Assumptions for Contracting in Local Self-Government Institutions

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Abstract

The article analyses contracting in local self-government institutions. First, it introduces the concept of contracting and its development, then identifies factors and conditions that influence the readiness of local self-government institutions for contracting. Finally, the theoretically established assumptions for successful contracting are tested in the empirical study to reveal the peculiarities of contracting in Lithuanian municipalities. The assumptions for contracting in this article are established by forming the approach to contracting as an organizational change, whose success is dependent on readiness for that change, especially in the social environment with underdeveloped system of regulation and limited practices.

Keywords: contracting, organizational change, individual and institutional readiness for contracting, local self-government institutions, municipalities.

Introduction

Public sector institutions have encountered ongoing criticism for the lack of effectiveness in performing their functions, especially in providing public services. Since private sector activities were considered to be more economic and effective, it was concluded that problems of the government in performing their public functions may be solved by employing the private sector’s ways of management and market competition, e.g. contracting (Kettl, 1993, 2010).

Adopted from private sector, contracting not only changed the nature of providing the public services that were within the scope of government responsibility, but its introduction also demonstrated that government encountered entirely new management issues, which it did not expect and was not ready for (Lane, 2000). The main reason for the negative outcomes of many contracting projects in government institutions was identified to be their lack of experience with this new private sector instrument. Thus, it became crucial to develop and maintain readiness for contracting.

Although there have been ongoing various studies seeking to resolve the issues related to contracting failures, there are no studies that besides indicating problems associated with contracting would also establish assumptions for successful contracting, especially considering the implications of specific context for contracting, i.e. social environment with underdeveloped system of regulation and limited practices. Studies of contracting on local self-government level are particularly scarce, while studies of contracting from the readiness perspective (ensuring both proper individual readiness and the management capacity of the institution) are non-existent.

Thus, identifying and grounding the assumptions for successful contracting in local self-government institutions through the readiness perspective is a relevant research problem. It is addressed in this article.

The article takes the approach that the success of contracting first of all depends on the variety of interrelated conditions and factors. This variety of interrelated conditions and factors, correspondingly classified, is referred to as ‘assumptions’ in this article.

The aim of the research is to identify and ground the assumptions for successful contracting of public services in local self-government institutions.

The aim is achieved pursuing the following research objectives:
1. grounding of the content of the contracting concept within the context of public-private partnership;
2. identifying factors and conditions, determining readiness of the local self-government institutions for contracting;
3. revealing the peculiarities of contracting in the municipalities in a country with underdeveloped system of regulation and limited practice of contracting as viewed from the perspective of readiness for contracting.

The article draws on the method of systemic, comparative and logical analysis and synthesis of research literature as well as an empirical study.

The first part of the article is devoted to the achievement of the first objective and presents the analysis of scientific literature on the New Public Management theory, public sector reforms and public-private partnerships. This analysis reveals the origin and evolution of the contracting concept, and its positive and negative effects.

The second part of the article focuses on the fulfilment of the second objective and establishes the concept of readiness for contracting by applying theoretical framework from the organizational change literature. The theory of readiness for organizational change is used to develop the readiness for contracting construct and study...
how public institution and its individual employees respond to a specific type of change – introduction of contracting.

The third part of the article presents the empirical study conducted in Lithuania, introducing its methods, results and their discussion. Since the third objective of the research is to reveal the peculiarities of contracting in the municipalities in a country with underdeveloped system of regulation and limited practice of contracting, Lithuania is very appropriate for the study because it has little experience with contracting. Theoretical research revealed that if public sector reforms (including introduction of contracting) were started in many parts of the world in late 1980’s, the principles of those reforms began to be reflected in the Lithuanian political parties’ programmes only starting with 2003 and their implementation occurred even later (Guogis and Gudelis, 2003). Moreover, most other countries, starting already with 1995, adopted the contracting model based on partnership between public and private sectors (Erridge, 2009), while this model began to be implemented in Lithuania only in 2009-2010 when the first laws regulating public-private partnerships (PPP) were passed. Thus, both considerably modest experience with contracting (compared to other countries), and rather scarce and inconsistent regulation of contracting based on PPP model in Lithuania create specific conditions for the implementation of contracting in Lithuanian local self-government institutions (municipalities).

Both theoretical and empirical results of the research are summarized in the concluding part of the article.

**Origin and evolution of contracting**

**The concept of contracting**

Although the first theoretical discussions on contracting and its practical application started more than two decades ago, it is not an entirely new phenomenon. Already in the 18th century British government contracted private ships to transport prisoners to Australia (Domberger, 1998). The instrument of contracting is similar to analogous private sector instrument – outsourcing. Pursuing public sector reforms based on the ideas of New Public Management (NPM) theory, contracting in the 1980’s was brought out as an instrument that was supposed to ensure greater cost-efficiency for governments.

The concept of contracting is not to be confused with privatisation, although there are some authors, especially in the United States, who use terms ‘contracting’ and ‘privatization’ interchangeably (Vickers and Yarrow, 1991). Further, the current content of the contracting concept is not analogous to the concept of public procurement, although at the initial stage of its application contracting was based on compulsory competitive tendering (CCT) in the United Kingdom. The current model of contracting, starting with 1995, is based on the public-private partnership, which emphasizes partner relations with suppliers and free (not compulsory) competition (Erridge, 2009). Contracting process covers the following stages: decision concerning contracting, public procurement procedure, negotiation, contract conclusion, and contract management. Improvement of contracting based on the experience and feedback from customers and stakeholders, could also be considered part of the contracting process.

**Research on contracting**

Considering the theoretical level of research on contracting, there is a significant number of scientific sources dealing with various issues related to public management reforms (Rehfuss, 1989; Osborne and Gaebler, 1992; Kettl, 1993, 2000, 2010; Aucoin, 1995; Domberger, 1998; Lane, 2000, 2001, 2009; Christensen and Lægreid, 2002; Cooper, 2003; Pollitt and Bouckaert, 2003). However, the largest group of the available research on the theme of contracting is associated with the issues of effectiveness and quality of contracted services. In the opinion of some scholars contracting is more effective and saves costs as opposed to providing those services by the public institution itself (Boyne, 1998; Johnston, 1996; Osborne and Gaebler, 1992; Domberger and Jensen, 1997; Pack, 1989; Poole and Fixeler, 1987; Savas, 1987, 2000; Siegel, 1999; Kakabade and Kakabade, 2001; Greene, 2002; Dilger et al., 1997), while the results obtained by other scholars were not so unambiguous (Hodge, 2000; Sclar, 2000; Brudney et al., 2005). Although some studies confirmed significant increase in service quality, there were others that did not demonstrate any considerable improvement in quality of services (Hodge, 2000). In some studies the results even showed drop in service quality compared to the quality when those services were provided by the public institution itself (Kamerman and Kahn, 1989). Still other studies identified such other advantages of contracting as greater flexibility in providing services (Moon, 1999; Van Slyke, 2003; Schmidt, 2003) and the possibility for the employees of public institutions to concentrate on their main functions (Brown and Potoski, 2003; Van Slyke and Hammonds, 2003; Avery, 2000; Kakabade and Kakabade, 2001). Some studies disproved the alleged advantages of the effectiveness and cost saving arguing that competition is considered to be questionable if there is no sufficient number of suppliers in the market for the public institution to choose from when contracting certain public services (Brown and Potoski, 2004; Van Slyke, 2003; Johnston and Romzek, 1999). The advantages of contracting, associated with cost saving, were refuted when it was determined that public institution encounters other additional costs, associated with contract management and monitoring, which sometimes are even greater than the achieved effectiveness and other benefits (Johnston and Romzek, 1999; Sclar, 2000; Miranda and Lerner, 1995; Johnston, 1996).

In analysing contracting model based on PPP, Zarco-Jaso (2005) noted that this form of cooperation creates balance between two extreminities – bureaucracy and monopoly. As an instrument for the realization of PPP’s goals, contracting was meant to play an important role in creating that balance. However, given that contracting is a private sector instrument, whose application in the public sector initially encountered some problems and caused some negative effects, it is important to explore how it
manifests itself in the context of PPPs. The studies on contracting include also those where the term ‘contracting’ is not used, but they essentially deal with the same phenomenon, i.e. the studies on all types of partnerships (McQuaid, 2010), only on public-private partnerships, analysis of PPP concept and types (Savas, 2000; Obrazcovas et al., 2003; Gudelis and Rozenbergaitė, 2004; Zarco-Jasso, 2005), emphasizing problems in PPPs and distinguishing factors influencing its success (Kavaliauskaitė and Jučevicius, 2009; Flinders, 2005; Jamali, 2004; Trafford and Proctor, 2006; Riege and Lindsay, 2006; Diamond, 2006; Jacobson and Choi, 2008; Crosby, Bryson and Stone, 2010; Greve and Hodge, 2010).

Various concepts of PPPs are reflected in the variety of partnerships conditioned by the legal form of partners, structural differences, scope of publicity and degree of risk sharing (Savas, 2000; Friend, 2006). The problems encountered in realizing PPPs projects (contracting out) are associated with risk transfer to private sector, complexity of public sector structure, unwillingness of new political forces in power to continue existing obligations of the public sector and threat to democratic values (Flinders, 2005). Finally, based on theoretical research of a number of different experiences in variety of sectors, there are distinguished the following factors that are essential for the successful public-private partnerships (many are important for contracting out as well):

- institutional, i.e. legal, economic, political, development level of the country and its institutions (Zarco-Jasso, 2005; Jamali, 2004; Jacobson and Choi, 2008);
- management and organizational, i.e. communication, openness, planning, values, common vision, compromises, leadership, etc. (Trafford and Proctor, 2006; Diamond, 2006; Jacobson and Choi, 2008);
- qualities and competences of personnel, i.e. leadership, responsibility, cooperation, respect, etc. (Trafford and Proctor, 2006; Diamond, 2006; Jacobson and Choi, 2008; Kettl, 2010; Crosby, Bryson and Stone, 2010; McQuaid, 2010);
- knowledge management (Riege and Lindsay, 2006);
- balancing of stakeholder interests (Friend, 2006).

To sum up the analysis in this section it may be concluded that contracting as a process as well as a concept is a changing phenomenon that is influenced both by institutional and country’s specific context. The main changes of its content and application in the course of history occurred due to the goal to make it more successful by improving readiness of public institution for contracting.

**Public institutions’ readiness for contracting**

Few would argue that contracting brought changes to public institutions. However, changes in public institutions have been rarely addressed in public administration literature despite a great number of articles on organizational change published in the organizational change literature. Further, public administration and public policy researchers made little use of the research and theory on organizational change in order to understand the changes brought by public sector reforms (Fernandez and Rainey, 2006). Consequently, there is little theoretically based understanding of the changes, brought by increased emphasis on the use of contracting in public institutions.

This article discusses organizational changes brought by contracting using theories from the organizational change literature, which distinguishes a very important element of successful organizational change – readiness (Armenakis, Harris and Mossholder, 1993). Readiness is critical for the organization attempting to implement a change because it enables the organization to tailor its efforts to make that change successful (Armenakis and Harris, 2002). Likewise it may be said that the assessment of readiness for the change brought by contracting in public institutions is critical for the adjustment of tools and strategy to make contracting successful.

According to Armenakis, Harris and Mossholder (1993), readiness is reflected in organizational members’ beliefs, attitudes and intentions concerning the necessity of the changes (individual readiness) and the ability of the organization to implement those changes (institutional readiness or management capacity).

Discussing individual readiness for change Armenakis and his colleagues repeatedly stressed in their research the relative significance of five beliefs of employees who were faced with organizational change. They pointed out that addressing these five beliefs in the change message that is communicated to the employees is one of the key factors influencing the success of change implementation. The five beliefs are: discrepancy, appropriateness, efficacy, principal support, and personal valence (Armenakis, Harris and Feild, 1999; Armenakis and Harris, 2002, 2009).

Despite the emphasis on individual readiness in organizational change literature, the capacity of a public institution to manage contracts concluded with private entities also constitutes a very important part of institutional readiness for contracting. Management capacity of the organization could be interpreted in two ways – subjectively, i.e. how the individual views organizations ability to implement changes, and objectively, i.e. whether the organization is ready from the structural and management perspective. Management capacity in this article is analysed from the latter perspective, i.e. evaluating the capacity of a public institution to effectively deliver public services using contracting. It includes deciding whether contracting is suitable in that particular situation, whether there is market from which the service could be obtained, bidding and negotiating the contract, monitoring and evaluating contractor performance, getting feedback and taking it into consideration in future contracting projects (Brown and Potoski, 2003; Brown et al., 2005; Fernandez, 2005).

Summarizing theoretical research on contracting in local self-government institutions, it may be concluded that assumptions for successful contracting cover a range of factors and conditions related to the readiness for contracting that are indicated in Table 1. They served as the basis in constructing the methodology and drawing up the questionnaire for the empirical study of the assumptions for contracting in local self-government
Table 1
Summary of assumptions for successful contracting covering a range of factors and conditions related to the readiness for contracting

<table>
<thead>
<tr>
<th>CONDITIONS</th>
<th>FACTORS</th>
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<tbody>
<tr>
<td>knowing and understanding the real purpose (aim) of contracting as well as its proper use for the achievement of the organization’s goals</td>
<td>ensuring PPPs success</td>
</tr>
<tr>
<td>knowing the factual experience with contracting (positive/negative effects) and using that knowledge for further improvement of contracting</td>
<td>personnel qualities and competences</td>
</tr>
<tr>
<td>basing contracting decisions on proper criteria (benefit, quality of services, ability to control service provider)</td>
<td>balancing of stakeholder interests</td>
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<tr>
<th>CONDITIONS</th>
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<tr>
<td>market price of services</td>
<td>contract management experience</td>
</tr>
<tr>
<td>government policy on PPPs</td>
<td>negotiation skills</td>
</tr>
<tr>
<td>availability of legal framework for PPPs</td>
<td>adjustment of department functions for contracting purposes</td>
</tr>
<tr>
<td>level of corruption</td>
<td>knowledge about the peculiarities of private organizations’ activities</td>
</tr>
<tr>
<td>negative public attitude towards the transfer of public services provision to private sector</td>
<td>whether change is needed at all (discrepancy)</td>
</tr>
<tr>
<td>impact of media</td>
<td>whether intended change is appropriate (appropriateness)</td>
</tr>
<tr>
<td>public dissatisfaction with the quality of services</td>
<td>capacity to deal with the change (efficacy)</td>
</tr>
<tr>
<td>limited financial resources</td>
<td>principal support for the change</td>
</tr>
<tr>
<td>structure and existing practices in the institution</td>
<td>personal valence</td>
</tr>
<tr>
<td>influence and competence of the elected politicians and institution’s employees</td>
<td></td>
</tr>
<tr>
<td>personal motives of institution’s employees (benefits, loss of work or career opportunities);</td>
<td></td>
</tr>
<tr>
<td>associated with institutional, management and organizational aspects</td>
<td></td>
</tr>
<tr>
<td>personnel qualities and competences</td>
<td></td>
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<tr>
<td>balancing of stakeholder interests</td>
<td></td>
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<tr>
<td>associated with peculiarities of structure and management of the organization during preparation for changes</td>
<td></td>
</tr>
<tr>
<td>institutional</td>
<td></td>
</tr>
<tr>
<td>individual</td>
<td></td>
</tr>
<tr>
<td>associated with the beliefs of employees concerning readiness for change</td>
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Institutions in Lithuania as viewed from the perspective of readiness for contracting of those institutions.

Empirical study

Method

The method chosen for the empirical study of assumptions for contracting in Lithuanian municipalities through the perspective of readiness for contracting of those institutions was survey of experts from various Lithuanian municipalities who encounter issues of contracting in their work. Taking into consideration their professional experience, the goal was to find out their opinion about the readiness of Lithuanian municipalities for contracting and identify the factors and conditions determining its success. For purposes of this article, the empirical study of contracting in Lithuania is limited only to one type of local self-government institutions – municipalities.

A written questionnaire was distributed to 24 experts employed in the municipalities covering all the main geographical regions of Lithuania (5 main Lithuanian cities’ municipalities, regional municipalities of the 5 main Lithuanian cities’ and municipalities of several smaller towns (like Alytus, Marijampolė, Raseiniai, Mažeikiai, Neringa)). The above mentioned sample of municipalities was chosen due to the geographical distribution of municipalities and their variations in size. It was a representative sample of the target population because such a selection of municipalities to be surveyed adequately represents the overall municipality experts’ population attitudes and demographics. The experts first were contacted by telephone and, after explaining the goals of the survey, were asked to evaluate themselves whether they can serve as experts in it. Positive response was obtained from 29 experts, but only 24 eventually participated and returned filled out questionnaire.

In order to ensure the precision and reliability of expert survey it is considered that the expert group should consist of at least 5 experts. However, there are cases when expert group consist of several times more experts. Three (3) experts is the smallest recommended group of experts, because the more experts there are, the more reliable the results are considered to be (Rudzkiene, 2009). In the opinion of Makridakis et al. (1998) the number of experts to be included in the group is from 10 to 100, depending on the goals of the survey and the competence of experts in the field to be surveyed. The work done by the chosen experts in the municipality and their experience allows considering them as experts in the field of contracting public services.

The questionnaire was presented in the Lithuanian language and consisted of three parts: Part I - Introduction and definition of main concepts, Part II – Investigation of
research object, and Part III – demographic data. Part II consisted of 12 Likert Scale type questions presented as either a question or a statement, to which the expert had to mark only one answer on the scale ranging from ‘strongly disagree’ to ‘strongly agree’. The method of statistical analysis was used to process data of the survey. Data collection for the survey took place from 17 February 2011 until 14 March 2011.

Results

The empirical study of the assumptions for contracting in Lithuanian municipalities from the perspective of readiness for contracting of those institutions revealed certain peculiarities associated with the conditions and factors for contracting in Lithuanian municipalities.

Analysis of the empirical data revealed that the most important aims of contracting in municipalities are considered to be improving service quality, ensuring long-term stable provision of services, saving money, hiring the best specialists for the provision of public services, being more flexible to the needs of society, and transferring risk and liability to the contracted supplier (average is above 3; Figure 1). Correspondingly, the experts do not agree that the reason for employing contracting is to spend all the money received from the budget or to gain financial profit from secret agreements with private parties.

Evaluation of statements describing positive effects of contracting are mostly neutral (average is between 2,5 and 3,5). Stronger agreement was expressed only with regard to two statements: ‘Municipality employees can focus on the performance of their direct functions’, and ‘Growing competence of employees dealing with contracting issues’ (average is close to 4).

As for the negative effects of contracting, the experts expressed strongest agreement with the statements ‘Private service supplier defaults in fulfilling its contractual obligations’, and ‘Much unproductive costs result due to public procurement procedures’ (average is close to 4). Evaluation of other negative effects is neutral (average is close to 3).

External factors (Figure 2) influencing contracting decisions were evaluated as being of similar importance, which is average for most of them. The most important factors are market price and state policy on the issues of partnership and contracting. The least influential external factors are experience of foreign countries and people’s negative attitude towards state institutions.

Some results with regard to the internal factors influencing contracting decisions are similar to the evaluation of external factors, i.e. the evaluation is average (Figure 3). However, more statements in this block of questions received evaluation ‘significant influence’ (average is around 4), e.g. statements ‘Views of politicians in power towards contracting’, ‘Lack of resources’, and ‘Attitude towards contracting by top managers of the municipality’.

Evaluating the criteria for contracting decisions, experts agreed that all of them are relatively important (average of all statements is above 3). Even five out of seven criteria are thought to be considerably important (average is above 4). The most important criterion is the reputation of the potential supplier. Shortly behind it follows quality of services.

Seven out of eleven factors influencing the success of private and public partnerships are considered to be considerably important by the experts (average is above 4). The most important factors are proper drafting of the contract, proper selection of the service supplier, legal acts and control of contract performance and service quality. The evaluation of the latter four factors was the highest in the entire questionnaire.

Most of the statements concerning institutional readiness for contracting were evaluated by the experts as neutral (average is from 2,50 to 3,29), which corresponds to the answer ‘I don’t know’ (Figure 4). Only a couple of statements in this block of questions is evaluated higher, i.e. ‘Budget restrictions determine giving up some functions’ (average 3,50) and ‘Leaders understand how private entities function’ (average 3,58).

Individual readiness for contracting in the questionnaire was defined as positive attitude of employees towards contracting. According to the experts, it strongly depends on all the circumstances listed in the block of questions on individual readiness (average is around 4; Figure 5).

![Figure 1. Aims of contracting in Lithuanian municipalities](image-url)
4.4. Experience of foreign countries

4.2. Pressure by contracted service providers to the municipality

4.1. Dissatisfaction with the quality of public services

4.6. People’s negative attitude towards state institutions

4.5. Image formed by the media

4.3. State policy on partnerships and contracting

4.7. Negative attitude towards contracting by people

4.8. Market price of intended to contract public services

Figure 2. Impact of external factors on the success of contracting

5.5. Views of politicians in power towards contracting

5.2. Lack of resources

5.3. Attitude towards contracting by top managers of the municipality

5.4. Attitude towards contracting by the employees

5.6. Number of qualified specialists in the municipality

5.1. Influence of high competence specialists

5.11. Attitude towards impact of contracting on personal career

5.7. General level of competence of municipality employees

5.9. Organizational structure of the municipality

5.7. General level of competence of municipality employees

5.8. Corruption among leaders and employees

5.10. Common practice in the municipality

5.1. Influence of high competence specialists

5.3. Attitude towards contracting by the employees

5.4. Attitude towards contracting by top managers of the municipality

5.5. Views of politicians in power towards contracting

Figure 3. Impact of internal factors on the success of contracting

9.7. Leaders understand how private entities function

9.1. There is positive attitude towards cooperation with private businesses

9.9. Municipality’s organizational structure is suitable for contracting

9.8. Contracting is regulated by municipality

9.6. Employees prefer concentrating on their direct functions

9.3. Budget restrictions determine giving up some functions

9.2. Extensive experience in contract management

9.5. Employees are not afraid losing influence or their position

Figure 4. Institutional readiness for contracting in Lithuanian municipalities

10.4. Job satisfaction by the employees

10.3. Nature of work done by the employees (position)

10.2. Compatibility of values between employees and organization

10.7. Support of change by leaders

10.6. Efficacy

10.5. Loyalty

10.1. Positive attitude towards change in the organization

10.9. Changes in work load

10.8. Job security

10.10. Possible career changes

Figure 5. Individual readiness for contracting in Lithuanian municipalities

30
The most important factors determining employees’ positive attitude towards contracting are considered to be support of change (contracting) by leaders and job security, while the least important are job satisfaction and compatibility of values of the employees and organization.

Thus, even though categories of answers were different in questions about institutional and individual readiness, still it could be generally concluded that individual readiness for contracting, according to the experts, is considered to be more important.

Discussion

The aims of contracting (Figure 1), indicated as the most important in the empirical study, correspond to the main aims of contracting distinguished in the theoretical analysis, such as improvement of public services quality, ensuring stable and long-term provision of services, cost reduction, etc. Reducing costs, improving service quality, reducing opportunities for personal gain are indicated among the main aims of contracting in the experience of foreign countries as well (Ke ttl, 1993; Lane, 2000). Thus, it is very likely that employees of Lithuanian local self-government institutions have adequate perception of contracting in realizing municipality’s goals.

The most significant positive effects of contracting, determined by the empirical study (i.e. possibility for the municipality employees to concentrate on their main functions and the growth of their competencies), are different from the most common positive effects of contracting in the international experience (lower cost of services, better quality, increase of flexibility and speed of service provision) (Boyne, 1998; Osborne and Gaebler, 1992; Domberger and Jensen, 1997; Pack, 1989; Poole and Fixler, 1987; Savas, 1987, 2000; Siegel, 1999; Dilger, Moffett and Struyk, 1997; Kakabadse and Kakabadse, 2001). It should be noted that the positive effects of contracting, determined by the empirical study, are associated more with personal interests of employees rather than with the interests of municipality as an institution or public interest in general.

The main negative effects of contracting, determined by the empirical study, correspond to the international experience and are associated with the lack of management capacity of the municipality (Lane, 2000). An unexpected result is that one of the main negative effects indicated by the experts is unproductive costs due to public procurement procedures. No foreign research was found where public procurement procedures received such a critical evaluation. This indicator is specific to the country’s context. Another negative effect indicated by the experts – private supplier’s defaults in fulfilling its contractual obligations – is often mentioned in the research of foreign authors (Kearns, 1996; Haque, 2000; Gilmour and Jensen, 1998; Lane, 2001).

Study results also showed that the impact of external and internal factors (Figure 2 and Figure 3) on the decisions concerning contracting generally is considered by the experts to be average, but the internal factors are believed to be more important (Figure 3).

Theoretical research revealed a few universal external factors influencing contracting. Often it was suggested that external factors are strongly influenced by the country’s context. Thus, it was expected in this study that country’s specific context will produce results associated with external factors characteristic to that context. However, the received results proved otherwise and demonstrated that contracting decisions are mainly influenced by a universal external factor often indicated by many foreign scholars, namely – market price of services (Hodgøj, 2000; Sclar, 2000; Brudney et al., 2005).

Internal factors indicated in this study as having the strongest impact on contracting decisions (Figure 3) correspond to the international experience. Many other researchers believe that the lack of resources not only may influence contracting decisions but also prompt more efficient management of institution’s available resources, i.e. using resources saved as a result of contracting for other purposes of the institution (Boyne, 1998; Osborne and Gaebler, 1992; Domberger and Jensen, 1997; Pack, 1989; Savas, 1987, 2000; Siegel, 1999; Dilger, Moffett and Struyk, 1997). The other two most important internal factors (Figure 3) also correspond to the international experience where the opinion of politicians as well as municipality’s leaders and employees and/or their impact on contracting decisions are considered to be important (Fernandez, 2005).

The most important criterion for contracting in the empirical study is the reputation of the potential service provider. Reputation as an important criterion is indicated by foreign scholars as well. They emphasize that disregarding that and focusing only on lower price may result in reduction of service quality (Domberger, 1998). Therefore, reputation of the service provider is directly related to another criterion indicated by the experts as being important, namely, service quality. The latter criterion is indicated among the most important ones in the international experience because it is directly related the evaluation of the suitability of contracting for the provision of public services, i.e. positive or negative evaluation of contracting (Dilger et al., 1997; Hodgøj, 2000; Kamerman and Kahn, 1989; Kakabadse and Kakabadse, 2001).

The main factors that are considered to influence the success of PPPs, determined by the empirical study, correspond to the management and institutional factors usually identified in the international experience. Such factors as proper drafting of the contract, proper selection of service supplier and control of contract performance and service quality belong to the group of management and organizational factors discussed by such scholars as Trafford and Proctor (2006), Diamond (2006), Jacobson and Choi (2008), while existence of corresponding laws could be attributed to the group of institutional factors, whose importance was emphasized by Zarco-Jasso (2005), Jamali (2004), and Jacobson, Choi (2008). Such results demonstrate that although contracting in Lithuania entered the stage of contracting based on partnership, still management, economic and legal dimensions of contracting are more important than dimensions of mutual trust and unity of interests between the partners.
As for the institutional and individual readiness for contracting, the empirical study results revealed that experts either do not have opinion on the institutional readiness (Figure 4) or are unwilling to express it because the average of responses is below or around 3. However, the individual readiness (Figure 5) is considered to be quite important because the average in all responses is above 3 and in some cases even around 4.

The most important aspects of institutional readiness in international experience are thought to be contract management experience, negotiation skills, institutional structure and adjustment of departmental functions to application of contracting (Brown and Potoski, 2003; Fernandez, 2005; Brown, et al., 2005). The empirical study revealed that the above mentioned aspects in Lithuanian municipalities are only of average importance. Much more important is considered to be the understanding by the leaders how private entities function and having positive attitude towards cooperation with them.

The theoretical analysis of individual readiness for change (i.e. contracting) revealed the relative significance of five beliefs of employees who were faced with organizational change. The five beliefs are: discrepancy, appropriateness, efficacy, principal support, and personal valence (Armenakis, Harris and Feild, 1999). Armenakis and his colleagues repeatedly stressed in their research work that addressing these five beliefs in the change message that is communicated to the employees is one of the key factors influencing the success of change implementation (Armenakis, Harris and Feild, 1999; Armenakis and Harris, 2002, 2009).

The two aspects of individual readiness (support of contracting by leaders and job security) that received the highest evaluation by the experts in this study correspond to two of the ‘beliefs’ indicated by Armenakis et al., namely, principal support and personal valence (Armenakis, Harris and Feild, 1999). Other considerably high evaluated criteria of individual readiness also correspond to the remaining three beliefs, i.e. discrepancy, appropriateness and efficacy (Armenakis, Harris and Feild, 1999).

In the assessment of both institutional and individual readiness, experts emphasize the role of top managers (leaders) and their influence on the readiness for contracting. There are also reflected other characteristics, demonstrating detachment from the institution and dissociation from its internal matters, probably due to few opportunities for the ordinary employees to participate in and influence processes and decision making in the institution. Likewise as in the assessment of the positive effects of contracting, dominating criteria associated with individual readiness are those, related to employee’s personal interests.

Conclusions
1. The concept of the contracting model, based on the public-private partnership, as well as the contracting process itself are dynamically changing categories that depend both on the institutional and country’s context and have a clearly expressed requirement for the trust between partners and unity of their interests. Changes in the contracting content and the evolution of the contracting process itself were prompted by the need to solve the problems associated with economic and management aspects of contracting that were encountered despite otherwise abundant positive experience with contracting in public institutions and its positive effects. Analysis of the public-private partnerships’ (PPPs) experience revealed that the success of PPPs projects is dependent on similar institutional, management, and organizational factors as in contracting. Thus, the content of the contracting model based on PPP is affected by the changes intended to improve contracting, and those changes are implemented according to the factors, important for the success of contracting and PPPs.

2. The research revealed that the main conditions and factors determining readiness of local self-government institution for contracting are as follows:
   • proper understanding of the aim of contracting;
   • the ability to use available information about the positive and negative effects of contracting;
   • the assessment of the impact of external (objective) and internal (subjective) factors;
   • the adherence to proper criteria in taking contracting decisions and managing the entire contracting process;
   • the evaluation of factors, important for the success of public-private partnerships;
   • the importance of individual and institutional readiness for contracting.

3. Contracting and its effects in Lithuanian municipalities are influenced by the fact that this phenomenon is not fully formed in Lithuania, sometimes it is inconsistent and difficult to define. Results of the research revealed that contracting in Lithuania currently is in the transitional period when the contracting model based entirely on the public procurement procedure is being replaced by the contracting model based on PPP.

4. Readiness for contracting in Lithuania may be considered to be average. Empirical study revealed that
   • the main positive effects of contracting are different from those that are frequently encountered in international experience and they are more often associated with municipality employees’ personal interests than with the interests of municipality or public interest. The main negative effects of contracting identified in the empirical study correspond to international experience and are associated with the lack of management capacity in municipalities;
   • the impact of external and internal factors on contracting decisions generally is viewed as average by the experts, but the internal factors are considered to be more important. The most important factors are universal and characteristic to international experience rather than context-specific factors;
   • the main criterion for contracting decisions indicated by the experts is context-specific, i.e. reputation of the
service supplier. Majority of the factors indicated to affect the success of PPPs are common in the international practice, and are associated with management, organizational and institutional aspects; there are differences only in their significance.

5. The success of contracting in Lithuanian municipalities as well as the level of its quality and the course of implementation are more influenced by the employees in mid- or top level management positions rather than by ordinary employees. This assumption is confirmed by the following results of the empirical study:

- institutional readiness for contracting is identified with the readiness of top managers (leaders); readiness for contracting and its success are considered to be influenced mostly by them, and other factors are thought to be less important;
- the role and influence of top managers (leaders), emphasized in the assessment of both institutional and individual readiness for contracting, as well as some other indicators demonstrate the detachment of ordinary employees from the municipality and dissociation from its matters. As in case of the assessment of positive contracting effects, factors associated with personal interests of employees are dominating among the most important factors of individual readiness for contracting.

References

52. Romerio universiteto Leidybos centras, 163–261.

Atliekant empirinį tyrimą - apklausiant ekspertus įvairių Lietuvos savivaldybių, kurio tiriant darbė susiduria su kontraktavimu veikinis, buvo siekiama išsiaiškinti, kaip, remdamiesi savo profesines veiklos patirtimi, jie vertina Lietuvos savivaldybių pasirengimą kontraktavimui ir kaip tai lemia kontraktavimo sąlygų. Taikyti apklausaus rašto (apklausu 24 Lietuvos savivaldybių dirbantys ekspertai) ir statistinės analizės metodai.

Straišnų sudaro trys dalys. Pirmoji dalis skirta teoriniam kontraktavimo pagrindui viešojo ir privataus sektoriaus partnerystės kontekste, taip pat atliekama kontraktavimo bei viešojo ir privataus sektoriaus partnerystės sampratų ir su jomis susijusių kategorijų teorinių interpretacijų analizė. Antrojoje dalyje teoriskai pagrindžiamos viešosios institucijos pasirengimo kontraktavimui prėleidais, kurias sudaro sąlygų ir veiksnų visuma. Trečiojoje dalyje pristatomi tyrimo metodai ir aptariami empirinio tyrimo rezultatai.

Pagrindinės tyrimo išvados:
1. Viešojo ir privataus sektoriaus partnerystė grįsto kontraktavimo samprata ir procesas yra dinamiškai kintančios, nuo institucinio ir šalies konteksto priklausančios kategorijos, kurių turiniui būdingi partnerių tarpusavio pasitikėjimo ir interesų vienovės reikalavimai. VPSP grįsto kontraktavimo turinį sąlygoja su kontraktavimo tobulinimu projektuose ir VPSP sėkmė lemta veiksniai.