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# Purchase of Service Contracting Versus Government Service Delivery: The Views of State Human Service Administrators

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*Purchase of service contracting (POSC) as a mode of human service delivery is based largely on untested normative grounds. This article presents the results of a national study comparing the views of state human service administrators on the relative merits of POSC versus government service delivery in four issue areas: (1) service costs, (2) service quality, (3) bureaucracy and red tape, and (4) effect on government employees. The study results provide some support for POSC in three of the four issues areas. The study finds that geography plays no role in the views of state human service administrators, but that program/service type does.*

## Introduction

Over the last 25 years, a revolution of sorts has taken place in the human services. In the 1960s, not only was direct government delivery of publicly funded human services the norm, no competing paradigm existed. Beginning in the 1970s, a new paradigm, purchase of service contracting (POSC), began to take shape. Widespread state human service agency experimentation with POSC under various titles of the *Social Security Act* triggered similar experimentations in the areas of mental health services, aging and adult services, employment and training services, and others. Today, by most accounts, POSC is the principal mode

of human services delivery in this country (e. g. Salamon, 1987; Terrell, 1987; Kettner and Martin, 1994).

While POSC has been called one of the most important developments in the human services in the last 50 years (Karger, 1994), the subject has received little systematic research attention. Consequently, the knowledge base about POSC remains underdeveloped. The lack of research on POSC does not mean that the subject has been ignored in the human services literature. Quite the contrary! A significant body of literature on POSC has accumulated over the last two decades. Unfortunately, a substantial proportion of this literature tends to be ideologically based and designed to demonstrate that POSC is either "good or bad" social policy. In a recent major review of the published POSC literature over the last twenty years Kramer (1994:33) concludes that a significant amount is based largely on, ". . . ideological and impressionistic grounds."

Early on, Alfred Kahn (1979) pointed out that the relative merit of POSC as a mode of human services delivery is an empirical question. If a knowledge base is ever to be built on POSC, Kahn's admonition points the way. The ideological and impressionistic literature on POSC needs to be replaced with broad based empirical inquiries. Specifically, more research is needed that directly tests the normative underpinnings of POSC, particularly those dimensions that have provoked the greatest debate in the literature.

## Literature Review

### *Service Costs*

Perhaps the loudest debate over POSC versus government service delivery involves the issue of relative costs. One of the major arguments in support of POSC is that it costs less than government service delivery. For example, Fabricant and Burghardt (1992) suggest that many human service administrators simply believe *a priori* that POSC is more efficient than government service delivery. Likewise, Terrell and Kramer (1984), Terrell (1987), and Karger (1994) maintain that POSC is frequently viewed by human service administrators as being less costly than government service delivery. Demone and Gibelman (1989) suggest that

much of the appeal of POSC can be traced directly to the desire of human service administrators to reduce service delivery costs.

Hatry and Durman (1985) put forth the argument that POSC—or at least the portion based upon competitive contracting models—should result in lower service delivery costs. However, Smith and Lipsky (1992), as well as Karger (1994), question the validity of this argument because they maintain that competitive contracting models are largely absent in POSC. This latter interpretation is supported by the research of Martin (1986), Kettner and Martin (1994) and Kramer (1994).

### *Service Quality*

Improved service quality is another purported benefit of POSC. For example, Fitch (1974) and Hatry and Durman (1985), argue that POSC should result in improved service quality. On the other hand, Willis (1984) and Abramovitz (1986) argue just the reverse. The existing POSC research on the issue of service quality (e. g., Willis, 1984; Bennett and DiLorenzo, 1983; Bailis and Ellenbecker, 1988) is limited in scope and the results are inconclusive.

Some researchers question the logic of the assertion that POSC can both reduce service delivery costs and increase service quality. DeHoog (1986), for example, suggests that a more plausible expectation is a trade off between cost and quality.

While issues of cost and quality tend to dominate the debate, two other normative claims frequently made are that POSC results in less bureaucracy and red tape and fewer government employees.

### *Bureaucracy and Red Tape*

POSC, it is frequently maintained, also reduces the amount of bureaucracy and red tape associated with human services delivery (e. g., Brilliant, 1973; Martin, 1986; Rehfuss, 1989). According to Osborn & Gaebler (1992), authors of the best selling book *Reinventing Government*, the reduction of bureaucracy and red tape in human service delivery is one of the major benefits of POSC. Conversely, Schlesinger, Dorwart and Pulice (1986) argue that the additional contract administration and monitoring activities

created by POSC may actually result in an overall increase in bureaucracy and red tape rather than a decrease.

### *Government Employees*

Yet another "advantage" ascribed to POSC is that it results in the need for fewer government employees. This claim has been made consistently over the years, but generally not by human services researchers (e. g. Fisk, Kiesling, and Muller, 1978; Rehnfuss, 1989; Osborn & Gaebler, 1992). Other researchers, including many in the human services, do not view the long term decline in government human service employment as necessarily a positive development (e. g. Leveson, 1977; Kettner and Martin, 1985; Ghere, 1981). Regardless of the position taken on this issue, if POSC is contributing to a long term decrease in the number of government human service employees this development needs to be documented and debated.

### *Summary*

In summary then, there are at least four major normative assumptions that underpin the use of POSC. Stated as propositions, they are:

- Proposition 1 – POSC is *less* costly than government service delivery,
- Proposition 2 – POSC services are of a *higher* quality than government services,
- Proposition 3 – POSC *decreases* the amount of bureaucracy and red tape associated with service delivery, and
- Proposition 4 – POSC results in *fewer* government employees involved in service delivery.

### The Study

In order to test these four propositions, a study of state human service administrators involved with both government delivery and POSC was undertaken in 1993. The study involved the top human service administrators in each of the 50 states responsible for overseeing: (1) aging and adult services, (2) services to

children, youth, and families, (3) mental health services, and (4) employment related services.

State administrators were selected as the unit of analysis because previous studies of state POSC activity demonstrate that they tend to be relatively informed and reliable commentators on service delivery issues (APWA, 1980; Martin, 1986). The administrators were asked to compare their program experiences with POSC and government service delivery in the issue areas of: service costs, service quality, bureaucracy and red-tape, and effect on government employees.

Two hundred mail surveys were distributed, 102 useful responses were received, constituting a response rate of 51 percent. However, not all of the responding administrators answered all survey questions. Thus, the number of cases cited in the tables presented below are frequently less than the total number of overall responses.

### Data Analysis

The data analysis is divided into three sections. The first section presents overall summary responses for the four issue areas. In the second section, the data are subjected to a regional analysis. In the third section, the data are analyzed by program/service type.

#### *Summary Responses*

Table 1 presents the aggregate responses of the administrators dealing with the four issue areas. As Table 1 demonstrates, the opinions of administrators on the issue of service costs present a fairly balanced picture. Slightly more than a third of the administrators (36%) hold the opinion that no differences exist between the costs of POSC and the costs of government delivery, while nearly a quarter (24.7%) of the administrators believe that POSC costs more than government delivery. The modal view, however, expressed by nearly 40 percent of the administrators is that POSC costs less than government service delivery.

When the analysis shifts to the issue of service quality, the resulting picture is less balanced. The majority of administrators (64.8%) express the view that no quality differences exist between POSC and government service delivery. Nearly a third of the

Table 1

*State Human Service Administrators Perceptions of POSC Versus Government Service Delivery*

<i>Response Categories</i>	<i>No</i>	<i>%</i>
<i>Service Costs</i>		
1. POSC Costs More Than Government Delivery	22	24.7
2. No Difference	32	36.0
3. POSC Costs Less Than Government Delivery	<u>35</u>	<u>39.3</u>
Totals	89	100
<i>Service Quality</i>		
1. POSC Service Quality Is Poorer Than Government Delivery	3	3.4
2. No Difference	57	64.8
3. POSC Service Quality Is Better Than Government Delivery	<u>28</u>	<u>31.8</u>
Totals	88	100
<i>Bureaucracy &amp; Red Tape</i>		
1. POSC Creates More Bureaucracy & Red Tape	33	35.9
2. No Difference	32	34.8
3. POSC Creates Less Bureaucracy & Red Tape	<u>27</u>	<u>29.3</u>
Totals	92	100
<i>Government Employees</i>		
1. More Public Employees With POSC	3	3.2
2. No Difference	27	28.7
3. Fewer Public Employees With POSC	<u>64</u>	<u>68.1</u>
Totals	94	100

administrators (31.8%), however, also believe that the quality of POSC services is better than the quality of government service delivery. Only a marginal 3.4 percent of the administrators are willing to state that POSC service quality is poorer than the quality of government service delivery.

On the issue of bureaucracy and red tape, the opinions of the administrators are again more balanced. The modal (35.9%) view, is that POSC results in more—not less—bureaucracy and red tape. However, only one more administrator (n=33) held this view than held the view that there is no difference (n=32).

Finally, on the issue of effect on government employees, the majority of administrators (68.1%) express the view that POSC results in fewer government employees. Another 28 percent of administrators believe no difference exists and a marginal 3.2 percent report that POSC results in more government employees.

From an overall perspective then, strong support is found among state human service administrators for the proposition that POSC costs less than government service delivery. Some limited support is found for the proposition that POSC services are of a better quality than government delivered services. Contrary to expectations, little support is found for the proposition that POSC results in less government bureaucracy and red tape. Finally, considerable support is found for the proposition that POSC results in fewer government employees.

### *Regional Differences*

A major study dealing with the use of POSC by local governments (municipalities and counties) reported significant variation by geographical region (Agranoff and Pattkos, 1985). If region can affect the use of POSC, region may also be an important factor in terms of the four issue areas under consideration here.

The study data were analyzed using the standard regional groupings (North-East, North-Central, South and West) developed by the Bureau of the Census. Mean scores for each region were computed and differences between regions explored using two statistical tests. The appropriate test for differences between groups given the nominal level of the data is Chi-Square. However, in several instances, the Chi-Square statistic was computed with more than one-fifth of the fitted cells being sparse (frequency



< 5). Thus, the Chi-Square significance tests are suspect. As an additional test of statistical significance, a robust approach was taken with the data being treated as ordinal and tested using one-way analysis of variance (ANOVA). Using the ANOVA F-test, differences in responses between regions were able to be probed for statistical significance from a second perspective.

No statistically significant regional differences were found in the views of administrators in any of the four issue areas: service costs, service quality, bureaucracy and red tape and affect on government employees.

#### *Program/Service Type Differences*

Previous studies conducted by the American Public Welfare Association (APWA, 1980), Agranoff and Pattkos (1985) and Kettner and Martin (1993), suggest that program/service type is another important consideration when studying POSC. Agranoff and Pattkos (1985) report that the level of POSC activity varies significantly by program/service type. Kettner and Martin (1993) found that the relative importance of the factors used by human service administrators in making POSC decisions also varies significantly by program/service type. A major study conducted by the American Public Welfare Association (APWA, 1980) suggests that program/service type is one of the main reasons why aggregate data from POSC studies frequently show "inconclusive patterns" (p. 60). Following this lead, if the data on the four issue areas under consideration here are disaggregated by program/service type, additional insights may be gleaned.

Table 2 presents the data arrayed by the four program/service types included in this study: (1) aging and adult services, (2) services to children, youth, and families, (3) mental health services, and (4) employment related services. Mean averages and the two significance tests (Chi-Square and the ANOVA F-test) used to explore regional differences are again used here.

*Service Costs*—As Table 2 illustrates, when the data are disaggregated by program/service type, considerable variation is present in the mean scores of administrators regarding the relative costs of POSC versus government service delivery. The differences between program/service types are statistically significant using both statistical tests.

Table 2

*Mean Scores of State Administrators Perceptions of POSC Versus Government Service Delivery By Program/Service Type (1)*

	Mental Health	Aging & Adult	Children Youth & Families	Employment Related
Service Cost (n)	2.53 (16)	2.50 (18)	2.07 (30)	1.69 (19)
	$\chi^2 = 19.05^*$		$F = 6.48^{**}$	
Service Quality (n)	2.31 (16)	2.33 (18)	2.28 (29)	2.26 (19)
	$\chi^2 = 2.39$		$F = .07$	
Bureaucracy & Red Tape (n)	2.47 (17)	2.22 (18)	1.81 (32)	1.58 (19)
	$\chi^2 = 23.06^{**}$		$F = 5.50^*$	
Effect on Government Employees (n)	2.94 (13)	2.68 (22)	2.65 (34)	2.42 (22)
	$\chi^2 = 9.40$		$F = 3.05^*$	

\*  $p < .01$  \*\*  $p < .001$

(1) scores are means based on response categories (1, 2, 3) from Table 1

Administrators working in mental health and aging and adult services view POSC as less costly than government delivery. This view is shared by over 60 percent of the administrators in both programs. By comparison, a plurality (46.7%) of administrators working in children, youth and family services are of the opinion that no significant cost differential exists. Conversely, a plurality (47.4%) of administrators working in employment related services believe that government service delivery is actually less costly than POSC.

*Service Quality*—The mean scores of the administrators show little variation on this issue. The differences between program/service types are not statistically significant using either of the tests employed. A majority of administrators in all four cases—mental health (56.2%), aging and adult (55.6%), children, youth, and families (65.5%) and employment related (73.7%)—perceive service quality to be essentially the same between POSC and government delivery.

*Bureaucracy & Red Tape*—The mean scores on the issue of whether POSC results in less government bureaucracy and red tape than government service delivery show considerable variation between the program/service types. The differences are statistically significant using both tests employed.

The same pattern that appeared on the issue of service costs again appears on this issue. A majority of administrators in mental health (64.8%) and a plurality (44.9%) in aging and adult services express the opinion that POSC results in less bureaucracy and red tape than government service delivery. A majority (56.3%) of administrators in children, youth, and families believe that no difference exists. And a majority (57.9%) of administrators in employment related services responded that in their experience POSC actually causes more government bureaucracy and red tape than government service delivery.

*Government Employees*—The mean scores on the issue of whether POSC results in fewer government employees show only minor variation. The Chi-Square test indicates that the differences are not statistically significant, while the stronger F-test indicates the differences are significant.

The majority of administrators in three program/service types view POSC as resulting in fewer government human service employees: mental health (93.8%), aging and adult (68.4%) and children and youth and families (62.7%). Administrators of employment related services are evenly divided between those (47.4%) who believe that no difference exists and an identical 47.4 percent who hold the view that POSC leads to fewer government human service employees than does government service delivery.

A relationship appears to exist between service costs and effect on government employees. Administrators in mental health

and aging and adult services believe that POSC leads to fewer government human service employees and that POSC service costs are lower than government delivery. Conversely, administrators of employment related programs have mixed views on whether POSC leads to fewer government human service employees and also believe that POSC costs more than government delivery. Administrators of children, youth and families present a mixed picture.

### Study Limitations

In interpreting the study data, two cautions are suggested. First, several alternative explanations—other than program/service type—may actually account for the observed differences in the views of state administrators including: the education and training of state administrators, the amount of involvement with POSC, past success with POSC, or a combination of such factors. Due to the limitations of the study design, these alternative explanations can not be ruled out.

A second caution is the possibility of respondent bias. In all survey research, one must assume that respondents are providing accurate information. With respect to this study the specific question is: To what extent, if any, are the responses of state administrators colored by either a pro-POSC or a pro-government delivery bias? No definitive answer to this question can be provided, except to say that the considerable variation in the responses over the four issue areas (cost, quality, bureaucracy and red tape, and effect on government employees) is not what one would expect if the respondents were operating exclusively from an ideological perspective.

### Summary & Conclusion

This study represents the first time that major normative assumptions about POSC have been tested using broad based empirical data. The study sheds new light on the on-going debate over the relative merits of purchase of service contracting (POSC) versus government service delivery. Four propositions concerning POSC were tested using data from a study of state human service administrators. The study data provide strong support

for the propositions that POSC costs less than government service delivery and results in fewer government employees. Moderate support is found for the proposition that POSC results in less bureaucracy and red tape than government service delivery. No support is found for the proposition that POSC services are of a better quality than government services. Geographic region does not appear to affect the views of human service administrators concerning POSC versus government delivery, but program/service type does.

The study data suggest that some programs and services may be able to increase service quality and reduce costs by resorting to POSC; for other programs and services, government service delivery may achieve these same goals. While this exploratory study represents only a first step toward establishing such relationships, this path of inquiry does appear promising.

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