

# Critical Issues: Keys to Successful Contracting



**By Michael Zopf**

In their book *Execution: The Discipline of Getting Things Done* (2002), Larry Bossidy and Ram Charan make the seemingly straightforward observation that “many strategies fall apart because the right critical issues aren’t raised.”

In today’s restrictive school-funding environment, many school districts are evaluating different strategies for providing noninstructional support services to preserve financial resources for the classroom. Among the strategies they are considering on a wide scale is the contracting of support functions, including pupil transportation, custodial and maintenance services, and food service.

Because contracting is often an emotion-laden issue among different stakeholder groups, including district employees, it is essential that officials identify and address any critical contracting issues before initiating contracts. Without a proper assessment of the critical issues, a contracting strategy may be difficult to implement at best. At worst, it may fall apart completely.

What critical contracting issues must district administrators address? While some issues are common across districts, local conditions or situations may shape other issues unique to a particular school district. Regardless of the

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district, having a reliable approach for identifying, raising, and anticipating contracting issues can be a valuable tool for district leaders charged with executing an effective contracting strategy.

## District officials must be thorough in conducting the analysis and exact in its interpretation.

Without promoting or discouraging contracting, this article provides one approach for district leaders to evaluate a contracting strategy and to identify what Bossidy and Charan describe as the “right critical issues.” This approach embodies four key elements:

- Understanding the contracting objectives
- Completing the contracting analysis
- Aligning stakeholder expectations
- Understanding the context

We will look at each element in turn.

### Understanding the Contracting Objectives

Many districts consider a contracting strategy a means to achieve cost savings in the delivery of noninstructional support services to their students and staff, presumably through increased contractor efficiency, lower compensation packages, and favorable economies of scale.

However, other motivating factors may steer district leaders to evaluate contracting, particularly in smaller and midsize districts:

- An effective contracting strategy may enable greater district administrative focus on the core educational mission of the district.
- Contracting may alleviate the need for large capital outlays.
- Contractors with core competencies in providing noninstructional support services may deliver improved service quality for students and staff.
- Districts may lack the internal expertise or capacity to deliver necessary support services.
- Contractors may be better able to respond to new technologies, best practices, updated mandates, and unforeseen events.

Although this list is not exhaustive, it suggests that districts may consider contracting for reasons other than—or in addition to—cost savings, and an effective contracting strategy begins with an understanding of all those reasons.

Moreover, it is vital that district leaders not only understand the reasons for considering contracting but can effectively explain their rationale to different stakeholder groups. Samuel Flam and William Keane (2002), two former district leaders who wrote an excellent practitioner-based text on contracting in school districts, note

that “a successful contracting experience will usually depend upon having very clearly articulated objectives.”

### Completing the Contracting Analysis

Conducting a comprehensive contracting analysis is another fundamental step in the contracting evaluation process. Districts should complete at least two different types of analyses, with each type serving a different purpose.

First, to measure the relative efficiency of district-provided service vis-à-vis service provided by an external contractor, districts must properly measure current costs by including direct costs charged to a specific function, along with some allocation of overhead, facility costs, and the cost of capital.

Second, to understand the “bottom-line” cost-effectiveness of contracting, districts should identify only those costs that will change because of contracting. Identifying those incremental costs is particularly important to districts driven to contracting primarily for financial reasons.

An allocated cost approach and an incremental cost approach produce different measurements of the cost effect of a contracted versus district-provided service. Regardless of the method used to compare district-provided and contracted service costs, district officials must be thorough in conducting the analysis and exact in its interpretation.

In a paper published by the Reason Foundation, Lawrence Martin (1993) reports that in-house service delivery is frequently underestimated by as much as 30%. Martin also notes that districts often underestimate contractor costs because they fail to account for such items as contract administration, contractor performance monitoring, and conversion costs incurred by districts transitioning from in-house service delivery to contracted service (such as unemployment compensation, severance payments, inventory loss, and lease and rental termination costs).

### Aligning Stakeholder Expectations

Properly identifying contracting objectives and completing a thorough contracting analysis are necessary steps for successfully implementing a school district’s contracting strategy, but they are insufficient. Each district has multiple stakeholder groups to consider in planning and executing support services contracting—including the district’s board of education, administrators, staff members, students and parents, and community and business partners. The following is a brief discussion of the different items about which different stakeholder groups should be informed and aligned.

**Board of education:** Board members must be keenly aware of the cost, quality, and staffing implications of contracting. Adopting a contracting strategy may also

require revisiting and revamping certain board policies or district guidelines.

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**Administration:** Contracting may establish new reporting structures and requirements for administrators, including daily procedural changes or periodic monitoring of contractor performance. These expectations should be planned and discussed with administrators before contract implementation.

**Staff members:** Affected staff members should be advised up front about the transition to contracted service. Specifically, are there postcontracting employment opportunities with the district or with the contractor, and how will the transition period be handled?

Communication with those staff members not directly affected by a new contracting arrangement is also important, particularly if there are new daily protocols for support services. Finally, other staff members could be valuable sources of feedback on contractors' service quality and responsiveness once the strategy has been implemented.

**Students and parents:** As the final customers of the district's support services, students and parents should be notified before the transition to contracted service. Daily schedules may change—bus-routing schedules, for example. Like the district staff, students and parents can also provide valuable feedback on contractors' service performance.

**Community and business partnerships:** A frequent argument against contracting is that it negatively affects staff members who live within the district. In many communities, the school district is a major employer, and residents fear that contracted staff members are “outsiders” with no vested interest in the community.

The legitimacy of this argument aside, school officials would be wise to consider ways to integrate new contractors into the school district and the surrounding community by encouraging them to forge new alliances within the school community.

For example, the food service management company contracted by my district initiated a “backpack” program with a local food bank. In addition to making corporate donations to and securing grants for the food bank, the food service management company provides the backpacks for district students. Every week, the food bank delivers nonperishable food items to the district.

District staff members fill the backpacks with those food items and send them home each Friday with elementary students who are eligible for free and reduced-price lunches.

The program has fostered significant goodwill between the food service company and district stakeholders.

## Understanding the Context

As mentioned earlier, Bossidy and Charan allude to the importance of raising the critical issues for a successful contracting strategy. For district leaders responsible for contracting support services, it is equally important to anticipate the issues that could be raised across the various stakeholder groups.

As much as proponents of large-scale contracting may suggest, contracting is not a one-size-fits-all strategy, and school districts considering contracting should step back and assess the local conditions that will support or create barriers to successful contracting.

To this end, Anna Amirkhanyan, Hyun Joon Kim, and Kristina Lambright (2007) developed a practical contracting decision framework that can help district leaders evaluate a contracting strategy for their own district. This framework recognizes that contracting is contextual and can be implemented in various school and community settings.

Within this framework, the authors identify four different subcomponents of the overall district context: (1) an economic context, (2) a political context, (3) an organizational context, and (4) an institutional context.

First, as mentioned earlier, the economic context often provides the primary impetus for contracting. Districts frequently implement contracting for monetary reasons. For example, the fund balance may have declined substantially, or there may be a growing imbalance in the allocation of resources, with fewer resources being allocated to instructional areas and more resources being allocated to noninstructional areas. Or perhaps the district must make significant, but currently unaffordable, capital outlays to continue providing support services directly.

The economic context in which contracting is being considered must be a key element of the contracting evaluation process.

Second, district leaders should assess the political context within their district, including micropolitical considerations, such as

- The composition of the board and its predisposition toward contracting
- The general sentiment toward public-sector spending in the community
- The demographics and socioeconomic characteristics of the local community and possible union opposition to contracting from other employee groups.

Including the political context in the contracting decision is not meant to deter consideration of a contracting strategy, but to bring awareness that such micropolitical considerations could support or impede contracting implementation.

## District leaders must consider their organizational context for contracting.

Third, and perhaps one of the most critical evaluative criteria, is that district leaders must consider their organizational context for contracting.

If district personnel currently provide the support service, administrators should assess the internal capacity of their staff members to deliver cost-effective and high-quality service. If service quality is not an issue, are there opportunities to avoid contracting by negotiating compensation or work practice changes to reduce the costs of support services? Or if service quality is an issue, can the district provide additional training to develop the internal capacity necessary to avoid contracting?

If the answer to these questions is no and contracting appears to be a viable alternative, the district should also consider its internal capacity to implement and manage a contracting arrangement. Specifically, the district must consider whether it has the internal capacity to

- Execute a high-quality bid process
- Select an appropriate contractor
- Establish protocols to monitor contractor performance
- Assign ongoing administrative support for the contracting arrangement.

Understanding that contracting does not absolve the district of the ultimate responsibility for providing service to students and staff, confirming an adequate level of internal capacity to manage a contracting arrangement should not be overlooked.

Another aspect of the organizational context is the competitiveness of the contractor market for the specific support service to be contracted. District size, its annual buy, and its location may influence the number of viable contractors interested in servicing the district.

Fourth, the district must consider the institutional context of the support service to be contracted. For example, are there legislative or regulatory requirements—such as those existing with the federally assisted National School Lunch Program—that would favor contracting or retaining the service in-house?

Another consideration when discussing the institutional context is the possibility that neighboring school districts may have excess capacity for providing needed support services to another district. This circumstance

may provide an alternative to outside contracting, whereby districts share or collaborate in providing non-instructional support services and thereby avoid the margin implicitly paid to contractors.

### Next Steps

When evaluating a contracting strategy, school districts should consider several aspects of the prospective contracting arrangement. Initial steps—such as outlining the reasons for considering contracting and measuring the financial outcomes from contracting—are essential in the evaluation process. However, to be proactive in raising other possible issues, district leaders need to align expectations among stakeholder groups and critically evaluate the local context for contracting.

These additional steps may allow the district to raise other critical issues in preparing to successfully execute a contracting strategy, or perhaps prevent one from “falling apart.”

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Sungard .....	page 17
Tyler Technologies .....	page 25
Virco Manufacturing Corp .....	back cover