnnc.-1 Sewer Basin	1996	Complete	Public	Internal	No	.	low	low	high	low
Utilities	Vest Water Treatment Plant	1996	Complete	Public	Internal	Yes	Yes	high	low	high	low
Utilities	Water Locates	1996	Complete	Public	Internal	Yes	Yes	high	low	high	low
Utilities	Irwin Creek WWTP O&M	1997	Complete	Public	Internal	Yes	Yes	high	low	high	low
Utilities	Meter reading-residential	1997	Complete	Public	Internal	No	.	high	low	high	low
Utilities	Residuals Facility-Land App	1997	Complete	Public	Internal	Yes	No	low	low	high	low
Utilities	Vest WWTP O&M	1997	Complete	Public	Internal	Yes	Yes	high	low	high	low
Utilities	wastewater lift station O&M	1998	Complete	Public	Internal	Yes	Yes	high	low	high	low
Utilities	Water service renewals-res.	1998	Complete	Public	External	Yes	Yes	low	low	high	low
Utilities	fire hydrant maintenance	1999	Complete	Public	External	Yes	No	high	low	high	low
Utilities	Large meter maintenance	1999	Complete	Public	External	Yes	No	low	low	high	low
Utilities	Sewer pipeline TV (1999) (FY99)	1999	Complete	Public	External	Yes	Yes	high	low	high	low
Utilities	Irwin Creek WWTF	2000	Complete	Public	Internal	Yes	No	high	low	high	low
Utilities	Meter reading-residential	2000	Complete	Public	External	Yes	No	low	low	high	low
Utilities	Odor Control	2000	Contract	Public	External	Yes	No	high	low	high	low
Utilities	Instrumentation Maintenance	2001	Contract	Public	Internal	Yes	No	low	low	high	low

Appendix 3. Services Exposed to Market Forces by Type of Market Force, Public/Private Producer, Type of Service, Service Recipient, Proposed for Rightsizing, and Transaction Cost Component

Key Business	Service Description	Fiscal Year	Competition/ Contract	Private/ Public	Type of Service	Service Recipient		In Plan?	Asset- Knowledge		Asset- Physical		Frequency	Uncertainty
						Internal	External		High	Low	High	Low		
Utilities	Irwin Creek WWTP O&M	2001	Complete	Public	Indirectly Provided	Internal		Yes	Yes	Yes	low	low	high	low
Utilities	Soils and materials testing	2001	Contract	Private	Support Service	Internal		Yes	Yes	Yes	high	high	high	low
Utilities	Sugar Creek WWTP O&M	2001	Complete	Public	Indirectly Provided	Internal		Yes	Yes	Yes	low	low	high	low