



City Manager's Office

Managed Competition

September 13th, 2010

Prepared By:
Ben McCready, Administration
Todd Greenburg, Corporation Counsel



Managed Competition

Executive Summary

Managed competition is an “umbrella” term, which describes the practice of conveying competitive market principles to specific quantifiable services provided by the public sector. The purview of managed competition includes many unique approaches to introducing competitive market forces into the provision of public services. Not necessarily intended as a means to remove a service from public provision, managed competition often reflects the dynamic relationship between the public and private sector¹. Managed competition encourages a service to be provided at a competitive and cost effective rate, outperforming private sector counterparts. It encompasses multiple approaches and is beholden to no one paradigm. Managed competition is capable of being applied to a number of services. A successful managed competition program is characterized by the significant investment in time, staff, and resources utilized to design guidelines that will insure both quality and dependability.

Definition

Although the term “managed competition” is often associated with “privatization”, the two concepts imply distinctly unique approaches to altering the relationship between government and the provision of services. Managed competition provides government the opportunity to test the market for improved service delivery and pricing options by allowing both public and private entities to compete¹. Business process re-engineering (BPR) is a constant companion to managed competition, a process by which processes are mapped and improvements are initiated². BPR, acting as the base of a competitive program, provides the quantifiable measures and analysis an organization requires to remain competitive and innovative in the search for greater efficiencies.

In a simple view, “managed competition” is a term which falls under the umbrella of privatization. Privatization by itself refers to a change in the producer or arranger or public goods⁸. Just as the services provided by government are heterogeneous in nature, there are many methods by which privatization takes places in the public sector. There are three types of privatization; delegation, divestment, and displacement⁸. Managed competition would best be described as “delegation”. Under delegation a government body maintains an active role, weather by promoting consumption of the service or regulating its production via contract oversight and management.

Managed competition theory is rooted in the belief that if a private firm can successfully reduce costs and return a profit, then government should be able to reduce costs by an even greater degree³. The practice of managed competition is supported by the belief that the private sector may be capable of adopting new technologies and implementing innovative operating procedures that the public sector may be reluctant to adopt due to policy constraints. The fundamental basis for managed competition requires that the costs



and benefits of providing a service via contracting and providing a service in house be objectively compared. This has been the case in Charlotte, North Carolina, where a combination of appointed committee members and audit staff continually revisit services and assess their eligibility for managed competition. Managed competition works with the dynamic nature of municipal organizations, revisiting, reexamining, and altering the provision of services on a continual basis. In the Charlotte model, a service provided by managed competition is not destined to be indefinitely provided by private sector competitors, while no service provided by City staff is guaranteed to continually be provided by the public sector.

Managed competition theory does not assume private business can perform more efficiently at providing all services. By competing against the private sector to provide services, the public sector gains the opportunity to challenge well established rules, regulations, policies, practices, and organizational culture that creates the “way things have always been done”. Private providers often have a far greater degree of control regarding pay and benefit structures compared to public sector organizations⁹. The nature of the private sector relationship with labor allows private organizations to be more flexible and respond to changing market conditions quickly⁹. Competition fostered by managed competition is intended to provide the highest level of service at the lowest cost possible. Managed competition is the means to an end, a way to infuse market-based competition into a public service without promoting the wholesale transition of all public services to private providers.

Process *(See attached chart for more information)*

The implementation of managed competition is a process, which is tailored to the services and cities where it is being utilized. Guidelines should be detailed and understandable⁴. The process typically begins with the creation of a committee, the composition is determined by staff and elected officials, whose mission is to evaluate the merits of service provision by both the public and private sector. The process also includes a cost analysis phase, dependent upon industry data or local pricing. A detailed cost analysis includes evaluating the total cost of ownership, taking into account the direct and indirect costs¹¹. After conducting a thorough cost analysis and audit of eligible services, those identified as having a higher in-house cost compared to private sector providers may be given a number of options. Staff may be afforded the opportunity to improve operations or reduce costs, an informal bidding process may take place, or a formal bidding process may begin. An informal bidding process evaluates fixed prices provided by private firms to cost estimates from in-house departments. The formal bidding process makes a fair and equal comparison between bids submitted by in-house departments and private firms. Indianapolis experienced outstanding levels of success introducing a managed competition environment to their fleet services division, without ever contracting the service to an outside organization. City leadership allowed the division three years to become competitive. After three years the in-house service not



only produced a winning bid by a \$76,000 margin, but found an additional \$75,000 worth of efficiencies throughout the next year⁵.

The managed competition process does not end with the award of a contract. Managed competition involves time, expertise, and staff to continually audit, benchmark, analyze costing methodology, standards, evaluate proposals, and make recommendations to service providers. Managed competition does not always result in the selection of the “lowest” bid⁶. Municipalities may choose to take several factors in consideration. Factors that the City of Charlotte consider include; past performance, financial stability, staffing levels, and contract language exceptions⁶.

The implementation process takes time. In order to gauge efficiency, foster innovation, and gauge responsiveness, assessments are required. The initial stage of managed competition is characterized by awarding competitive contracts to one or more service providers for short periods of time covering different segments of the community. This method allows a municipality to adapt to the new environment, lowering the risk of failure due to oversight or inexperience. A mature program will implement these reforms on a broader basis.

Evaluating

Each step in the implementation process is unique and should be able to meet high standards of reliability. Glenview, a community which has implemented some managed competition programs, spent a significant amount of time reviewing candidate services prior to implementing managed competition in select departments. The process is described as being both length and painful⁹. Glenview relied on a Process Evaluation and Efficiency Team (PREET)⁹. The team was responsible for answering difficult questions which included;

- Are the levels of service appropriate for the needs of the customers?
- Is the service necessary?
- Is this the best way to provide the service?
- Are there efficiencies that are not being realized?

Determining the answers to difficult questions provided Glenview with the justification for changes in service level, changes in the provision of a service, or the continuation of a service. This phase laid the foundation for the cost accounting and implementation of performance standards which would be used to guide any competitive bidding between the traditional public provider and private sector counterparts.

Services

Creating a managed competition program involves addressing multiple issues. One of the most prevalent issues is selecting the services which are most likely to achieve positive results in a competitive environment. Municipalities provide a wide array of services, staff with expertise in street paving, teaching swim lessons, preparing budgets, and



writing tickets are all part of a municipal organization. Although most services deemed eligible for managed competition tend to be ancillary services, an extensive list of

services are eligible for consideration. A service which already has reliable performance indicators is likely to be a successful candidate for managed competition. A recent study conducted in Seattle revealed that 67 services were identified as good candidates, but only 23 of them were compared to the private sector. After completing their studies, 10 of the services remained in house, 5 were awarded to outside contractors, and 8 are now provided by a mix of public and private staff⁷. Some services which are often cited as candidates for “managed competition” include: solid waste collection/disposal, custodial services, printing services, street sweeping, sewer maintenance, security, vehicle maintenance, billing, and public transportation. Indianapolis began developing a managed competition program in the 1990’s. Throughout the life of the program Indianapolis experienced an average 25% cost savings for services eligible, overall Indianapolis has credited a 7% reduction in their overall budget between 1992 and 1997 to managed competition⁷.

Considerations

A successful managed competition program requires commitment and that leaders confront contentious issues. Multiple areas of concern are brought to the forefront when considering managed competition; leaders are often faced with difficult decisions between lower costs and policy priorities. One area of concern is “flexibility”, while government employees are capable of making immediate changes in service delivery a private contractor may require changes in service level be negotiated. Additionally a private contractor may not place the same emphasis on community goals that the leadership values. Contracting with a vendor always involves the potential risk of vendor failure, creating a situation where the City would immediately become responsible for the continued provision of a service⁴.

Managed competition inherently implies additional contract administration, transition, and monitoring expenditures. In order to foster an innovative and competitive environment, staff must routinely negotiate, interpret, and monitor contracts. The costs of contract administration should be factored into the cost analysis. Investments in other resources may include staff to conduct internal audits, provide legal expertise, manage procurement, and other department specific staff. These resources are often required to enable the municipality to negotiate with contractors on equal terms. Additional considerations may include legislative restrictions, resistance to change, and public perception. Moving a service from public to private provision may also carry with it a “go away” cost, or any costs associated with labor contracts, selling equipment, or meeting other statutory obligations.

Managed competition is not often described as a “silver bullet” or “one size fits all” solution. The examples cited in this report are excellent examples of the many alternatives, processes, and wide ranging applicability of managed competition. The



diversity of these examples includes not only their geographic location, but their population and state legislative environment. In contrast to Illinois, North Carolina is a “right to work” state. In Illinois, Washington and Indiana some employees may be required to be part of a union as a condition of employment, in North Carolina this is not the case. The City population and “right to work” status are outlined here;

Charolette, NC*	630,478	*Right to Work State
Seattle, WA	582,454	
Indianapolis, IN	785,597	
Bloomington, IL	74,975	

Managed competition may precipitate changes in the provision of traditional publically provided services. When a public organization provides services, it is often provided to “residents”, while when a private company provides a service that service is provided to “customers”. At a philosophical level how the “end users” of a service are viewed may imply other changes. There are social values that are implicit with the provision of a good or service, which may extend beyond the provision of the service¹⁰. Managed competition inherently alters the role of government in the provision of a service and thus perceptions of accountability. Under the guise of managed competition, local government transitions from being a provider of a service to that of a roll of an observer.

Employee Union Impact

Two major laws regulate the relationship between Illinois governmental employers and their employees; the Illinois Public Labor Relations Act (5 ILCS 315) and the Illinois Educational Labor Relations Act (115 ILCS 5). These two acts are quite similar.

When a union is certified as the exclusive representative of a unit of public workers, the governmental employer must bargain all decisions involving those workers which directly affect the “wages, hours, and terms and conditions of employment” of the represented workers. It must also bargain management decisions which impact wages, hours and terms and conditions of employment. If a governmental employer refuses to do either of these actions, it can be found guilty of an unfair labor practice, which could results in the employer having to rescind the unlawful action and, possibly, having to pay the legal expenses of the union in obtaining the judgment.

In all of the current City union contracts, the contract lists the workers classifications represented by that particular union. The union contracts currently in effect permit the City to decide how many workers are needed to perform the tasks those workers perform. The union contracts also give the City the ability to lay off unionized workers. However, the City does not have the ability under any of the current collective bargaining agreements to lay off workers and then outsource jobs to outside contractors. Requiring unionized employees to compete in the future with private vendors for the privilege of continuing to provide services currently provided by those City employees is possible



under Illinois labor law, but current law will not permit the City to undertake managed competition in a unilateral manner.

In some cases the City must raise the issue of possible outsourcing during collective bargaining, and the current contract language probably permits the union to refuse to discuss outsourcing until negotiations commence on the terms of a new collective bargaining agreement. The City may raise the issue of possible outsourcing in its current negotiations. Once negotiations commence on the issue of outsourcing union jobs, the City could not commence bidding or procurement procedures with third parties which could lead to possible outsourcing until agreement or impasse with the union(s) had been reached.

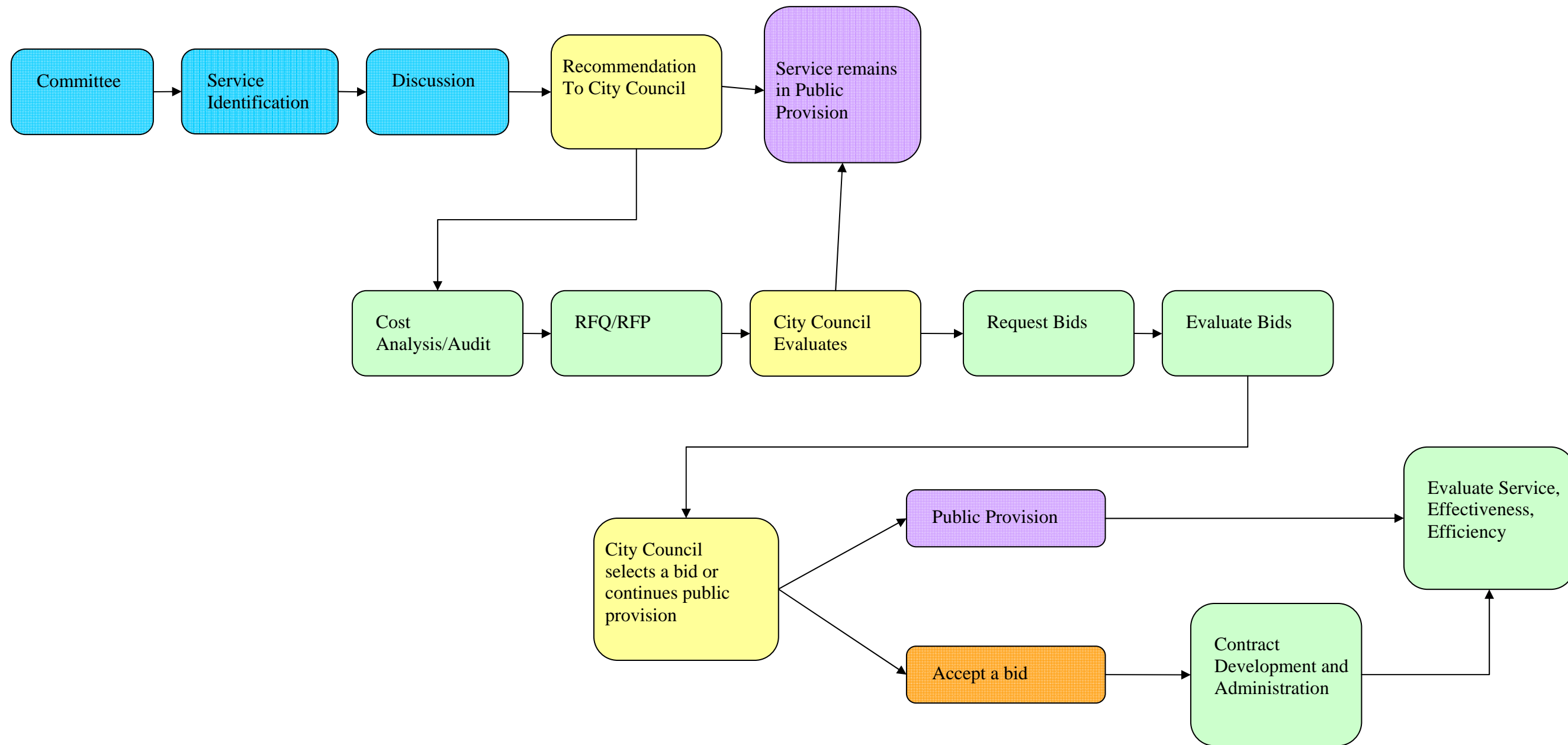
Summary

As previously stated, managed competition is intended to expose a public organization to private sector market forces. Managed competition is a means by which the public sector may challenge the status quo or “the way things have been done”. As a managed competition program matures it begins to face a new gauntlet of obstacles, one being the availability of participating vendors. Throughout the life of the program organizations will ideally adapt and become increasingly efficient, with the potential to realize a natural competitive edge which the private sector may be unable to duplicate. If the private sector can perform more efficiently and earn a profit, then the public sector should be able to perform equally as well at a lower cost³.



1. Deloitte & Touche LLP Website (2008). Managed Competition: Proceed with Caution. http://www.deloitte.com/view/en_CA/ca/industries/government/0290a7d2770fb110VgnVCM100000ba42f00aRCRD.htm
2. City of San Diego (2007). Managed Competition Guide v 6.4 <http://www.sandiego.gov/mayor/pdf/mcguide>
3. Jensen, Ron. Managed Competition: A Tool for Achieving Excellence in Government
4. Braun, John (2009). Office of the Inspector General, City of Jacksonville, Florida.
5. Hai-Chiao Chang, Youhei Itou, Velika Kabakchieva, Lesia Lozowy, Ramon Munoz-Raskin, Rene Ramos, Mark Seaman, Yasemin Tugce Tumer (2005). Managed Competition in Indianapolis: The Case of Indianapolis Fleet Services.
6. Elmore, David (2007). City of Charlotte's Privatization and Competition Advisory Committee. <http://reason.org/news/show/1002747.html>
7. Making Effective Use of Managed Competition (1995). Office of the City Auditor, City of Seattle. http://www.seattle.gov/audit/report_files/9501-ManageCompete.pdf
8. Savas, E.S. (2000). Privatization and the Public-Private Partnerships, Chatham House.
9. Piercy, Kate. (2009). Beyond "Business as Usual". Illinois Policy Institute.
10. Warner, M.E. and Robert Hebdon. (2001). Local Government Restructuring: Privatization and Its Alternatives. *Journal of Policy Analysis and Management* 20(2)
11. Government Finance Official's Association. (2008). An Elected Officials Guider: Competitive Options From Managed Competition to Privatization.

Managed Competition Process



**This document represents an example of a managed competition process and is not indicative of all managed competition programs*