

Outsourcing Oversight: Extending Collaborative Monitoring – the role of external factors

For a number of years state governments have been “opening up” traditional public service delivery to the competitive market in efforts to obtain a good deal for the public. And through the use of various methods the outsourcing of government services has been increasing. With this increase an important factor not to be overlooked is the contract monitoring function: “Monitoring and assessing the performance of outside contractors is vital to maintaining the quality of services” (Office For Program Review & Investigations, 1999). Thus “...managing the contracted-out services is critical, yet ...has been a major challenge at the state and local levels...” (Kamensky & Morales, 2006). This begs the question: can this function also be improved if exposed to a competitive market?

Much of the contracting literature discusses the importance of accountability and performance measurement; however these discussions are typically limited to a two party interaction: purchasing agency and contracted service producer. And when collaborative contracting is conceptualized it is between the two actors where collaborative monitoring is characterized by agencies asking vendors for input on performance measurement. Alternatively contractors can volunteer new performance measurement, or negotiate existing performance measurement (Amirkhanyan, 2009). Nonetheless the conceptualization of collaboration in contract monitoring can be extended to account for *outsourced oversight*, few studies have sought to tackle the implications of contracting out monitoring functions for the governance of an administrative state (Yang & VanLandingham, 2011). Governments are increasing their reliance on nonprofit and for-profit organizations for delivery of tax-funded goods and services through contracting out (Milward & Provan, 2000; Romzek & Johnston, 2002). The question about how hollow can the state be (van Slyke & Hammonds, 2003; Yang & VanLandingham, 2011) is central to this stream of literature as it seeks to depict the extent to which government services can be contracted out. Outsourced oversight is defined as a unique mechanism of collaborative monitoring (Amirkhanyan, 2009) and its adoption by state agencies is suggested to be impacted by internal and external to the agency factors. This mechanism is characterized by a unique three-party interaction where the monitor is vested with performing essentially “core governmental functions” by evaluating another contractors’ performance or assisting in contract management. In addition the fact that this is a three-party interaction (government agency, contracted service producer, contract specialist vested with monitoring functions) further suggests that collaboration is necessary:

(1) agency contracts with service producer, seeking to provide a public good at the best possible value for the public (Cooper, 2003), it specifies performance measures in the contract but it has difficulty designing effective strategies for performance-data collection that was appropriately specified in the contract (Romzek & Johnston, 2005) and cannot effectively monitor performance; (2) agency outsources the oversight to a firm that is to assist in monitoring and thus might influence official evaluations of contractors

Difficulties in monitoring could arise due to external factors: new federal regulation, interest group lobbying (Yang & VanLandingham, 2011), or change in the market (for example emergence of "contract specialists" who can provide a better deal).

Outsourced oversight is a distinct form of collaboration in contract monitoring because the decision to outsource this function is closer to the classic end on a contracting decision continuum (Beinecke & DeFillippi, 1999). And as such those contracts will exhibit more characteristics typically associated with transactional (classical) contracting approaches. Yet the implementation calls for more relationally-based strategies for managing risks as the agency must maintain the relationship with the contracted service producers even if it "switches" contracted monitors. Two factors can be considered for their impact on an agency's decision to outsource oversight: (1) American Recovery and Reinvestment Act of 2009, and (2) agency contract management capacity.

It is hypothesized that as an external factor the adoption of the Act will increase the probability that a state agency will outsource the oversight of the contracted services. In addition it is also hypothesized that low levels of contract management capacity (internal factor) will further increase the likelihood that a state agency outsources oversight. In order to test the first hypothesis that external factors (such as ARRA 2009) producing a workload surge will impact the state agencies' decision to outsource oversight an analysis of 88 state agencies from 7 states was conducted. The dependent variable is a dichotomous measure indicating whether the sampled state agency outsourced oversight functions during the year: 1 indicating it did, 0 otherwise. The key independent variable measures the workload change that is attributed to the adoption of ARRA. For all agencies in the sample the workload change associated with the Act was measured by accounting for the number of ARRA grants out of the total number of grants the agency received in during the year: this measure of workload change varies from 0% to 80%. This means that some agencies did not receive any grants funded specifically by ARRA and were thus their workload was not impacted. On the other hand others saw an 80% increase in the number of grants they received due to the adoption of the Act. When controlling for the total number of grants received, total funding from grants received, and types of grants (project, formula, block) the variable measuring workload change due to ARRA significantly increases the likelihood that a sampled state agency will outsource oversight (statistically significant at the .001 level, t-value: 3.76). Therefore in the sample an increase of workload associated with new grants (ARRA) increased the possibility an agency will increase oversight. Contract monitoring is often viewed as an inherently governmental function, and few scholars have inquired as to whether this function can itself be outsourced. The present paper seeks to contribute to a discussions regarding public service provision in an era when we seek greater accountability in market-like environments with multiple contractors and networks of service delivery.

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