



Rethinking Privatization

by Michael H. Walker

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Recent opinion polls show a continuing erosion of public confidence in government's ability to deliver high-quality services at a reasonable cost. From these surveys, it appears that most Americans now believe government-run programs are usually wasteful and inefficient. Reflecting this view, a recent *Wall Street Journal* editorial concluded that "if government services were a consumer product, they'd have been recalled years ago."

Given this widespread loss of faith in government management, it's hardly surprising that elected officials in many jurisdictions have rushed to "privatize" public services ranging from waste collection to correctional facilities. Many local officials argue that if government can't do a job well, the function should be turned over to the private sector.

This logic is compelling – as far as it goes. But some public services (law enforcement and judicial services come immediately to mind) are so inherently public that they can't be privatized. And even in cases where services can be handed over to the private sector, privatization often does little to correct the underlying management problems that fuel public concern and waste and inefficiency. A better approach in many cases would be to fix these problems where they lie, rather than sweeping them under the rug by handing them off to private entities.

The key flaw in the privatization logic is the central premise on which it's based – that the private sector will always be able to outperform government. Upon closer inspection, this assumption has no basis in reality. Clearly, a well-managed business should always be able to outperform a poorly run government entity. But, by the same token, a well-managed government should always be able to outperform a poorly managed private enterprise – and often a well-run business as well.

After all, governments are exempt from paying state, federal and local taxes, a key component of the cost structure of any successful business. What's more, governments typically have little or no sales and marketing costs, another clear-cut cost advantage. Nor do governments need to earn a profit or provide shareholders a return on their investments, other than the fair value that citizens expect – and deserve – to receive for their tax dollars.

In fact, if government services are well-managed, privatization should increase costs, rather than reduce them – at least in the absence of factors such as an outside vendor’s special expertise or economies of scale. These factors make “outsourcing” the obvious choice regardless of whether the organization doing the outsourcing is a public or private entity.

Yet the fact remains that public confidence in government is waning, in part because the quality of management in the public sector appears to lag that of the private sector. One possible explanation for this apparent gap – and one often espoused by managers in business – is that the private sector tends to attract hard-nosed, results-oriented managers, while government service appeals more to soft-hearted do-gooders and policy wonks.

A more plausible explanation – and one that few private sector managers appreciate – is that managing public programs is often more difficult than managing a business. For the most part, this is because the key factors that support effective management in the private sector – competition, direct customer feedback and a well-defined bottom line – are absent in government. There are, however, ways of putting these forces to work in the public sector.

Competition

Competition is the single most important factor in private sector efficiency. Indeed, few accountability mechanisms are as effective as the threat of going out of business or losing one’s job. In the private sector, competitive forces eventually ensure that management shortcomings are brought to light. In government, by contrast, poor management practices are often left to perpetuate themselves indefinitely.

To create competition, governments can put services out to bid and let public and private providers compete for the work. This has been done in a number of jurisdictions. And in some cases where private vendors were awarded contracts, government departments have improved their performance and won back the work.

Customer Feedback

By monitoring sales trends and customers’ buying habits, private sector managers receive almost continuous feedback on how well they’re meeting customer needs. Public managers have no such luxury. What little “customer” feedback they receive typically comes from interest groups and “squeaky wheels.” Feedback from the bulk of their customers – the silent majority, if you will – comes only at election time and provides little guidance to career

government managers who actually manage the day-to-day delivery of public services.

To close this feedback gap, some government managers have begun using community needs assessments and other survey techniques to gauge the effectiveness of their operations, identify unmet public needs and improve service delivery. When Berkshire Advisors consultants surveyed almost 350 local government officials nationwide, they found 98% of the respondents who had used these techniques found them helpful in setting priorities and managing costs.

The Bottom-Line

Because business has straightforward, easily quantifiable objectives (e.g., sales, profits, shareholder value), it's relatively simple to monitor performance and hold private sector managers accountable for achieving desired results. No such luck in the public sector, of course. For example, the number of arrests made in a given month provides at best a poor indication of law enforcement efficiency. Ditto for crime statistics. A sudden drop, or jump, in the crime rate may say more about local economic or social conditions than about how well the police department is doing its job.

Nevertheless, public sector performance expectations can be quantified and managers can be held accountable for achieving those expectations and controlling costs. Taking police work as our example once again, performance goals can be developed using measures such as average response time to emergency calls or solution rates for various crime categories. While no single measure may provide an adequate picture, departmental performance against a number of these benchmarks can give a good indication of overall management efficiency.

This is not to suggest that improving government performance is easy. Far from it. Creating the competitive, results-oriented environment necessary for improved public sector management requires considerable effort, ingenuity and dedication.

But the leading alternative today – privatization – is no panacea either. All too often, it amounts to little more than throwing in the towel, giving government managers and elected officials a convenient “out” that lets them avoid making hard decisions and fundamental management improvements.