

Chapter 6

PRIVATE VERSUS PUBLIC ACCOUNTABILITY

The first five chapters outlined the external and internal environment promoting accountability for a public agency, providing examples of effectiveness mechanisms that are already operating successfully in select organizations across the country. These accountability mechanisms could exist in all public agencies.

This chapter explores examples of private accountability mechanisms in selected industries. Private corporations have accountability problems and mechanisms in monitoring performance similar to those found in public agencies. These private corporations can either be in manufacturing or in service industries. In some cases there are private corporations providing services that compete with public agencies (i.e., nursing homes, day-care centers).

MANAGEMENT BY OBJECTIVES

Private corporations have a reputation for being better managed than public agencies, based on the high visibility of such major, successful corporations as IBM, Hewlett-Packard, Johnson & Johnson, Boeing, Caterpillar Tractor, Citicorp, Merrill Lynch, American Home Products, and Eastman Kodak.

Many of these firms have adopted an internal accountability system called "management by objectives" (MBO). George Odiorne is considered the originator of MBO, and he summarized its major premises in *MBO II* (1979). Dale McConkey is a consultant who has

also published widely in this area. McConkey (1976: 18) defines MBO as having four main components:

First, those accountable for directing the organization determine where they want to take the organization or what they want it to achieve during a particular period (establishing the overall objectives and priorities).

Second, all key managerial, professional, and administrative personnel are required, permitted, and encouraged to contribute their maximum efforts to achieving the overall objectives.

Third, the planned achievements (results) of all key personnel are blended and balanced to promote and realize the greater total results for the organization as a whole.

Fourth, a control mechanism is established to monitor progress compared to objectives and feed the results back to those accountable at all levels.

Odiorne has observed the implementation of MBO systems in many major corporations. He notes that one of the most difficult problems in organizations large and small, private or public, is the "activity trap," which he defines as the "abysmal situation people find themselves in when they start out for what was once an important and clear objective and then become so enmeshed in the activity of getting there that they forget where they were going" (1979: 45). Some of the examples of activity traps within industry are (1979: 45):

- Quality-control directors who act as if the enterprise were created so they could shut it down and hold up everything produced yesterday.
- Accountants who act as if the business were created so they could keep books on it. They no longer keep books so the boss can run the business better.
- The sales manager who acts as if there were no problems that could not be solved by more volume. Sales go up, but profits fall.
- Production managers who get tonnage out the back gate by shipping junk, or using wrong labels and faulty addresses, then ride the backs of the help to get more out tomorrow.
- Personnel managers who behave as if the entire purpose of hiring all those people, providing them with tools and equipment, and building a plant was so the personnel department could make them happy.

- Labor relations directors who act as if the company were formed so that they could fight with union officials.

These activity traps are common in public agencies. In many cases they are more prevalent because it was never clear from the beginning where the agency was going and what the explicit goals of the agency were. This absence of clear goals only reinforces the importance of efficiency measures. In the end public agencies have many efficiency measures and few effectiveness measures.

Most objectives within the private sector focus on increasing sales, quality of service, production, profitability, percentage of market, and return on investment. They are a mixture of process measures and output measures. A sample of these objectives and results for a district manager of a large mid-western brewing company can be seen in Table 6.1.

SUCCESS RATES

Corporations that are accountable to stockholders use various measures of performance to indicate success. These measures have several characteristics:

- There is general consensus on which measures are most important. They include return on stockholders' equity, return on total capital, debt-to-equity ratio, net profit margin, earnings per share growth, and sales growth.
- Levels of success vary by industry and expectations are set in comparison to other competitors within the same industry.
- Measures of success are modest for any given year.
- Most measures are assessed in terms of consistency over the previous five years.
- Measures are widely publicized on an annual basis in such popular business magazines as *Forbes*, *Fortune*, *Business Week*, and *Money*.
- Some measures are more important in specific industrial groups. For example, debt-to-equity ratio is expected to be much higher in a capital-intensive group such as the auto or steel companies than in a more service-intensive group such as banking.

TABLE 6.1 Sample Objectives and Results for District Manager of a Large Midwestern Brewing Company

<i>Goals</i>	<i>Accomplishments</i>
(1) Achieve a 9% increase in total packaged beer sales in district and 4% increase in total draught beer sales.	6.2% increase in packaged beer sales and 3.8% increase in draught beer. Reached predetermined goals in 4 of 7 markets. Wholesaler change accounts for slight decrease in sales in Market C.
(2) Secure or retain 100% distribution in each market in district.	Retained 100% distribution in markets D, F and G; market E increased from 97% to 100%; market B increased from 95% to 98%; market A increased from 72% to 91%; and market C from 80% to 84%.
(3) Convince wholesalers D, E, and G to construct adequate P.O.S. storage facilities.	P.O.S. storage room constructed by all three wholesalers.
(4) Convince wholesalers A, C, and E to adopt the key account program.	Key account program adopted in market A in March and in market E in June. New wholesaler in market C has agreed to adopt plan early next year.
(5) Replace three delivery vans at wholesaler E and one delivery van each at wholesaler A and C.	Wholesaler E replaced two delivery vans with third to be delivered in February. Wholesaler A replaced one van but no replacement at wholesaler C due to wholesaler change.
(6) Persuade wholesaler C to add one driver/salesman and one draught beer specialist to his personnel.	Goal deleted due to change in wholesaler in market C. Will reinstitute goal for next year.
(7) Convince each wholesaler in district to establish and maintain regular weekly sales meetings to introduce new merchandising and P.O.S. programs, sales promotions, etc.	Regular weekly sales meetings were established by each wholesaler by end of March. Meetings were maintained throughout the year, except in market C where wholesaler was changed. Meetings there will be resumed as soon as possible.
(8) Have every wholesaler truck in district painted to company specifications.	Succeeded in having eight more trucks painted to company specifications, leaving three that are still not properly identified. If current plans are continued, all will be painted next year.

(continued)

TABLE 6.1 Continued

<i>Goals</i>	<i>Accomplishments</i>
(9) Work at least one full day with each wholesaler field representative.	Was able to work with over 80% of the total field representatives. Found this to be very rewarding. Will continue this goal next year.
(10) Give the district representative training and responsibilities that will assure his being ready to assume a district manager assignment by end of year.	Through planned program of training the ADM, Richard Roe, is now capable of DM assignment. Throughout the year, worked at least one week per month at the same marked location with ADM to train and observe his development.

SOURCE: Dale D. McConkey, *How to Manage by Results* (3rd edition), (New York: AMACOM, a division of American Management Associations, 1976) pp. 18, 184-185.

Forbes (January 3, 1983) ranks the 1002 largest corporations into different industrial groups in terms six commonly used measures of corporate performance. Privately held corporations use similar measures but are less public about sharing their information. The six measures are divided into four measures of profitability and two growth measures. The four measures of profitability are average return on equity, debt to equity ratio, average return on capital, and net profit margin. The two measures of growth are sales and average earnings per share. The measures are calculated for the previous five years. Table 6.2 indicates the all-industry medians. A complete list of the 46 industrial groups is included in Appendix A along with the definitions used in establishing these measures.

An important thing to note in Table 6.2 is how modest the levels of achievement actually are. These companies achievements are impressive relative to other companies, and are based on regularly collected and publicized information falling within a relatively small range. In short, corporations know when they are successful and are realistic about what they expect to achieve. They consider relatively small and stable gains evidence of success.

In addition to general measures of success, individual industries also publish information on specific areas in terms of the odds of successfully entering a market or success within the market. This information is usually presented in trade magazines or publications especially targeted at a specific industry audience.

TABLE 6.2 Yardsticks of Management Performance
(all industry medians)

	<i>Percentages</i>
Profitability	
Return on Equity	15.9
Debt-to-Equity Ratio	0.4
Return on Capital	11.0
Net Profit Margin	3.4
Growth	
Sales	13.3
Earnings per Share	12.3

Table 6.3 illustrates success rates in specific businesses and sports. It demonstrates how rare success is and how necessary it is to be realistic about the low probability of success.

Businessmen are constantly humbled and frustrated by the ease with which good performance can turn to poor performance. Professor Robert Hartley's book on such failures, *Marketing Mistakes* (1981), details the reasons for many corporate failures.

W. T. Grant Co. (Knapps)	policy of wild and really reckless expansion in the 1970s
A. C. Gilbert (erector sets)	introduced various new toy products in the 1960s without paying proper attention to quality.
Robert Hall	ignored post-World War II demand for credit, emphasis on fashion, shopping centers
A & P	slashing prices (campaign called Where Economy Originates)
Coors	ignored need for national marketing and distribution
Edsel (Ford Motor Co.)	design engineering error

Nonetheless, private industry has created and maintains a mystique of competency that is not necessarily substantiated by a review of past performances. The Reagan administration has done nothing to

TABLE 6.3 Success Rates

<i>Industry/ Service</i>	<i>Success Rate</i>	<i>Source</i>
Management Recruitment	20% placement rate	Alan Schonberg, President of Management Recruiters International of Cleveland, Ohio (largest matchmaker of job candidates and companies on a contingency basis). Expects to place 15,000 of 75,000 assignments in 1981 (Lansing State Journal, January 17, 1982).
Mass Media		
Consumer magazine	3.3% make it past the first 12 issues	It has taken <i>Gambling Times</i> (December 1981: 11) magazine 5 years and \$5 million to make it out of the red.
Screenplays	.5% acceptance	Howard King, literary agent in Hollywood; John Alger, Writers Roost in Santa Monica (The Writer, February 1982: 13).
Movies	1 out of 6 make a profit	<i>Barrons</i> (June 21, 1982: 23).
TV series	10 of every 100 pilots end up as a series 1 of the 10 that become a series will return for a second season	"How TV show producers sometimes hit the jackpot." (Wall Street Journal, August 12, 1982: 8).
Sports		
Baseball	1 hit out of 3 turns at bat is an outstanding batting average 1 hit out of 4 turns at bat is considered respectable 60% win average for the team will probably put them in league championship	
Basketball	60% field goal average is considered good 80% foul shooting average is considered good	
Football	70% pass completion is considered excellent 50% pass completion is considered good	

dispel this myth and actively promotes a "private is better" approach.

There is a widely held assumption that private agencies do a better job than public agencies. There are some examples to support this conception. For example, in some states there are county medical care facilities that are in effect large nursing homes. They compete directly with private nursing homes and treat similar patients. The cost to provide the same services is often as much as twice as high in county medical facilities as it is in private nursing homes. There is no evidence that the quality of care is lower in the lower cost facilities. I suspect that the primary difference is the wage structure, which is higher in the public than the private sector in this particular service industry. A similar case can be made for states that have operated day-care centers competing with private organizations.

When services are provided in both sectors, there is a unique opportunity to assess the relative effectiveness of the private versus the public agencies. There are two examples where the private sector has competed with the public sector and the results appear to favor the performance of the public provider. These two examples are the Private Employment Project and the Temporary Foster Care Project.

PRIVATE SECTOR TRIES PUBLIC GOAL

PRIVATE EMPLOYMENT PROJECT

Various public agencies have attempted to place welfare recipients in jobs and/or prepare them for entry into the labor force. The most recent program was called the Work Incentive Program (WIN) and it has been extensively researched. The results generally indicate that about 10 percent to 20 percent of those who participate find employment for some period of time.

The private sector has similar job-counseling and job-seeking functions performed by such employment agencies as Snelling and Snelling. Some of these agencies specialize in clerical and blue-collar occupations.

The Michigan Private Employment Agency Job Counselor Project was designed to assess whether the private employment agencies could be more successful at placing welfare clients in employment than the traditional Employment and Training Program offered by the Michigan Department of Social Services. The experiment was con-

ducted by Mathematica Policy Research in Princeton, New Jersey, from January 1977 to September 1978 in Oakland County outside of Detroit.

The design was simple and appropriate for drawing conclusions about the relative effectiveness of the two programs. A random sample was drawn of AFDC clients who were registered for WIN and defined as employable, but who had not been actively participating in that employment program. In general there were far more registrants than the limited WIN staff could ever work with.

The clients were randomly assigned to either a private employment agency (PEA) or to the Employment and Training (E & T) program of the Michigan Department of Social Services.

The results after fifteen months indicated that less than 12 percent of those who had been referred to a PEA had been placed in employment; a similar impact was attained by the E & T program of the public agency.

Indeed, when all jobs obtained by clients participating in the two programs are considered, there are no statistically significant differences between the two programs in either the rates at which jobs are found or the amounts earned in the jobs. Overall cost-effectiveness calculations also show no statistically significant differences between the two programs with regard to net cost-effectiveness in reducing grant payments to clients [Ohls and Carcagno, 1978: ii].

Most of the placements took place in the early months of the experiment. Gradually the private employment agencies became disenchanted with the clients and by May 1978 four of the six PEAs that had originally participated in the program were no longer involved. In short, the private sector had given up.

TEMPORARY FOSTER CARE PROJECT

Approximately 50 percent of the services funded by public dollars are provided by private agencies, which contract through state or local agencies. Even among private organizations providing foster care services to children there is an implied superiority of performance by the private sector. Private agencies are likely to have more staff with Master's degrees in social work than public agencies. This may, in part, reinforce this image.

The Temporary Foster Care Project was initiated by the Michigan Department of Social Services to increase the appropriate placement of foster care children into permanent placements. This program was particularly relevant because the services were provided by both private and public agencies and there were some relatively concrete success criteria for both the "best practices," or processes, and client outcomes.

The four best practices are considered to be completion of an initial social study (documentation of details surrounding the case), parent/agency agreement clearly specifying the expectations of both parents and agency personnel in meeting the goals of the case, establishment of an initial case goal so that children in foster care do not continuously shift from placement to placement, and a quarterly report that reviews progress toward the case goal.

The expected client outcome was a 50 percent return home rate in six months after entering foster care.

In 1978 the Michigan Department of Social Services began collecting information on these factors as well as caseload size. The Temporary Foster Care Project continued through 1980 across eleven counties. The results indicated that purchase-of-service (POS) private agencies neither completed as much documentation of good practices nor achieved as much outcome as the public provider. Table 6.4 illustrates these findings.

MANAGEMENT BY OBJECTIVES: PUBLIC SECTOR

Many administrators within the public sector do not believe that accountability is possible because of the various barriers; there is no doubt that there are constraints within the public sector. However, many of these also exist in the private sector. Some of the more frequently cited constraints are listed in the following chart by three major writers on MBO.

PUBLIC SECTOR CONSTRAINTS ON MBO IMPLEMENTATION

Brady (1973)	There is no single return-on-investment objective to which subobjectives can be tied. No overall agreement on objectives is generally possible.
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TABLE 6.4 Foster Care Cases Achieving a TFC-II Foster Care Outcome/Event* Within Six Months

Service Provider and Child's Legal Status	Jan.-Mar. 1979		Apr.-June 1979		July-Sept. 1979		Oct.-Dec. 1979		Jan.-Mar. 1980		Apr.-June 1980	
	Number of Cases Entering Care	% of Cases Achieving Outcome/Event	Number of Cases Entering Care	% of Cases Achieving Outcome/Event	Number of Cases Entering Care	% of Cases Achieving Outcome/Event	Number of Cases Entering Care	% of Cases Achieving Outcome/Event	Number of Cases Entering Care	% of Cases Achieving Outcome/Event	Number of Cases Entering Care	% of Cases Achieving Outcome/Event
Public	155	44	231	42	237	50	231	45	210	55	225	39
Private	82	35	159	28	125	46	150	42	149	43	109	51

SOURCE: Avellar (1980).

*TFC-II Foster Care Outcome/Events are returned to home removed from; returned to other parent; relative placement; released for adoption; petition for termination filed; other.

**Voluntary placements = no court involvement, signed voluntary agreement on file. Court wards = Court jurisdiction authorizing placement.

- Expertise in measuring costs and benefits are lacking.
 Short operating cycle is likely to upset goals because of
- the annual budgeting cycle and its unpredictability;
 - the high turnover rate of top-level decision makers; and
 - the frequent inadequacy of today's objectives for tomorrow's political setting.
- There is a tendency to measure activities and not results and to use the wrong criteria.
- McConkey (1976) Many decision-making areas in the public sector are preempted by laws, rules, or regulations.
 The public sector offers fewer opportunities to participate in setting objectives.
 Many forms of rewards and recognition are set by law.
 Emphasis is on seniority rather than merit.
 Performance measures are often lacking — emphasis is on effort rather than output.
- Malek (1974) Highest priority items are often submerged by routine tasks.
 Managers are frequently not held accountable for producing specific result(s).
 Follow-through on major programs is often poor.

Nonetheless, some public agencies seek to implement a type of MBO program, although one knows how extensively such programs are used in public organizations. The most recent survey was completed in 1976 by the International City Management Association, who surveyed 402 city or local government units. Of these units, 30 percent said that they had tried some type of MBO program for one year or more. Most of the targets were monitored by the budget office, chief executive, or council. Most targets were set at the program or departmental level and were based on data from the prior year's service levels.

The target levels were similar to those reviewed by McConkey in his example of a midwestern brewery. The targets were:

- workload or level of effort (most popular),
- project completion targets,
- project due dates,

- effectiveness targets (number of citizen complaints received; percentage of citizen requests answered within a specific time; percentage of work exhibiting errors; percentage of satisfied or highly satisfied ratings in a survey of citizen experience),
- efficiency targets,
- cost targets.

Whenever MBO is introduced there is a striking similarity in measures used in both private and public sector.

CONCLUSION

This chapter has briefly presented the state of the art in accountability in the private sector. Several summary statements can be made:

- Private corporations have only begun to gather information systematically that allows them to assess the accountability of units within their organizations.
- Private corporations regularly fail to achieve high success and most achieve only modest success as measured by their profits.
- There is more consensus within private industry on measures of success. These measures are highly visible to the public via quarterly announcements of earnings.
- Private corporations are not necessarily superior to public agencies in performing the same tasks.

The problems facing the private corporations are not basically different than those confronting public agencies. The ability to solve these problems of accountability is perceived to be present in the private sector and absent in the public sector. This is unfortunate because both are doing a good job.

McConkey believes that nonprofit organizations have the same mission as private corporations in terms of realization of a higher return on resources:

- increased productivity from present employees,
- improved patient care from hospital staff,
- increased quality/quantity of teaching from staff,
- lower overhead costs of fund raising,

- more effective crime prevention through improved law enforcement techniques,
- greater results from volunteer workers,
- lower administrative costs of operating.

There is an increased awareness of the need to increase productivity as a result of the international competition symbolized by Japanese manufacturing. Such companies as Detroit Edison and General Electric have been leaders in the area of productivity measurement. Companies emphasizing this aspect of management have recently formed an association of productivity managers.

On the public side, in addition to the research being conducted by Harry Hatry at the Urban Institute, the U.S. Office of Personnel Management has created the State Government Productivity Research Center. This office provides reports on improving productivity at the state and local level of government. One of its recent grants to the Council of State Governments resulted in a review of such programs (1982).

In addition there are centers for productivity being established around the country.

- American Center for the Quality of Work Life, Washington, D.C.
- American Productivity Center, Houston, Texas
- Center for Productivity, Innovation, and Technology, Chattanooga, Tennessee
- Florida Center for Productivity, Tallahassee, Florida
- Maryland Center for Productivity and Quality of Working Life, University of Maryland
- Michigan Quality of Work Life Council, Troy, Michigan
- National Center for Public Productivity, City University of New York
- Oklahoma State University Productivity Center, Stillwater, Oklahoma
- Productivity Council of the Southwest, Los Angeles, California
- Productivity Institute, Tempe, Arizona
- Utah Center for Productivity and Quality of Working Life, Utah State University
- Work in America Institute, Inc., Scarsdale, New York

There is also a new journal that focuses on productivity issues — the *National Productivity Review*. It reports on various approaches to improving productivity in both the private and public sectors.

There is no reason why public agency administrators and employees should be intimidated by the rhetoric of private sector superiority. The challenge of introducing accountability needs to be embraced by both sectors. Without it the consumer is cheated out of the quality they deserve whether the customer is using a private or public good.

Nonetheless, there is a need for public employees to receive the credit for doing an excellent job. This will not be given to them. They first must believe in themselves and their product. Second, they must demand to receive the respect they deserve. Congressman Robert Carr (Democrat, Michigan) has several suggestions for public employees to use to counteract the current negative image issue. His suggestions are similar for any vested interest group that desires to change public opinion. He recently addressed a group of public agency administrators and offered the following ideas:

I present many speeches to service clubs like the Rotary Club or Lions Club and there is often someone who comes up to me and says that if he were to run his business the way government employees run their agencies he would go out of business.

Now, I was a state employee when I worked with the Attorney General's office in Lansing as a new lawyer. There were many good employees who are professional in their work. So, I know that the perceptions of public employees does not accurately reflect my own experience.

However, government employees don't stand up for themselves. They remain silent and, thus, the myth is perpetuated because there is no countervailing message. I have three suggestions:

- (1) You need to organize in order to get your message to the public. You need to set up a "clipping service" which reads newspapers and other media coverage of government employee performance stories. When a story shows how a government employee's performance made a difference to a client or community then send a thank you letter to the editor in appreciation of the positive coverage. If the story is slanted against government then the editor or whoever is being quoted should be sent a letter indicating that you do not appreciate this type of coverage.

Likewise with politicians. If they are making irresponsible negative statements about government employees then you need to keep track of the quotes. Send them a letter indicating that you do not appreciate their comments. Then, when they run for re-election you can create a list of candidates which are most aware of the good work of public servants. This is political pressure and it is constantly used by most vested interest groups. Government employees comprise a large voting constituency which could be a powerful voice if organized in this fashion.

- (2) You should also start a speakers bureau and make the service club circuit. They are always interested in providing their members with a stimulating speaker with an important message. You have an important message which needs to be presented as often as possible. The approach, however, should be that most government administrators and employees are already doing a good job and that whenever they hear a negative remark about how bad government is then it makes their job even harder. There are some workers who believe the remark and stop even trying. They are basically convinced that if the public already believes they are doing a poor job then there is little to be gained by putting out the extra effort. In the long run, no one benefits from the remark.
- (3) You should also give awards to "heroic government employees" who have made important contributions to the public agency. There is a perception that government spends, spends and spends. Such awards would highlight the fact that some employees are cost conscious. Invite the press and get some positive new coverage and being to turn the image of state employees into a positive image that you can all be very proud of.

EXERCISES

- (1) Choose a friend who is working for a private corporation. Ask them to list the ways they know they are successful on their job. This exercise will be most helpful if you have them show you the actual reports which are used to reflect these measures. There will be a surprising level of vagueness and secrecy surrounding the measures.
- (2) Ask a group of acquaintances to list the most successful corporations and to estimate their net profit margins (i.e., percent of revenue which is available for dividends and/or reinvestment). Then show them the Forbes chart in this chapter which shows, by industry, what the average net profit margins actually are. Most people tend to overestimate the profits of most corporations.