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# Governmental Uncertainty and Leadership Turnover: Influences on Contracting and Sector Choice for Local Services

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Considerable research has been conducted on the phenomena of privatization, voucher systems, and governments contracting out for social services (see DeHoog 1984; Donahue 1989; Ferris and Graddy 1986; Hanke 1987; Stein 1990; Clingermayer and Feiock 1997). Much less analysis has been directed toward the choice of sector (private for-profit, nonprofit, and other governmental entities) through which external delivery of services occurs. Perhaps the best work has been carried out by Stein (1990) and by Ferris and Graddy (1994), who argue that transaction costs (the costs of negotiating, enacting, and enforcing agreements) are critical to understanding the contracting decision and the choice of sector. These authors generally argue that certain aspects of services are likely to create high transaction costs and may encourage internal service delivery or joint contracting in which both the government and an external service-delivery agent share responsibility for a service. They particularly focus on the ease with which those attributes may be defined, measured, and monitored, as well as the dangers of opportunism in cases in which markets are unlikely to have multiple service providers.

Some of the literature on nonprofits has suggested that when service quality is difficult to monitor, consumers will trust nonprofit providers more than profit-seeking enterprises because they feel that profit seekers will exploit information advantages to short-change consumers (see Hansmann 1980). In this article, we explore how transaction costs may affect municipal governments' decisions to assign responsibility for delivering mental health programs and elderly services to another unit of government, a profit-seeking firm, or a nonprofit organization.

## Contracting of Government Services

The study of "contracting out" is growing in part because scholars and practitioners are recognizing that the subject deserves examination as institutions play key roles in municipal government. Great attention has been paid to the wide array of services that are frequently contracted out with external organizations (Behn and Kant 1999). Governments have increasingly relied on private for-profit, nonprofit, and other governmental entities for the delivery of a variety of services

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(Kettl 1988; Salamon and Lund 1989; Dudley 1990; Gooden 1999). Kettl (1988) points out that state and local governments have been relying more and more on contracting for service delivery, including social services. Other scholars have also found that contracting for human and social services is on the rise (Chi 1986; Savas 1987; Rehfuss 1989; DeHoog 1990; MacManus 1992).

Contracting for human services has a long history. Many state human service agencies were making significant use of contracting long before it became fashionable in the 1980s (Benton, Field, and Millar 1978; Muller 1978; 1980). Today, contracting is a major form of human service delivery. Scholars have speculated that by 2010, approximately 80 percent of all government human services funding will involve contracting (Martin 2001). In fact, the delivery of services through contracting has become so prevalent that several scholars now refer to governments as "hollow states" (e.g., Milward 1996).

In recent years, a wide body of literature has examined contracting decisions for health and human services provided by local governments (DeHoog 1990; Boyne 1998; Gooden 1998, Stein 1990; Ferris and Graddy 1994).Examination of these decisions is important because of their implications for transaction costs. These services also provide more variation in contractor choice than do most of the traditional services examined in studies of municipal contracting.[1]

## Governmental Uncertainty and Leadership Turnover

Governments are not the only organizations that contract out particular functions and production responsibilities. Private firms outsource a number of activities needed to produce, market, and distribute their goods and services. Yet, for a number of years, economists have argued that contracting for service responsibilities can result in efficiency losses and high transaction costs (see, e.g., Coase 1937). Transaction costs "consist of the costs of measuring the valuable attributes of what is being exchanged and the costs of protecting rights and policing and enforcing agreements" (North 1990, 27). Often economists have argued that vertically integrated firms can better mitigate these transaction cost problems than can, for example, "hollow corporations" that contract out many of the important functions of the firm (see Williamson 1975). However, economists do not agree about what circumstances lead to the most severe transaction cost problems, nor is there consensus regarding under what conditions internal corporate governance, as opposed to third-party enforcement of contracts (e.g., through courts), may resolve those problems.

External delivery of public services involves many of the same problems facing private firms that contract out many of their activities. However, governments may also face transaction cost problems that are particularly severe in the public sector. We assume that contracting out with private firms for public services is fundamentally different from external delivery using government or nonprofits in that the incentive for opportunistic behavior is usually much higher when private, profit-seeking firms are involved. Private firms are assumed to be residual claimants that can keep whatever revenues in excess of service costs are provided by contract. This arrangement may offer incentives for efficiency, but it may also motivate firms to cut corners in various ways, including limiting access to services or allowing costly service quality to decline (Williamson 1975). Units of government or nonprofit organizations receive no profits to distribute to their members. We argue that the degree of opportunism (specifically moral hazard) may be less because individuals in nonprofits and other governments are not residual claimants in the same way that owners of profit-seeking firms are. Some slack resources or excess resources may be retained by such organizations, but they are not directly claimed by the individuals within the organizations.

This distinction in terms of opportunism may be quite important. Frant (1996) has argued that profits (in private enterprise) and votes (for elected officials) may act as "high-powered" incentives that motivate performance in certain circumstances, but they can encourage opportunistic behavior when it is difficult for their principals (e.g., shareholders, voters) to monitor the activities of their agents. Therefore, when such high-powered incentives are absent, as in nonprofit organizations, some production efficiencies may be lost but the problems resulting from opportunistic behavior may be reduced.

In this analysis, we make some critical assumptions about the conditions under which transaction costs in service delivery are most significant, and we identify certain conditions under which contracting decisions and particular sector choices in service delivery may address those transaction costs problems. Several important factors influence transaction costs and how governments choose to deliver services. We contend that transaction costs in municipal service-delivery decisions are linked to at least three overarching factors: (1) governmental uncertainty (the extent to which mayoral and administrative turnover creates uncertainty), (2) market attributes (specifically the extent to which heterogeneity of communities results in diverse service preferences), and (3) service characteristics (especially the difficulty in measuring and defining the qualities of a service and service experiences). While the first two factors are characteristics of particular places at certain points in time, the third is a characteristic of the services themselves.

**Governmental Uncertainty**

Certain features of government have important impacts on transaction costs. Following Simon (1957), we argue that municipalities do not examine all possible policy alternatives. Instead, city governments "satisfice"; that is, they attempt to make the best decision they can by reducing uncertainty. However, turnover in key leadership positions (i.e., mayoral and administrative positions) within city government results in government uncertainty that may cause difficulties in negotiating and monitoring agreements, thereby making decisions more difficult and contracting less likely.[2] Furthermore, if the critical personnel responsible for making commitments may be out of office in a short period of time, commitments by the city may not be viewed as credible. If so, potential contractors may not bid for service responsibilities.

Leadership turnover is likely troublesome for cities pursuing any kind of external service delivery, but the problems may be lessened when service responsibility is given to nonprofits. Nonprofit organizations are less likely to operate under specific than general contracts and may be monitored by a combination of donors, clients, and government officials. Therefore, governmental uncertainty, particularly administrative turnover, is expected to deter contracting in general and contracting with for-profit firms in particular.

Profit-seeking enterprises are typically more capital intensive than are most governments or nonprofits and therefore have greater sunk costs. Nonprofits, on the other hand, generally have less in the way of capital assets and are involved in activities other than those sponsored and funded by government. Oversight of nonprofits is not carried out exclusively by a single set of monitors but instead is a shared responsibility of boards of directors, donors, and volunteers. Therefore, we do not expect municipal leadership turnover to have substantial effects on contracting with not-for-profit organizations.

A quite different kind of expectation about the consequences of turnover is drawn from the political science literature on legislative delegation of policy-making authority to administrative agencies. Fiorina (1982), McCubbins (1985), and McCubbins, Noll, and Weingast (1987) have all suggested that legislators seeking reelection under conditions of great political conflict may make vague delegations of policy-making authority to bureaucracies

so that they can avoid the blame for controversial decisions. These scholars do not claim that policymakers have abdicated all policy control but say instead that opportunities for intervention to shape administrative decisions are restrained. If we presume that leadership turnover represents political conflict, we might expect that turnover would lead to more external service delivery, with certain strings attached so that policymakers could still exert control. Frant's current research (no date), however, indicates that delegation of city policy to public authorities sometimes means a significant loss of control.

**Market Attributes**

The market attribute we are most interested in is heterogeneity. It has been argued that heterogeneity within the community might affect contracting decisions. Weisbrod (1988) contends that a key problem for government is dealing with diversity, which he argues is basically an information problem. In his work on nonprofits, Weisbrod suggests that government provision of services will extend only to the level favored by the median voter. In heterogeneous communities, this level of provision is likely to leave many citizens dissatisfied. It has been suggested that nonprofits provide services that governments cannot or will not provide (Weisbrod 1977).

We assume that governments will directly provide services for which there is some consensus of support and occasionally provide indirectly through nonprofits those services for which a portion of the community approves. We therefore expect there to be some relationship between contracting with nonprofits and community heterogeneity. For example, in a diverse community there may be a variety of views and preferences about the desirability of government provision of arts and cultural activities. Government subsidies might be offered to nonprofit organizations to leverage privately raised funds to finance these activities. Complete government funding and direct government delivery of such services might be politically infeasible.

If a community is relatively homogeneous, service delivery likely will be assigned to a different unit of government, but if a community is socially heterogeneous, we expect service responsibility to be delegated to a variety of nonprofit organizations. We argue that social heterogeneity in the municipality, not the metropolitan area, matters the most. The heterogeneity of the voters in the jurisdiction would affect sector choices.[3]

Another pertinent aspect of the market that we account for in our analysis is the number and size of enterprises that could supply services. Much of the contracting literature has discussed community size (Stein 1990). In metropolitan areas, there are frequently many potential providers of services for different locations within the area, and economies of scale are thereby realized. With multiple providers of services, competition for contracts may drive down costs. When there are alternative providers, the possibility of a long interruption in service is unlikely if one provider fails to provide adequate service and must be replaced by another provider.

**Service Characteristics**

Scholars who study government contracting decisions (e.g., Stein 1990; Ferris and Graddy 1994) and economists who examine corporate vertical integration (e.g., Williamson 1975) have long argued that the nature of the good or service produced affects the transaction costs of external provision. According to one school of thought, the specificity of the asset capital employed in the production process greatly increases the probability of opportunistic behavior and thereby involves high transaction costs (Williamson 1975). Assets that are specific to a particular use that have enormous sunk costs and little salvage value might be forfeited if individuals or firms take advantage of information asymmetries or difficulties in monitoring performance to use those assets for their own gain. Frequently, these scholars conclude that internal providers of products or services handle these kinds of transaction cost problems better than does

external delivery through contractual arrangements. In the case of local services, technology-specific and capital-intensive services, such as major utility provision, are better delivered directly by government because the assets involved in the service may be difficult to assign to other purposes. Services that are more labor intensive, especially those service areas in which employees are not highly specialized in their training and skills, might be more easily delivered by external organizations.

Another school of thought argues that the ease with which the attributes of the good or service may be defined and measured, rather than assets that are specific to a particular use, are more important factors affecting the transaction costs involved in production choices. If the desired attributes of a good or service can be precisely specified and performance easily measured, contracts can be written so that opportunistic behavior can be limited, assuming that courts will faithfully uphold the obligation of contracts (see Barzel 1989; Cheung 1983). If external delivery of such a service is satisfactory, contracts may be renewed. If performance is unsatisfactory, contract renewal may be denied. In the case of many social services, the quality and quantity of service desired by elected officials may be unknown or only vaguely identified in the statute or ordinance. If so, contracts between governments and external organizations may be difficult to write and enforce.

Direct government provision provides greater flexibility in implementation because internal directives can emerge as service preferences are revealed. This form of service delivery may be more efficient and desirable. Of course, if efficiency concerns are not paramount (and it is difficult even to define efficiency when preferences are not defined), then external delivery may not be particularly attractive to many policy makers. Many external providers may be reluctant to provide services under such uncertainty, but governmental units as well as nonprofit organizations may be more accustomed to that kind of environment than are profit-seeking firms.

Transaction cost concerns are made more difficult with human services because the attributes of the benefits to be delivered are often difficult to specify in advance and effective monitoring of service providers is often quite costly or even impossible (Deakin 1996). Thus, with human services, contracts between governmental agencies that make provision decisions and service providers tend to be more incomplete than those contracting decisions involving public works or other "hard" services (DeHoog 1984). Effective monitoring requires quantitative and qualitative measurement of what counts as an appropriate level of activity by a service provider and the extent to which the services achieve their desired impacts.

## Analysis of Contractor Choice

In this section, we discuss the variables and the methods used to test how transaction costs affect health and human service–delivery arrangements. We consulted the International City/County Management Association's (ICMA) *Profile of Alternative Service Delivery Approaches* (1988; 1992) to examine how leadership turnover and community heterogeneity affects contractor choice in service-delivery decisions.[4] In investigating contractor choice, we use the 1992 data because the 1992 survey distinguishes between the use of private for-profit and not-for-profit contractors whereas the 1988 survey does not. Our analysis includes all cities with 1985 populations of 25,000 that were included in both surveys ($N$ = 237). These data were supplemented with information from the various volumes of ICMA's *Municipal Yearbook* and the U.S. Bureau of the Census's *County and City Data Books* for 1988 and 1994.

The analysis estimates the service-delivery choices for two social services, operation of programs for the elderly and mental health programs, which are largely redistributive programs serving particular populations. Unlike many local services, the quality of health and human services is difficult to define and

measure. These programs also confer benefits rather than directly impose financial and programmatic burdens.

Table 1 reports the distribution of service-delivery arrangements for these two services. Elderly programs are provided directly by city governments most of the time (57 percent). Almost a fourth of the cities examined here contract this service to other governments. Not-for-profit organizations are used in about 14 percent of the cities. Private for-profit organizations are used in only 6 percent of these communities.

Most cities contract for mental health programs; only a fourth of the cities provide the service in-house.[5] Most municipalities contract with other governments (43 percent). Almost a fourth use not-for-profit organizations (23 percent), and private for-profit firms provide this service in 8.7 percent of the cities.

### Dependent Variable

The analysis estimated the likelihood that a city would contract with other governments, private not-for-profit organizations, or private for-profit firms as an alternative to direct delivery of the service.[6] Service-delivery choices were estimated for operation of programs for the elderly and mental health programs. We employ a multinomial logit model. This model is ideal for data in which the response is often a set of choices, and data are therefore measured on a nominal scale.[7]

### Independent Variables

The sector choice for the delivery of these services was estimated with a model that included measures of independent variables representing governmental uncertainty and market attributes. As previously discussed, governmental uncertainty is conceptualized as the extent to which political and administrative turnover creates uncertainty. Thus, we measure turnover in both the office of mayor and the chief administrator between 1983 and 1990. We are specifically interested in the extent to which the diversity of communities resulted in diverse service preferences. For this analysis, we examine the homogeneity of city residents in terms of race and income. Racial homogeneity is operationalized as the percentage of the city population that is white. Because poverty creates unique demands (Peterson 1981), homogeneity of income is also included and is measured by the percentage of the population with incomes below the federal poverty level. Neither of these measures is ideal, and they may reflect status characteristics as much as they represent constituency diversity. Therefore, we should interpret the impact of these variables very carefully.

Another salient aspect of the market is reflected in community size. We expect larger cities and metropolitan areas to contract more than other areas because of the availability of alternative producers. We also include measures of the city population size in 1985 and denote whether a community was located within a metropolitan area.

The city's experience with provision of particular services and the scope of its total service delivery are also included in the model, using the ICMA data set as a source. We include in our models whether or not each of these particular functions was provided in

***Table 1***. Service Providers for Elderly and Mental Health Programs

| | In-house | | Other Governments | | Not-for-Profit | | For-Profit | | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Municipal Service** | ***N*** | **percent** | ***N*** | **percent** | ***N*** | **percent** | ***N*** | **percent** | **(*N*)** |
| Elderly Programs | 109 | 57.1 | 45 | 23.6 | 26 | 13.6 | 11 | 5.8 | 191 |
| Mental Health Programs | 26 | 25.0 | 45 | 43.3 | 24 | 23.1 | 9 | 8.7 | 104 |

1988. We expect that new functions are more likely to be contracted out than handled in-house. Whether or not the service was provided by the city in 1988, either in-house or through an external provider, is represented by a dichotomous dummy variable. The number of different services provided by the city was measured using the same index of the services employed in earlier research (Clingermayer and Feiock 1997).

This model of local service delivery also includes controls for bureaucratic preferences and potential opposition to contracting out. Previous studies report opposition to contracting from municipal employees because they fear job losses. Because we also anticipate opposition to contracting from municipal employees, our estimations include variables representing the number of full-time-equivalent public employees per 10,000 population and the percentage of the municipal workforce that is unionized. These variables serve as proxies for the preferences of the local government workforce.

Finally, we also control for another aspect of the community: the ideological predispositions of the citizens. To tap ideological preferences for contracting out government services, we include a measure of the percentage of the countywide Republican vote in the 1992 presidential election. This indicator was taken from the 1994 *County and City Data Book* (U.S. Bureau of the Census 1994).

## Results

Multinomial logit reports relative risk ratios (RRR), which are similar to odds ratios in a binary logit model. For the set of service-delivery alternatives (S), the RRR for an alternative service delivery category (*j* of S) and an independent variable (*x*) equals the amount by which the predicted odds favoring *j* over direct city provision (the base category of S) are multiplied, per one unit increase in *x*, all other things being equal. RRR coefficients greater than one indicate an effect favoring a particular kind of external delivery. Coefficients less than one represent a tendency toward internal provision. The interpretation of the RRR is fairly straightforward. For example, in Table 2 the RRR for the effect of administrative turnover on contracting elderly programs with other governments is .5378. Therefore, the odds of contracting with other governments rather than directly providing the service are multiplied by .5378 (a decrease of about 46 percent) with each additional turnover of administrators between 1983 and 1990.

The results reported in Table 2 demonstrate that administrative turnover discourages each form of external service delivery. Services provided in 1988 are less likely to be contracted out to private firms than to nonprofits or other governments. We found a significant negative relationship between provision in 1988 and for-profit delivery. Little evidence of the predicted link between heterogeneity and not-for-profit delivery was reported. In fact, the relationship between the percent white and not-for-profit delivery was positive rather than negative. Although mayoral turnover has little effect, there is strong support for the proposition that administrative turnover discourages contracting. The probability of contracting elderly programs using any of these providers is reduced by administrative turnover. Large cities are more likely than small cities to contract with other governments. As city responsibility for services increases, so too does the likelihood of private for-profit delivery.

Contrary to our hypothesis, public unionization increased the likelihood of private for-profit delivery. However, one could argue that while public unionization may mean resistance to contracting out, it also may indicate greater potential cost savings from contracting. Unionization may not be the barrier to privatization it was once thought to be (see Warner and Hebdon 2001).

Mental health facilities are less likely to be provided in-house than to be contracted (see Table 3). In most instances, external contracts are with other governments. Nevertheless, in

23 percent of the cases, nonprofits provide services to cities. Cities use a profit-seeking firm in less than 9 percent of the cases.

Table 3 reports that the effects of administrative turnover on contracting are limited to deterring contracting with private providers. The low incidence of cities' choice of for-profit contractors in general and the effect of administrative turnover in reducing the likelihood of using for-profit contractors is consistent with transaction cost explanations. Mental health services have dimensions that are difficult to define or measure and are therefore likely to be handled by other governments or nonprofits, neither of which has the high-powered incentive of capturing profits. The extent of high-powered incentives depends on the nature of the provider as well as the nature of a contract or contract implementation. All things being equal, a residual claimant would have greater incentive than would an organization that cannot appropriate residuals. Hence, a profit-seeking firm should have more of a temptation to act opportunistically than would either a government agency or a nonprofit.

Table 3 reports that services provided in 1988 are more likely to be contracted with other governments and not-for-profits than with for-profit contractors. Community heterogeneity has little effect, but mayoral turnover has a positive impact on contracting mental health programs with for-profit providers. The circulation of political elites may not cause the transaction cost problems in contract negotiation, enactment, and enforcement that are caused by administrative turnover. This result may also suggest that elected officials are using private contractors to delegate responsibility for a controversial service or reward electoral constituencies.

Cities located in a metropolitan area were more likely to use not-for-profit contractors than either for-profits or other governments.

***Table 2***. Multinomial Logit Estimation of Contractor Choice for Elderly Programs

| | Other Governments[a] | | Not-for-Profit[b] | | For-Profit[c] | |
|---|---|---|---|---|---|---|
| **Variable** | **RRR[d]** | ***t*** | **RRR** | ***t*** | **RRR** | ***t*** |
| Provided in 1988 | 0.5991 | –1.21 | 1.1033 | 0.18 | 0.1760* | –2.20 |
| Percent white | 1.0166 | 0.94 | 1.0507* | 1.76 | 1.0039 | 0.11 |
| Below poverty | 0.9999* | –1.75 | 0.9999 | –0.96 | 1.0000 | 0.39 |
| Mayoral turnover | 0.8531 | –0.98 | 1.1231 | 0.67 | 0.9379 | –0.19 |
| Administrative turnover | 0.5378* | –2.37 | 5117* | –2.07 | 0.5118* | –1.84 |
| Population | 1.0001* | 1.95 | 1.0000 | 0.17 | 0.9999 | 0.43 |
| Metropolitan area | 1.1791 | 0.51 | 0.8305 | –0.46 | 1.1048 | 0.15 |
| Service responsibility | 1.0031 | 0.13 | 0.9685 | –1.07 | 1.1130* | 1.99 |
| Public unionization | 1.0327 | 1.10 | 0.9726 | –0.68 | 1.1126* | 1.83 |
| Public employees | 0.9997 | –0.83 | 1.0001 | 0.14 | 0.9998 | –0.08 |
| Republican | 1.0032 | 0.12 | 0.9832 | –0.52 | 1.0493 | 0.92 |
| Number of observations | | 183 | | | | |
| Log likelihood function | | –176.729 | | | | |
| Chi-square | | 51.75* | | | | |

*$p < .05$ (one-tailed test)
[a]$N = 45$.
[b]$N = 26$.
[c]$N = 11$.
[d]RRR = relative risk ratios.

***Table 3***. Multinomial Logit Estimation of Contractor Choice for Mental Health Facilities

| | Other Governments[a] | | Not-for-Profit[b] | | For-Profit[c] | |
|---|---|---|---|---|---|---|
| **Variable** | **RRR[d]** | ***t*** | **RRR** | ***t*** | **RRR** | ***t*** |
| Provided in 1988 | 0.1242* | –1.92 | 0.1764* | 1.83 | 1.3480 | 0.20 |
| Percent white | 0.9683 | –1.17 | 1.0204 | 0.52 | 0.9417 | –1.30 |
| Below poverty | 1.0000 | 0.45 | 0.9999 | –1.06 | 0.9999 | –0.52 |
| Mayoral turnover | 0.9830 | –0.07 | 1.0612 | 0.22 | 2.4761* | 2.27 |
| Administrative turnover | 0.9220 | –0.53 | 0.9477 | 0.97 | 0.9014* | –2.24 |
| Population | 0.9999 | –0.07 | 1.0000 | 1.12 | 1.0000 | 0.46 |
| Metropolitan area | 1.3676 | 0.59 | 2.4796* | 1.65 | 0.9168 | –0.09 |
| Service responsibility | 0.9033* | –2.31 | 0.9341 | –1.47 | 0.9994 | –0.01 |
| Public unionization | 0.9847 | –0.34 | 1.0301 | 0.57 | 1.0675 | 0.86 |
| Public employees | 0.9983* | –2.40 | 0.9994 | –1.06 | 0.9996 | –0.69 |
| Republican | 0.9407 | –1.41 | 0.9986 | –0.03 | 1.0919* | 1.76 |
| Number of observations | | 103 | | | | |
| Log likelihood function | | –104.45 | | | | |
| Chi-square | | 48.53* | | | | |

*$p < .05$ (one-tailed test)
[a]$N = 44$.
[b]$N = 24$.
[c]$N = 9$.
[d]RRR = relative risk ratios.

Cities with many service responsibilities and public employees were more likely than cities with few service responsibilities and employees to contract with other governments. Finally, Republican support increased the likelihood of contracting with private for-profit firms.

## Conclusion

One striking finding is that turnover among administrators can deter external delivery arrangements across sectors. This pattern was clearly evident in the analysis of elderly programs. Transaction costs resulting from administrative turnover may make contracting out local services a more expensive or risky option. This result may be thought of as a "privatization failure." When privatization failure occurs, in-house service delivery may be more efficient than market alternatives. These same factors can make certain types of external delivery, such as contracting with nonprofit organizations, less risky than contracting with private firms. This dynamic may have been the case for mental health programs, for which administrative turnover reduced the likelihood of for-profit contracting but not other forms of external service delivery.

Unlike administrative turnover, mayoral turnover tends to have a positive impact on contracting with for-profit providers. This finding suggests that electoral turnover does not cause the transaction cost problems in contract negotiation, enactment, and enforcement that are caused by administrative turnover. Such a result could mean that institutional arrangements such as legally mandated term limits, which guarantee relatively substantial turnover of elected officials, may not have substantial impacts on the choice of delivery system. It could also indicate that external delivery may be a ducking mecha-

nism for politicians who know or fear that they may not be in office for long, or it may be a reward to business interests that provide electoral support.

In many respects, this analysis is consistent with findings from earlier published research that addresses whether services should be delivered externally at all (Clingermayer and Feiock 1997). However, we contend that it is no longer acceptable to focus simply on the decision to contract out. A key part of contracting theory should include the recognition that choice of sector is a significant decision as well. Future work should explore the relationship between the service functions that cities provide and the production sector. The availability of nongovernmental service-delivery agents may create incentives for cities to provide services through contracting that they otherwise might not, particularly redistributive and social services.

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## Notes

1. For an excellent overview of studies on service contracting in municipal governments, see Boyne 1998.
2. Turnover in leadership positions includes turnover in the office of mayor and city manager or some other chief administrative officer.
3. An alternative argument is that in a diverse metro area, there could be high demand for services as well as many different suppliers.
4. Typically, ICMA surveys have low response rates. The 1988 survey had a response rate of 40.2 percent ($N$ = 1,311). The 1992 survey had a response rate of 36.7 percent ($N$ = 1,220).
5. We do not account for block granting or intergovernmental transfers that are a central feature of the devolution of health and human services. The ICMA survey refers to contracting rather than intergovernmental revenue transfers.
6. To avoid violating the independence of irrelevant alternative assumptions, we assume that all three modes of service-delivery choices are available to all city governments (see Alvarez and Nagler 1998).
7. Categorical dependent variables that can be classified into several categories are called polychotomous variables. Estimation in this context is undertaken by means of a generalization of the logit model, called the multinomial logit model. For an in-depth discussion of this type of model, see Aldrich and Nelson 1984.

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