THE OUTSOURCING OF PUBLIC LIBRARY MANAGEMENT
An Analysis of the Application of New Public Management Theories From the Principal-Agent Perspective

ROBERT C. WARD
Louisiana State University

Advocates of new public management (NPM) claim that private service delivery promotes efficiency, effectiveness, and cost savings in government. Critics of NPM cite numerous examples of failed attempts to apply NPM. This article examines multiple case studies to determine the strengths and weaknesses of NPM when applied to the outsourcing of public library management. Particular attention focuses on several predicted NPM outcomes including accountability, cost savings, and citizen use/satisfaction. The findings from the cases show that NPM claims related to returning government to its proper principal-agent focus, and thus achieving gains in efficiency and citizen use/satisfaction, are questionable.

Keywords: *outsourcing; public libraries; new public management; principal-agent theory*

Today, an international management movement has arisen which seeks to create a new approach to the management of government services. This movement, referred to as new public management (NPM), believes that the private sector should run government services and operations and that there is no real distinction between the role of the free market and government within our societies (Arnold, 1998; Ferlie, 1996; Lane, 2000). Opposing this concept of market-driven public sector management is a more traditional view of American public administration which charges that the use of private firms to provide government services circumvents the institutional systems created by society to make our government and its agencies accountable to the general citizenry and ultimately threatens our systems of constitutionally responsible democracy (Frederickson, 1996; Goodsell, 1993; Moe, 1994; Terry, 1998).

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In the United States, a primary method of implementing NPM theories is the use of contracts, outsourcing, between-government agencies or elected officials, and private sector businesses or nonprofit organizations. Advocates of outsourcing have claimed that such private service delivery promotes efficiency, effectiveness, cost savings, and citizen use (Rondinelli, 2003; Savas, 1987). Critics of outsourcing, on the other hand, have claimed that outsourcing often sacrifices quality for efficiency in public services, deliberately hides the true costs for service delivery, and ultimately "hollows" out government service capacity while undermining the principles of democratic accountability (deLeon & Denhardt, 2000; Milward, 1996).

The library profession has not been immune to the emergence of the NPM movement and its extensive reliance on outsourcing of services. Since the 1970s, the library profession has also applied the practices of outsourcing to a variety of internal operations (Martin, 2000). However, one area of outsourcing that emerged recently has generated a wide-ranging debate over the propriety of the use of outsourcing, especially in publicly funded agencies. This area of outsourcing relates to the contracting out of the management of public libraries to private firms.

The debate in the library profession related to the outsourcing of the management of public libraries reflects the broader debate that has emerged in the public administration field related to principles of the NPM movement. In the opinion of the library NPM advocates, local community difficulties in raising funds for the continuation of local public services leaves elected officials with no other choice but to utilize outsourcing for public library management (Dubberly, 1998). Opponents to the outsourcing of public library management charge that the substitution of private management replaces the concept of citizen accountability with the concept of corporate profit and undermines the democratic institutional foundation of the agency (Schuman, 1998).

When one considers that public libraries predate the American Revolution, extending back as far as 1655, and that they were one of the earliest tax-supported local government services established in the United States after the revolution, the movement toward outsourcing of this service marks a major inroad by NPM into the provision of government services. In addition, the public character of libraries has always been justified by the Jeffersonian ideal of developing an informed and enlightened electorate through the provision of information that covers all aspects of life and social issues. The outsourcing of these services represents a marked departure from the historical and philosophical foundations of a commercially free and political neutral institution directed at developing an informed and aware electorate. Thus, the outsourcing of the management of these institutions presents an interesting study of both the potentialities and the problems of outsourcing local government services, especially services directed at the most basic levels of citizen participation in the democratic process.

Although the debate within the library profession over the outsourcing of public library management mirrors the wider debate raging in the public administration field related to NPM, the arguments for or against such an approach often rest on personal philosophy rather than an examination of the actual attempts to outsource public management. In an attempt to sift out personal beliefs from factual data, this article will use multiple case studies to examine the strengths and weaknesses of NPM when applied to the outsourcing of public library management. Particular attention will focus on several NPM outcomes that are predicted by principal-agent theory, including accountability, efficiency, and citizen use of public services.

AN ISSUE OF ACCOUNTABILITY[1]

NPM argues that traditional public administration has failed because, in practice, public administrators do not adhere to their primary level of administrative accountability in a democratic government, namely the principal-agent level of accountability (Niskanen, 1971). To understand this claim, one has to recognize that government administrative accountability resides within four different, and sometimes conflicting, levels. At one level there is a form of hierarchical accountability based on rules, regulations, and legal mandates. A second level of administrative accountability exhibits itself through professional norms, ethics, and work procedures. A third level of accountability is legal and spells out the specific relationship that exists between the administrator and the elected or appointed official—often referred to as the principal-agent level of accountability. The final level of accountability is political and recognizes the citizen's interests in decisions made by the agency (Romzek & Dubnick, 1994).

NPM advocates maintain that the fundamental cornerstone of democratic accountability within government administration lies at the principal-agent level, namely the elected or appointed official's authority over public employees. These advocates charge that public bureaucrats have used their expertise to unleash an unethical process based on an information monopoly (information asymmetry) that advances their hierarchical and professional levels of accountability over their primary principal-agent level of accountability (goal conflict). Elected officials lack technical knowledge and thus are reluctant to intervene or object to the bureaucrat's advice. Bureaucrats use their information monopoly position to manipulate the decision-making process, maximizing agency budget gains while minimizing program effectiveness and efficiency, thus shirking their primary principal-agent responsibilities (Niskanen, 1971). The information advantage enjoyed by the bureaucrat, coupled to the advancement of his or her hierarchical and professional interests, results in government operations and services that are inefficient, rule bound, and either unwanted or underutilized by the citizen (Wang, 2002).

The argument presented in favor of NPM is that only by emphasizing the principal-agent level of accountability are we able to regain a government that is both responsive and fulfills the wants of our citizens. By returning to the principal-agent ends of accountability, management is able to locate the correct outcome measures needed to successfully deliver the types of required public service units demanded by the citizen (Savas, 1994). NPM advocates advance the proposition that outsourcing achieves this proper balance through separating the buyer of government services from the seller of government services. Separation of the buyer from the seller allows a self-interest process to be introduced into the delivery of government services because each party in the transaction has a vested self-interest in finding the most efficient and effective way to deliver the services. The self-interest factor is at work because both parties have an interest in dividing the gains achieved by the system, both economic and political, thus mutually reaping the benefits of the new exchange. Thus, separation creates an environment where competitive market principles are able to operate in a previously noncompetitive market, allowing profit incentives to emerge and creating, eventually, new forms of economic efficiency (Lane, 1997, 2000). The introduction of competitive market principles into government, according to the NPM advocates, ultimately leads to three benefits: a return to the correct form of principal-agent accountability, an economic efficiency gain in public goods and services, and greater citizen use of services and products delivered (Lane, 1997, 2000).

To test the NPM advocate's claims, one must develop a methodology that is able to measure gains in the three areas: principal-agent accountability, economic efficiency and gain, and citizen use. If the NPM advocates are correct, gains should appear in all three areas.

METHOD

To measure gains in accountability, one needs to examine the systems of control and accountability that existed between the principal and the agent in the previous regime versus the systems of control and accountability that exist in the new regime. In public administration, this requires obtaining copies of the previous ordinances that defined operations and administrative accountability and copies of the new contracts that replaced those existing ordinances. At the time of this study, a search of the professional literature discovered eight cases of the outsourcing of public library management in the United States. Of the eight cases, the researcher was able to obtain both previous ordinances and existing contracts for seven of the cases—the eighth case was unavailable because of a claim of proprietary information contained within the contract.

To measure economic efficiency, a researcher must locate the financial data for the various cases that cover both the previous and current regime periods. All public libraries in the United States are required by state laws to report this information to their state libraries. The state libraries compile this information, annually, and are required by federal regulations to report this information to the U.S. Department of Education. This information is subsequently available in computerized data files from the U.S. Department of Education's National Center for Educational Statistics (NCES). Data for all seven cases were available though the Educational Statistics Center.

Finally, to measure use, a researcher must locate the performance data for the various cases that cover both the previous and current regime periods. All public libraries in the United States are required by state laws to report this information to their state libraries. The state libraries compile this information, annually, and are required by federal regulations to report this information to the U.S. Department of Education. This information is subsequently available in computerized data files from the U.S. Department of Education's NCES. Data for all seven cases were available though the Educational Statistics Center.

Although it is not necessary to obtain information about the context in which decisions were made to outsource public library management, such additional information could prove helpful in understanding the problems and expectations related to these decisions. Fortunately for the researcher, all seven cases were reported on extensively in the professional public library literature, local community media sources, and, in some cases, national newspapers and legislative studies. The researcher was able to obtain copies of all media reports, professional literature reports, and legislative studies.

An examination of the contextual data related to the cases of public library management outsourcing shows that often the decision to outsource emerged because of a set of unusual circumstances developing for which the local government's traditional means of response had proven ineffective. Although each of the seven cases, contextually, was unique, the underlying reasons why the management was outsourced tended to group around three causal categories:

1. Local intergovernmental contract disputes
2. Public personnel market failure
3. Administrative performance failure

To expedite the analysis of the cases, I have grouped the examination of the cases based on the above causal categories.

LOCAL INTERGOVERNMENTAL CONTRACT DISPUTES

Two of the cases relate to the issue of local intergovernmental contract disputes. These two cases are the city of Calabasas, California, and Riverside County, California.

Prior to 1991, Calabasas, an unincorporated portion of Los Angeles County, received public library service from the Los Angeles County Public Library. The library service was paid for by a property tax that was applied equally to all potions of the unincorporated areas of the county. The residents of Calabasas, in 1991, incorporated as a city. After incorporation, the county library was no longer able to provide library services under the unincorporated tax method. To continue to receive library services, the newly incorporated city entered into a direct contract with the Los Angeles County Public Library for the services and instituted a citywide property tax to pay for the services.

The city received services from the county library for 6 years; however, complaints arose within the city about the levels of services provided and the cost for the services. The complaints led to a library services study being conducted by the city. The study claimed that the city was paying $530,000 for library services but was only receiving $250,000 in services. The county library disputed the study's findings and argued that the levels of services delivered, and their associated costs, were identical to service levels and costs applied to all the residents of Los Angeles County.

The city rejected the county library's arguments and, in April 1998, voted to withdraw from the county library service contract. To provide library services to the residents of the city, the city council entered into a library service contract with a private company. Because all of the furnishings, stock, and equipment of the existing library were owned by the county library, it was necessary for the private company to furnish, stock, and equip an entire public library operation. The company did this and began to provide library services to the residents of the city in July 1998 (DiMattia, St. Lifer, & Rogers, 1998).

At approximately the same time that Calabasas made its decision, another library dispute arose in Riverside, California. For 86 years, from 1911 to 1997, the Riverside City Public Library had provided library services to the residents of Riverside County under a contract with the county government. Under the contract, the city library's board of trustees controlled all the policies for the library and employed all the library personnel. However, unlike Calabasas, the county owned all the buildings, furnishings, stock, and equipment for the library service outlets within the county's jurisdiction.

The county paid for the city library services through a state law that allowed the county to tax the property owners in the county's jurisdiction for, specifically, public library services. The state legislature, in 1993, changed the library tax law and required that a percentage of the tax revenue be spent on public school support. This law change resulted in a major reduction in the funds available to the county to contract for city library services. The city library, responding to the reduced levels of tax support, subsequently reduced the levels of library services being provided to county residents.

County officials objected to the service reduction and claimed that the city library's administrative costs were too high and that the county was receiving less service than they actually paid for under the terms of the contract. The dispute remained unsettled for several years but, eventually, resulted in the county government voting to withdraw from the city library contract, effective July 1, 1997, and to establish a separate county controlled public library service.

Because the county owned the physical assets necessary to provide public library services, it was only necessary that they staff and manage the operations. Rather than hiring county employees to service and run the operation, the county contracted with a private company to manage the services and employ all staff necessary to operate the system. In addition to hiring the private company to run the library service, the county also established an advisory board of trustees to deal with library policies, subject to approval by the county council, and hired a full-time county librarian who served as the library contract manager. Although the county librarian oversaw the library contract with the private firm, the county librarian had no direct administrative authority over the library operation and reported directly to the county manager (Baker, 1998).

Calabasas and Riverside County exhibit elements of the failure to sustain the principal-agent relationship at the level of accountability because of information asymmetry and goal conflict. Calabasas city government and Riverside County government asserted that the contracting libraries, their agents, were maximizing their budgets while minimizing the services delivered. The principles, Calabasas and Riverside County, charged that their agents were no longer reliable. Both Calabasas and Riverside County opted to hire a private company to serve as the new agent.

Calabasas and Riverside County entered into a service contract with a private company. Service contracts cover more than 25% of all municipal services in the United States (Rondinelli, 2003). This type of contract usually covers a clearly defined service for a specific period. Normally, the private firm has exclusive control over all employees and all matters related to the management of the contract, including financial authority.

The first element to examine in terms of NPM principles is the proposition that there is a gain in the principal-agent level of accountability through the clear identification and separation of the purchaser and the provider. In the case of Calabasas, the private firm hires all employees and supervises their work. The company also has complete control over the purchase of all materials, the daily operation of the service, and all matters related to the management of the service. However, an advisory library commission, with the consent of the city council, controls all service policies, the overall budget, hours of service, public programs, and any large capital outlay purchases, including equipment. The city's contract manager is the city clerk who monitors the terms of the contract, the performance of the company, and all issues related to contract compliance. Ownership of all buildings, materials, equipment, and furnishings is retained by the city (City of Calabasas, 2001).

Riverside County has a very specific contract that sets hours of operation, staffing levels, and materials purchased. Again, there is an advisory library commission reporting to the county council. In this case, though, the library commission is limited to overseeing general service policies.

Contract administration is handled by a county employee who is designated the county librarian. This individual must approve all purchases, approve all operational policies, and monitor the contract for compliance. In addition, the county librarian approves all hiring, including managerial staff. Like Calabasas, all buildings, materials, equipment, and furnishings are the property of the county (County of Riverside, 1997-2002).

In both the Riverside and the Calabasas cases, there is a minimal attempt to separate the purchaser from the provider. Normal management functions related to budgetary and procedural controls are retained by the local governments, not the private firm, which severely limits the separation. Although there is an attempt to clearly separate employment, this is also limited in the case of Riverside, where approval of hiring is retained by the local government. In spite of the limitations related to separation, there is a greater level of direct local government control with the private firm than existed with the county of Los Angeles and the city of Riverside. Thus, one would have to conclude that there is an increase in principal-agent accountability under the private contract.

A basic principle advanced within NPM theory is that a strengthening of the principal-agent level of accountability translates into a more efficient use of public funds and increased use of public services that reflect the citizen's wants. To assess this impact, we need to next examine both budgetary figures and service delivery measures. Both Calabasas and Riverside County do show some gains in these areas; however, the results are mixed and must be qualified.

From FY 1998-1999 to FY 2001-2002, the materials held by the Calabasas library increased by 58%. The increase in items held resulted in a 44% increase in items checked out. Visits to the library also increased during the same period by 79%, and reference services increased by an impressive 222% (NCES, 1999, 2002). On the service side of this equation, we can say that there was an increase in service units delivered. However, on the cost side of this equation, we do not see as positive a result.

Initially, Calabasas saw an efficiency gain with the private firm. From FY 1997-1998, the last year under the county government contract, to FY 1998-1999, the first year under the private firm contract, the city spent $83,615 less on library services. However, from FY 1998-1999 to FY 2001-2002, library operating costs rose by 72%. During the same period, the total number of service units delivered rose by 61%. When one compares the total number of service units delivered with the total operating costs, we discover that from FY 1998-1999 to FY 2001-2002, there was a 6% rise in the unit delivery costs (NCES, 1999, 2002). In spite of the rise in the library budget, citizen use did not increase sufficiently enough to offset cost increases; thus, unit costs for delivery rose. In the end, we see an increase in citizen use but not in economic efficiency.

The performance and costs results from Riverside County are even more disappointing than Calabasas. Like Calabasas, initially the county spent 15% less on library service by contracting with a private firm rather than the Riverside City Library. This initial gain, however, eventually disappeared. From FY 1997-1998 to FY 2001-2002, the budget for Riverside County Library increased by 18%. The increase in the budget resulted in a 6% increase in the materials owned by the library. However, the increase in materials did not increase public use of the library. Rather than rising, circulation decreased by 25%. Other areas of public use of the system also fell, with reference service declining by 25% and library visits being off by 26% (NCES, 1998, 2002). Although the budget rose more than 18%, the total units of service delivered fell by 25%, and the unit costs for service delivery rose by 58% (NCES, 1998, 2002). Riverside County's figures present us with a clear measure of failure to improve service use while actually increasing the costs of services.

From the available data, it would appear that the claimed impact of NPM, namely greater economic efficiency and increased citizen use, was limited or nonexistent in these two cases. In the case of Calabasas, we see an increase in public use units but with a corresponding increase in operational costs. On the other hand, in Riverside we see a decline in overall service delivery units with major increases in operational costs, a clear sign of both a service and economic efficiency failure.

Calabasas and Riverside County relate to the issues of principal-agent accountability, economic efficiency in the use of public funds, and citizen use of services. The evidence suggests that NPM principles in the area of principal-agent accountability did have a positive impact. However, the data do not support the contention that an improvement in principal-agent accountability will automatically lead to an improvement in the efficient use of public funds or citizen use of the agency's services.

PUBLIC PERSONNEL MARKET FAILURE

Riverside County and Calabasas represent a classic case of information asymmetry/goal conflict in a principal-agent relationship. However, 2 of the 7 cases exhibit a problem in terms of a market failure and specifically a market failure related to attracting qualified candidates for public employment. In a personnel market failure (some would also refer to this as an expertise market failure), advocates of NPM advance the concept that principals should design organizational structures in such a way that they can facilitate their control by contracting for external expertise and knowledge (Lewis, 2003; McCubbins, Roger, & Weingast, 1987; Potoski, 2002; Whitford, 2002). We see examples of this strategy in the case of Hemet, California, and Lancaster, Texas.

The Hemet (California) Public Library had received approval and funding to build a new 47,000 square foot city library. Shortly after project approval was received and the planning started for the project, the current library director resigned to accept a new position. The city manager and the advisory library board of trustees began the process of locating a person who would assume the position of library director and complete the building project. The recruitment process specifically sought someone with previous capital building experience, but all of the candidates who applied for the position had either no capital project experience or very limited capital project experience. It was felt that the success of this project was critical for the future viability of the library and that hiring someone without the necessary qualifications was an unacceptable risk. The decision was made to seek a temporary solution by hiring a private firm to handle both the project and the management of the library.

A 2-year contract was eventually signed, in December 1999, between the city and a private management firm. Under the terms of the contract, the firm took over management of the capital project, agreeing to complete the project within 2 years and, during the same 2-year period, provide the management for the operation of the existing library. Although not formally stated in the contract, it was agreed that the city would review the firm's performance at the end of the 2-year period and, at that time, make a final decision to either end the contract and hire a full-time city employee as the library director or extend the contract with the private firm. In December 2001, the city reviewed the firm's performance and elected to renew the contract with the firm rather than hiring a full-time city employee as the library director (City of Hemet, 1999; Trovillion, 2002).

The Lancaster (Texas) Veterans Memorial Library (2003), unlike Hemet, had a full-time city employee who was the library director and who had completed the majority of a new building program. Although the building was completed, interior furnishings, equipment, and collection stock remained to be ordered when, again, the library director resigned to accept a new position. The remaining library staff did not possess ether the professional experience or the training needed to complete the project and manage the library.

As in the case of Hemet, the city council decided to contract with a private firm to complete the project and to provide management services for the library. Unlike Hemet, though, the city signed a 5-year contract with the private management company. The contract with the private firm went into effect on July 1, 2001, and remains in force until September 30, 2006 (City of Lancaster, 2001; Trovillion, 2002).

Both Hemet and Lancaster experienced a market failure in terms of obtaining public personnel who were both qualified and experienced in handling either library management or capital projects. Hemet and Lancaster resolved this market failure by using a variation on a form of outsourcing contract known as build-operate-transfer agreements. Under normal conditions, these type of agreements between the private and public sectors involve a process whereby a private firm oversees the building of a public service infrastructure and then is given a limited operating period to run the service. At the end of the contract period, the infrastructure returns to public sector control, and the local government may, or may not, exercise an option to have the private firm continue to operate the service (Rondinelli, 2003).

In the case of Hemet, the private firm has a fairly limited managerial role. Library staffs, other than managers, remain city employees and are evaluated by the city manager. Service and operational policies are under the control of the city manager in consultation with an advisory library board of trustees. Any purchases utilizing public funds must also be approved by the city manager. The private firm is limited to only the general daily direction of the service. The structure of the contract and the relationship between the city government and the private firm only marginally meet the criteria of separation of the purchaser from the provider (City of Hemet, 1999).

In terms of economic efficiency gain and service use gain, the results from Hemet seem to support the decision to utilize a private firm. Although hours of operation and staffing levels remain flat, service delivery measures show an overall gain of 20%. Circulation use experienced a 15% gain from FY 1998-1999 to FY 2001-2002, library visits increased by 18%, and reference services experienced an impressive 80% increase. In addition, although the funding for operations did increase by 6%, unit costs fell by 12% (NCES 1998, 2002).

Overall, we would have to conclude that in the case of Hemet, there were gains in both economic efficiency and use. However, although the economic efficiency and use gains are impressive, they were accomplished in an environment where there was no substantial gain in principal-agent accountability. In essence, the system of principal-agent accountability under the private contract replicated the previous system under the direct city control. One can only conclude that any gains were the result of managerial expertise and were not related to the underlying principles advanced by the NPM model.

Lancaster's performance also showed substantial gains. From FY 2000-2001 to FY 2001-2001, circulation of materials increased by 175%, public visits increased by 211%, and reference services increased by 124%. Although the public use gains are impressive by themselves, they are even more startling when one realizes that the library budget, during the same period, increased by only 4%. The high increase in public use coupled to the small increase in the operating budget lead to a 64% decrease in unit costs, a very clear and significant gain in economic efficiency (NCES, 2001, 2002).

The results from Lancaster, initially, seem to support the basic NPM theory. However, this finding must be qualified. During FY 2000-2001, the library was operating in an environment where services were provided in a very small facility with a very limited stock of materials; an environment that was further unstable because of the fact that staff and materials were in the process of moving into the new, but still unopened, library. FY 2001-2002, the first year of the private firm's contract, also coincides with the opening of the new library with an expanded stock of materials. It is highly likely that the opening of the expanded library after a period of service reduction played a role in the gains. To explore this possibility further, the data from FY 1998-1999, the last year the library operated before the building project was begun, were compared to FY 2001-2001, the first year operating under the private firm's contract.

When we compare FY 1998-1999 to FY 2001-2002, public use gains, although not at as high as before, are still impressive. Circulation increases by 124%, reference services increase by 53%, and visits increase by 30%. Although we do have substantial gain in use, during the same period of comparison we see substantial increases in the library budget, which rose by 70%. Comparing the reduced use figures to the increased budget figures shows that the unit cost figure fell by only 3%, not the previous finding of 64% (NCES, 1998, 2002). The new findings would tend to support the position that the economic efficiency gains and the public use gains were strongly related to the increased budget and the opening of the expanded facility and not to the new management model.

The above finding is all the more important when one looks at the issue of separation. Under the Lancaster plan, all employees of the library were phased out of employment status with the city and by the end of

2001 were employees of the private firm. All purchases for the library, with the exception of capital purchases, were under the exclusive control of the private firm, not the city. The establishment of general policies for the library remained under the city council's control, but all operational policies were set by the private firm. Although the city manager was the designated contract manger, contract management was restricted to compliance issues, not operational issues (City of Lancaster, 2001). Thus, in the case of Lancaster, we see an attempt by the city to develop a clear separation from the purchaser and the provider and a closer example of the NPM model in terms of principal-agent accountability and separation.

In the end, we can say that in the case of Lancaster, there was a gain in the principal-agent level of accountability through the use of separation. Although the Lancaster case shows a close approximation to the NPM theory related to separation, the claimed secondary benefits, namely economic efficiency gain and public use, are not strongly related to separation but, instead, appear related to an increased budget and increased service capacity.

Both the Hemet and Lancaster cases are attempts to deal with a market failure related to the recruitment of qualified individuals by using the NPM model. Although a market failure in terms of acquiring qualified personnel for public employment is serious, it is not unusual, especially in the current antigovernment climate. However, a failure related to administrative performance is a far more serious issue and more closely approximates NPM advocates' criticism of public service. We have three cases related to this issue: Fargo, North Dakota; Jersey City, New Jersey; and Linden, New Jersey.

ADMINISTRATIVE PERFORMANCE FAILURE

As Romzek and Dubnick (1994) have stated, the second level of administrative accountability encompasses the professional norms, ethics, and work procedures commonly associated with professionalism in public management. However, this second level of professionalism may come into conflict with the third level of administrative accountability, namely the principal-agent relationship. If conflict arises between the two levels of accountability and the conflict cannot be successfully resolved, then we may experience a failure in administrative performance. To many NPM advocates, this type of administrative performance failure is common and can only be resolved through separation and, ultimately, outsourcing. We have three cases related to this type of failure: Fargo, North Dakota; Jersey City, New Jersey; and Linden, New Jersey.

The Fargo (North Dakota) Public Library board of trustees had struggled for 5 years to hire a library director who met their management expectations. During the 5-year period, the board of trustees had hired and subsequently terminated three directors. In all three cases of termination, the central issue revolved around a dispute between the library director and the board of trustees related to staff. The directors believed that the board of trustees should support their decisions related to staff, even if it meant a certain level of staff discontent, and the board of trustees felt that staff discontent was a sign of a lack of administrative and professional expertise. After the last director was terminated, the board engaged in a national recruitment process but was unable to attract any qualified candidates for the director's position (Trovillion, 2002).

Unable to locate a qualified candidate for the library director position, the board decided to contract with a private company to manage the library. A 2-year contract was developed between the library board and the private firm. The terms of the contract called for the private firm to provide operational management and development of a reorganization plan. The contract became effective on January 1, 2001 (Fargo Public Library, 2000).

A new library director was recruited by the private firm, and, during the 2-year contract period, the new director was able to reorganize the library, resolve the staff issues, and reestablish the credibility of the library in the local community. Although the board of trustees was pleased with the firm's performance, the city council became dissatisfied with the firm when the firm proposed a new budget for the library that exceeded the city's expectations. The board of trustees then informed the firm that it would not renew the contract and negotiated a contractual release of the library director from the firm's contract. On January 1, 2003, the private contract was ended, and the director became a local government employee working directly for the board of trustees (Updates, 2003).

The Jersey City (New Jersey) Library's board of trustees was unhappy at the rate that the library was moving toward automation. Attempts to force the library administration to quickly move toward automation were met with both administrative and staff resistance. Both the administration and staff of the library felt that the board of trustees was uninformed in terms of the technical processes involved in automation and incapable of making sound decisions in this area. Although the board tried to prod the library administration into speeding up the automation process, they were unable to exercise any disciplinary authority because the library director and the library staff were covered by the local civil service system, which required an extensive process of hearings and findings before any disciplinary action could be instituted.

To circumvent the civil service system's due process procedures, the board contracted with a private firm to manage the library. Under the terms of the initial contract, the firm was given the authority to hire new employees, as positions became vacant, who were employees of the firm and thus exempted from civil service coverage. The employees of the library sued, and eventually a New Jersey state court nullified the contract and issued a prohibition against the establishment of a private workforce within the library (Rogers & Oder, 1998).

A second contract was developed calling for the private firm to develop a management restoration plan, and the firm officially took over management of the library on June 1, 1998. The new contract called for the firm to complete the automation of the library, provide daily management services to the library, and draft a detailed library reorganization proposal (Jersey City Free Public Library, 2001). Ongoing staff resistance, coupled to community objections over the use of a private firm to manage the library, created a hostile work and political environment for both the board of trustees and the private firm. The board of trustees and the firm tried for 3 years to win over the staff and community, but to no avail, and after 3 years the board of trustees cancelled the contract with the firm (Trovillion, 2002).

The library director of the Linden Public Library (New Jersey) was nearing retirement. The board of trustees felt that the director was unwilling to update the operation of the library, and, as a consequence, the library was stagnating. The board of trustees began to micromanage the library, often ignoring the director's suggestions and blocking the director's staff orders. Without the knowledge of the director, the board of trustees contacted a private management firm and opened negotiations with the firm. Eventually, the director became aware of the negotiations and took extended sick leave. The board of trustees seized the opportunity presented by the director's absence to sign a management contract with the private firm, and the contract became effective on September 2, 2000. After the contract went into effect, the library director retired (Trovillion, 2002).

The initial 2-year contract signed with the firm designated all daily general management authority and operational authority to the firm. Although the unionized staff of the library remained library employees, not the employees of the firm, the employees reported to the firm's management and were supervised and evaluated by the management firm. The city provided funds to operate the library under the contract but retained ownership of all stock, furnishings, equipment, and buildings. The library's board of trustees retained authority over all policies, both general policies and operational policies (City of Linden, 2000).

The initial 2-year contract with the firm was renewed in 2003; however, the quality of the firm's performance began to slip, especially in terms of the timely payment of outstanding bills. Dissatisfaction with the firm's performance led to the library board of trustees negotiating an early release of the second 2-year contract in 2004. Like Fargo, the library director's contract with the private firm was ended, and the director was rehired as a city employee (Oder, 2004).

Fargo, Jersey City, and Linden are all variations of an outsourcing method called management contracts. Generally, management contracts are limited, with the elected government officials retaining control over both operational and general policies and procedures and the private firm providing the general and specialized management expertise needed to operate the service (Rondinelli, 2003). Management contracts, in theory, provide focus to management, especially in terms of management recognizing and advancing the preferences of their primary principal, namely the elected or appointed official. These types of contracts are used extensively in Australia and New Zealand. The widest use of this approach is the famous New Zealand State Sector Act of 1988, which permanently ended the "tenure until retirement" coverage for all upper level senior government managers (Yeatman, 1998).

There are two schools of thought about the utility of this type of contract. One school of thought believes that the research data show a tendency on the part of management to encroach into policy areas because there are only limited restrictions on their authority over the daily operations of the agencies (Clarke & Newman, 1997; Pollitt, 1993). The second school of thought believes that the research data show the opposite result, namely a tendency on the part of political officials to micromanage the agencies and thus encroach on management's authority (Boston, 1991; Halligan, 1997; Hojnacki, 1996; Pierre, 1995; Talbot, 1996). The results from examining the Fargo, Jersey City, and Linden cases would tend to support the conclusions reached by the second school of thought, namely an increase in the principal's authority and direction at the expense of managerial expertise, norms, and merit rights.

In terms of the service performance data from the three libraries, Fargo, Jersey City, and Linden, again we find mixed results. The Fargo

Public Library performance from FY 2000-2001 to FY 2001-2002 did improve under the direction of the private firm. The library's collection was increased by 5%, and circulation increased by 14%. Public use also increased, with visits posting a 16% increase. Reference services also increased by 36%, and overall use increased by 16%. Although the performance increase was impressive, one needs to also point out that the operating budget increased by 18%, and probably the increase in the budget is the primary factor influencing the performance increase. However, like the previous case related to Calabasas, increased public use was not high enough to offset the increased budget and did result in a small 2% increase in the unit costs (NCES, 2001, 2002).

Neither Jersey City nor Linden showed similar gains. Jersey City increased library funding from FY 1997-1998 to FY 2000-2001 by only 1%. Although they did achieve a 9% gain in circulation, their overall library collection declined by 7%, public visits fell by 23%, and direct public reference service decreased by 47%. Total library services units declined by 22%, and unit cost rose by 29% (NCES, 1998, 2001).

The results from Linden were worse than the performance at Jersey City. From FY 1998-1999 to FY 2001-2002, the library budget figures decreased by 6%. In addition, the library collection declined by 28%, the circulation fell by 18%, reference services suffered a 68% drop, and library visits decreased by 12%. Overall units of service declined by 21%, and unit cost rose by 18% (NCES 1998, 2002).

In terms of basic NPM principles related to separation of buyer and seller, we find that in all three cases, Fargo, Jersey City, and Linden, separation of buyer and seller was severely restricted. Although daily administrative authority over working staff was delegated to the private firm in all three cases, other aspects of administrative control were retained by the boards of trustees. The approach used in these cases, administrative accountability directly to the principal by the agent but severe limitations on administrative authority by the principal, tends to support the previous findings by other researchers in this area (Boston, 1991; Halligan, 1997; Hojnacki, 1996; Pierre, 1995; Talbot, 1996).

The data from the three cases seem to point toward a significant increase in the control of the principal over the administrative agent but a failure to produce a significant gain in terms of either economic efficiency or citizen use. However, because the primary driver in all three cases was a reassertion of the principal's authority over the agent, the contracting process did fulfill the main goal of the principals, namely greater administrative control.

TABLE 1
Comparative Performance Factors

Jurisdiction	*Increase of Accountability*	*Economic Gain*	*Public Use Gain*	*Major Factor*
Calabasas	Yes	No	Yes	Increased budget
Fargo	Yes	No	Yes	Increased budget
Hemet	No	Yes	Yes	Managerial expertise
Jersey City	Yes	No	No	Contract
Lancaster	Yes	Yes	Yes	Increased budget
Linden	Yes	No	No	Contract
Riverside	Yes	No	No	Contract

CONCLUSION

NPM advocates claim that the application of NPM principles leads to government administration returning to the proper focus on the principal-agent levels of accountability and results in economic efficiency gains and public use gains. An examination of the previous seven cases, however, shows that such claims are somewhat questionable. Six of the seven cases show an increase in the level of accountability within the principal-agent relationship, the first claimed benefit of NPM. However, the research also reveals that an increase in the application of NPM principles leads to results previously discovered by other researchers, namely that there is an increase in political control over the provision and management of government services (Boston, 1991; Halligan, 1997; Hojnacki, 1996; Pierre, 1995; Talbot, 1996).

Also, 5 of the 7 cases show a failure in the claimed second benefit, economic efficiency gain, although only 4 of the 7 cases show a gain in the third claimed benefit, public use. In 6 of the 7 cases, we see either a decline in citizen use of the agency after the introduction of NPM theory or an increase in operational costs being the primary influence over citizen use gain. In addition, the 7 cases show that even where there is clear separation between purchaser and provider, claims of economic efficiency gains and use gains are strongly related to increased agency funding, not NPM principles (Table 1).

The above cases also reveal that NPM assumptions concerning information asymmetry and goal conflict within the principal-agent relationship are also questionable. Several of the above cases show that the political maximizing behavior of the principal is often the dominating factor in the relationship, not the agent's budget-maximizing behavior or information advantage. In addition, several cases show that advancement of the principal's personal or political agenda may be a primary factor in the introduction of NPM principles, not gains in either economic efficiency or public and constituent use.

As for criticisms that NPM hollows out government and undermines democratic principles, the data from the case studies can neither directly affirm nor directly disprove such assertions.

NOTE

1. The concept of principal-agent in public administration theory is normally associated with public choice theorists such as Buchanan, Tullock, and Moe. However, in new public management, principal-agent theory has generally been grounded within modern neoclassical economic theories. This separation, though, has become less clear since Niskanen (1971, 1973) postulated the idea of "shirking" behavior on the part of bureaucrats. Today, we often find that themes within public choice theory are commingled with the neoclassical economic theories in terms of supporting the introduction of new public management (NPM) into government (de Soto, 1989; Evans, 1997; Lane, 1997, 2000; Savas, 1987).

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Robert C. Ward is an assistant professor at Louisiana State University. His recent published articles have focused on public library policy subsystems and legislative conflict over restricting access to Internet sources. Currently, he is working on a book that examines the organizational failure of the Federal Emergency Management Agency (FEMA) during the response to Hurricane Katrina. He specializes in research related to information technology and its impact on organizational theory and policy networks.