



What's Wrong with The Phoenix Model?

So, what exactly is wrong with Phoenix anyway? Or rather, what is wrong with a process to deliver services to citizens in the most cost-effective way while maintaining high quality? From the city of Phoenix's point of view, the process works!

For the past 15 years, Phoenix has worked to develop a process for competitively bid services. Begun in the solid waste division of the public works department, the concept has spread throughout the organization to include services ranging from airport landscaping to low-income housing maintenance to billing for emergency services. During the 15-year period, the city has saved more than \$25 million.

During this time, the city and its employees have received recognition for excellence in municipal government. David Osborne and Ted Gaebler's widely read book, *Reinventing Government*, devoted space to the Phoenix model of competitive bidding of solid waste services. In fall 1993, the Bertelsmann Foundation in Germany named Phoenix and Christchurch, New Zealand, as cointerwinners of its prize for democracy and efficiency in local government.

Every week, calls come in to Phoenix, visitors tour its facilities, and city councilmembers from Ohio and Ph.D. candidates from Germany write for more information on the Phoenix system for bidding municipal services. Ron Jensen, the city's public works director, and Jim Flanagan, the city auditor, are in high demand to explain the city's competitivization program to visitors and scholars from all over the world.

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and
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A Few Misconceptions About the Model

Inevitably, some misunderstandings have arisen about how the system works (and how it does not work!). This article examines some of the myths that the authors have observed surrounding the contracting-out of services, then proposes a more balanced view of the process.

Myth 1: This is privatization. "Privatization" is the most common mislabeling of the program for competitively bid services. Privatization implies that we simply turn over the city's business to a private firm, which, as every public employer and manager has heard, can do the work much better and cheaper.

The Phoenix system should be described accurately as competitivization (which is easier to understand

than to spell or say!). Competitivization means that the city competes with private firms to win the right to deliver certain services at the most economical cost to citizens. If the city department can perform the job at the lowest cost while maintaining desired service levels, the city is awarded the contract. If not, the private firm wins.

The bidding of city services is *one* element of a strategy to improve Phoenix's operational practices and management by introducing competition into government operations. The goal is to use competition to obtain for the public the best-quality services for the lowest sustainable price. Phoenix management has no interest in privatization for its own sake.

Myth 2: Public employees cannot compete with the private sector. Few

beliefs are more widely held than that "government efficiency" is an oxymoron. But the city's competitive process has shown that government is efficient. It can compete. Since solid waste management has been competitivized, the city of Phoenix has won 50 percent of the bids.

The competitivization tool challenges the government to compete and enables its managers to check exactly how competitive it is. With outstanding employees and fine management, Phoenix believes it can beat the private sector on most bids. Members of the employee/management team are working together to achieve the goal of winning every bid.

Myth 2a: Employees' unions will oppose the efficiency efforts needed to be competitive. Closely related to the perception that public employees cannot compete is the idea that unions will not allow them to. In Phoenix, this has not proven to be the case. Clearly, competitivization is not a favored union program. But unions can play a positive role in the process if they are given a chance.

The procedures developed in Phoenix contain, as a first step, an evaluation of service delivery processes by teams made up of employees, unions, supervisors, and managers. When an internal cooperative approach is used, the unions are strong players in fielding a competitive team.

Everyone likes to win. City employees want to win the bids. Management, employees, and unions alike have seen that they must work together to cut costs and improve service quality. Unions increasingly are involved in and supportive of cost-cutting and efficiency improvements. If it can, the city department provides the service and everyone wins. In this process, all parties have had to focus on cost and quality, and have seen that cooperation was the best path to success.

Myth 3: This is fear-based management. On the contrary, when handled correctly, the competitivization process can be an innovative, freeing experience. An inclusive approach to service delivery improvement is applicable to all areas of an organization. Areas that are not candidates for competitive bidding can benefit from breaking down bureaucratic barriers among customers, employees, and managers. Phoenix's neighborhood services department and its municipal court, for example, have benefited tremendously from a process-improvement, team approach without any thought of competitive bidding of services.

Myth 4: This should be done with all local government services to save as much money as possible. True, local government must be efficient. Citizens demand it. In most cases, how-


ever, efficiency is not the only factor in delivery of a service. As the leadership literature has reminded us, it is not only important to do things right but also to do the right things.

Hypothetically, it may be more economical to contract out health services to a private firm, but that firm may not be able to meet the public's expectation of providing good-quality health care to *all* people, regardless of ability to pay. With its charge to represent all citizens, government is often the most effective agency to deliver services in which efficiency is not the most important value. It is crucial to know whether the primary goal of service delivery is efficiency or whether such other public values as equity or responsiveness are equally important.

Hidden costs of private provision of public services must be understood. For example, a private security

firm may provide some services more cheaply than a police department, but if crime or property damage increases, then savings are erased. And costs that are not quantifiable in dollars may accrue as well. The cost of soured employee relations or of the loss of public trust in local government must be acknowledged as the risks of mishandling the process.

Myth 5: The Phoenix model is right for every city. One of the problems that Phoenix management has found when talking to some interested observers is their desire to transfer the whole model—lock, stock, and barrel—to their jurisdictions. Every locality is different, with different organizational cultures, governing bodies, and labor relations histories. The Phoenix process is one that has developed over 15 years of trial and error. It may serve as a useful starting

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point for another locality's own creativity within its own unique environment. The system is still evolving in Phoenix and must always evolve. When it ceases to evolve, it will cease to be an effective tool.

The Phoenix Competitive Process

The competitive climate works in Phoenix because employees know that the city organization cares about them. It uses employee input in cooperative teams and pilot programs. Management and employees honor each other in their successes. They jointly share and support each other in failure. We know each other in our successes. They know they can work together to improve, and they are convinced that the organization constantly will improve. This atmosphere is crucial for the competitive process to work.

The key to the competitive process for the city of Phoenix is to encourage all levels of the organization—employees, union representatives, supervision, and management—to communicate and work together. It is important to eliminate the bureaucratic layers that keep the line employee from doing his or her job more effectively. The team concept that has been inserted into the competitivization process does this by bringing together all affected parties in an open environment. Barriers are reduced, and everyone pitches in to cut costs. This leads naturally to an ability to win contracts in an open bidding process with the private sector.

All departments can benefit from a mechanism that allows all workers, their unions, and management to cooperate, break down walls, and innovate. Employee morale can improve when line workers realize that their ideas count and contribute to the success of their organization and their job. These benefits, which could only be guessed at when the

Competitive Proposal Process Actual Cost Savings/Avoidance

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Aviation	
Airport landscaping	\$1,000
Nursery/plant maintenance	\$10,000
Fire	
Emergency transportation	\$2,898,000
Billing and collection services	\$93,000
Housing	
Low-income housing maintenance	\$23,000
Parks, Recreation, and Library	
Median maintenance	\$470,000
Public Works	
Refuse collection	\$13,756,000
Landfill operation	\$7,711,000
Street Transportation	
Street sweeping	\$36,000
Street repair	\$109,000
Landscape maintenance	\$130,000
Water Services	
Water meter repair	\$176,000
Total	\$25,413,000

process was started 15 years ago, have spilled over into many areas of the organization and are every bit as important as the cost savings achieved.

And that is what is right with Phoenix: it has developed a process that brings competition into municipal service delivery. **DAI**

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