Working in the Hollow State: Exploring the Link between Public Service Motivation, Contracting, and Collaboration

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ABSTRACT

As a theoretical tool, public service motivation (PSM) stands in stark contrast to many of the principles and practices associated with the New Public Management (NPM) movement. Yet, in practice, it is unlikely PSM and NPM are easily separable. Consequently, this manuscript examines how PSM and NPM might relate to one another by considering whether senior managers with high levels of PSM respond differently to interlocal service agreements than managers with lower levels of PSM. Using data collected in Phase IV of the National Administrative Studies Project and a multi-level structural equation model, findings indicate managers with higher levels of PSM are more likely to value trust and collaboration in interlocal service agreements and to believe organizational performance is better. However, managers with strong public service motives are no more (or less) likely to value monitoring and sanctioning collaboration partners or believe monitoring and sanctioning translate into better organizational performance. Taken together, these findings support the importance of relational contracting, social networking, and trust in the contracting process. Results further suggest NPM and PSM may be complimentary when collective institutional environments exist.

INTRODUCTION

Over the past three decades, contractual networking and intergovernmental collaboration have become increasingly prevalent in public organizations (e.g., Milward 1996; Collins 2006; Walker 1999). The proliferation of contracting and collaboration originates, in part, in the rise of New Public Management (NPM) principles and practices that generally maintain a reliance on market-based systems and market-like exchanges will result in greater flexibility and accountability, increased performance, and a client-driven orientation among public organizations (Kettl 1995, 2002; Milward 1996; Wikstrom 2002; Collins 2006; LeRoux 2007). However, the rise in contracting and collaboration also reflects efforts to address policy problems that surpass the jurisdictional boundaries of any single governmental organization or are otherwise seemingly "wicked problems" (see e.g., Kettle 2006). In either case, contractual networks and intergovernmental collaboration offer an alternative to managerial hierarchies and pure market exchanges—one requiring joint coordination, shared responsibility, and collective action (Kettl 2002, 2006; Feiock 2004, 2007; Savitch and Vogel 2000; Frederickson 1999).

Research on contracting and collaboration in the public sector provides mixed results. For instance, evidence clearly suggests collaboration can be successful under specific conditions (e.g., Prager 1994; Wessel 1995; Bennet and Ferlie 1996; Van Slyke 2003; Hefretz and Warner 2004, 2007; LeRoux 2007). However, research also demonstrates the benefits of contracting and collaboration, in a generic sense, may be overstated and may not always translate into actual cost savings or greater efficiency (e.g., Prager 1994; Hefretz and Warner 2004, 2007; Brown and Potoski 2003). These findings have led scholars to conclude that the benefits of contracting and collaboration are often contingent on a range of factors, including, but not limited to, cooperation, trust, management capacity, mission alignment, the ability to maximize economies

of scale and minimize negative externalities, the type of good or service considered, and the actual form of the agreement (e.g., Prager 1994; Wessel 1995; Bennet and Ferlie 1996; Van Slyke 2003; Hefretz and Warner 2004, 2007; LeRoux 2007; LeRoux, Brandenburger, and Pandey 2010; Van Slyke 2003, 2007). Less frequently considered, however, are the implications of contracting and collaboration for organizational (rather than contractual or networked) members. For instance, Frederickson and Stazyk (2010) argue we know relatively little about how interactions between public servants and their contract and collaboration partners affect individual goals, values, and motivations (see also, Jolley 2008; Van Slyke 2007).

Interestingly, public service motivation (PSM) scholarship raises important questions about the relationship between contracting and collaboration and individual behaviors. From a theoretical perspective, PSM stands in stark contrast to the principles and practices associated with NPM. In fact, scholars writing in this vein have argued 1) NPM fails to account for the altruistic intentions of public employees, and 2) fostering PSM results in better organizational outcomes than NPM (e.g., Moynihan 2008; Perry and Hondeghem 2008; Houston 2009). Based on these arguments, scholars have suggested efforts should be made to concomitantly enhance PSM and diminish the effects of NPM by, for example, developing human resource management systems that incorporate PSM in the attraction, selection, and retention of employees or, alternatively, by generally marrying the market model and PSM in ways that place primacy on PSM and its seemingly related behaviors (e.g., Le Grand 2003; Moynihan 2008; Perry and Hondeghem 2008).

As much of the existing research clearly indicates, PSM provides a valuable lens useful in assessing 1) assumptions about human nature in public organizations, and 2) the design of public organizations and their incentive systems (Perry and Wise 1990; Perry 2000; Perry,

Mesch, and Paarlberg 2006; Perry and Hondeghem 2008; Moynihan 2008; Houston 2009). However, in practice, treating PSM and NPM as dichotomous concepts creates a false tradeoff—one in which public organizations are assumed to select between either implementing NPM initiatives or fostering PSM. This assumption is frequently untenable. For instance, NPM practices may be politically mandated, leaving public organizations little room for choice (Kettl 2002; Moynihan 2008). Moreover, as much of the public administration scholarship suggests, there are strong reasons to believe many of the values and practices associated with NPM have become part of the institutional landscape of public organizations, creating an environment in which professional values may be inherently linked to NPM principles and practices (e.g., Moore 1995; Bozeman 2007; Jørgensen and Bozeman 2007; Van Slyke 2007; Moynihan 2008; Osborne and Gaebler 1992); in such cases, it may be difficult to separate the values associated with NPM, professionalism, and PSM.

Consequently, this paper seeks to examine how NPM and PSM might relate to one another. We do this by examining whether senior managers in U.S. local government jurisdictions with high levels of PSM respond differently to interlocal service agreements and collaboration than managers with lower levels of PSM. We also consider how these managers view organizational performance. Existing theory provides strong reason to suspect managers with higher levels of PSM will place greater emphasis on trust and cooperation (rather than monitoring and sanctioning) among collaboration partners; these managers should also report stronger organizational performance (Van Slyke 2007; LeRoux, Brandenburger, and Pandey 2010; Moynihan 2008). Results are considered in terms of their implications for public administration theory and practice.

INTERLOCAL COLLABORATION AND PUBLIC SERVICE MOTIVATION

Contracting and collaboration, especially among local governments, enjoy a long history and rich tradition in the United States. In fact, scholarly research on the topic traces back at least as far as the 1960s to the work of H. Paul Friesema (1971), who carefully and clearly articulated the role and importance of contracting and collaboration in the Quad City area in Illinois and Iowa (see also, Marando 1968; Zimmerman 1974; Smith 1979). Friesema found evidence of robust political cooperation across the Quad City area. Cooperation was often grounded in strong interpersonal professional relationships, and frequently led to increased intergovernmental collaboration and service integration that resulted in better outcomes for citizens.[1] Over time, research and practice have also demonstrated interlocal collaboration can maximize economies of scale, allowing governments to do more than might otherwise be the case (see e.g., Feiock 2004, 2007; Collins 2006; Frederickson 1999).

Recognizing the possible benefits of interlocal collaboration, state and local governments have increasingly come to rely on formalized forms of intergovernmental contracting and collaboration as an alternative to traditional service delivery mechanisms (LeRoux 2007; Collins 2006; LeRoux et al. 2010). Several different types of public sector service contracts, or interlocal service agreements (ISAs), are now commonly employed by state and local governments, including intergovernmental service contracts, joint service agreements, intragovernmental consolidation, and intergovernmental service transfers (LeRoux 2007). Generally, ISAs are legally binding agreements in which one [local] government jurisdiction pays a neighboring jurisdiction to either permanently or temporarily deliver a particular service (e.g., trash

[1] Friesema's findings have been echoed in more recent scholarship (see e.g., Frederickson 1999; Feiock 2004, 2007).

collection, policing). As of 1999, 45 states and a majority of cities and counties relied on ISAs to deliver services (Walker 1999).

While the growth in ISAs can certainly be attributed to an interest in maximizing economies of scale, three other factors have also prompted their uptake. First, state and local governments are increasingly facing higher levels of fiscal stress (Krueger and McGuire 2005; Greene 1996, 2002). At the local level, this stress tends to be characterized by diminishing (or even legislatively frozen) property tax rates, rising service provision costs, and lower economic growth (Krueger and McGuire 2005; Greene 1996, 2002). As LeRoux (2007) notes, when "faced with the reality of limited resources and increasing citizen expectations, many local governments have turned to service contracting as a way of saving money or at least avoiding cost increases" (LeRoux 2007, p. 1).

Second, as the scope of government has increased over the last century, there is growing evidence that many of the problems now confronting state and local governments are increasingly too difficult or "wicked" for any single jurisdiction to address alone (Jolley 2008; Kettl 1995, 2002, 2006). The clearest example here comes from efforts to abate environmental pollution in both watersheds and the atmosphere. As the old adage goes, these sorts of problems *know no bounds* (or boundaries). Attempts to address wicked problems quickly outpace the financial and human resource capacities and capabilities of any single jurisdiction (Greene 1996, 2002; Kettl 2006). Interlocal collaboration and cooperation are, in this case, a prerequisite to successful outcomes.

Third, since the 1980s, industrialized governments around the world have been adopting principles and prescriptions coming from the NPM movement (Osborne and Gaebler 1992; Kettl 1995, 2002; Milward 1996; Savas 1982). Simply, in an effort to improve cost efficiency and

effectiveness, service delivery quality, accountability, and transparency in government agencies, many politicians and practitioners have advocated for greater reliance on market mechanisms in the delivery of public goods and services (e.g., Milward 1996; Kettl 2002; Osborne and Gaebler 1992; Savas 1982). This push has led to an increase in privatization and greater dependence on market-like exchanges in government agencies. Underpinning this trend are two basic theoretical assumptions: 1) workers in the private sector are rational actors who are motivated by profit and will consequently administer programs as efficiently as possible (Greene 2002; Van Slyke 2007; Jolley 2008); and 2) public organizations can be designed in ways that harness the cost saving benefits seemingly inherent in private organizations and market-like exchanges (Osborne and Gaebler 1992; Savas 1982; Van Slyke 2007). Taken together, these two factors have led to a growth in contracting and collaboration among public, private, and nonprofit organizations (see e.g., Frederickson 1999; Milward 1996). As noted earlier, a majority of cities and counties now rely on ISAs as one mechanism for the provision of goods and services to citizens.

Interestingly, many PSM scholars have criticized the increased reliance on market-like mechanisms and the NPM logic, arguing the motives of public sector employees tend to be qualitatively different from, and more altruistic than, those held by their private sector counterparts (see e.g., Houston 2000, 2009; Moynihan 2008; Perry and Hondeghem 2008; Brewer 2003). While there is evidence private sector employees may have public service motives and public organizations may benefit from certain private sector practices (e.g., Houston 2000; Frank and Lewis 2003; Alonso and Lewis 2001), PSM scholars have expressed concerns over the core assumptions espoused in the NPM philosophy. For PSM scholars, this philosophy generally assumes that: 1) workers are rational rather than other-regarding actors, 2) individualized incentive systems are more likely to motivate employees than collective incentive

systems, and 3) the institutional structure of public organizations should primarily be grounded in NPM principles rather than other, more collective designs (Perry and Hondeghem 2008, p. 7). [2] In emphasizing these principles, PSM scholars fear NPM practices may lead to instances in which the altruistic intentions of public sector employees are diminished or even crowded out entirely (e.g., Moynihan 2008; Houston 2009).[3]

To reduce the likelihood that PSM will be crowded out by market mechanisms, Moynihan (2008) argues the logic underpinning both NPM and PSM should be married in ways that favor and give primacy to the altruistic intentions of public employees.[4] He suggests this may be accomplished by: 1) disconnecting high-powered incentives from measured performance, 2) linking performance measures to intrinsic values, 3) building a public service culture, and 4) placing greater emphasis on PSM in the selection process (p. 260). Within these factors, Moynihan highlights the importance of building a public service culture in any effort to manage contractual relationships. He contends a robust public service culture can mitigate the opportunistic behavior of contractors through strong norms reinforced by interpersonal exchanges (p. 261; see also, Pearce 1993, p. 1094). This process occurs in the presence of good interpersonal communication and relational ties (of the type often found in relational contracts) that supplement formal contracts with trust and long-term relationships rather than competition and gaming (pp. 260-261; see also, Romzek and Johnson 2005; Van Slyke 2003, 2007). Practically, contracts should be open-ended to provide greater potential for extra-role behavior, and must incorporate procedural fairness (p. 261). In theory, pursuing these sorts of efforts may

[2] Although Perry and Hondeghem (2008, p. 7) argue "these divides may blur and not be conceptually distinct in practice," their assertions have been used to frame many of the subsequent arguments levied by PSM scholars against NPM. Less attention has been directed toward instances when divides do, in fact, "blur" in important ways.

[3] The tacit assumption here is that PSM results in better organizational outcomes than NPM.

[4] Moynihan argues it is both impractical and too late to abandon the market model altogether. He correctly notes NPM is popular among politicians, practitioners, and citizens, and is now part and parcel of the public service.

crowd in (rather than crowd out) altruistic behavior by creating a collective culture that allows for greater coordination between agencies while concomitantly signaling to employees what the organization values and minimizing the seemingly negative effects of the market model (p. 261).

Many of the points raised by Moynihan tie directly into existing research on contracting, collaboration, and interlocal service agreements. For instance, LeRoux and colleagues (2010) provide evidence that interlocal cooperation is strongest when managers network with one another through regional associations and councils of government, and when managers share similar professional values and norms. Likewise, in their study of several contracts managed in Kansas, Romzek and Johnston (2005) found high levels of professionalism led to greater deference and autonomy in the contracting process; monitoring and auditing mechanisms became less important in these instances. Taken together, these findings comport with past research pointing to the importance of relational contracting and mutually beneficial exchanges (and contract adjustments) based on trust and shared interests (e.g., Sclar 2000; Romzek and Johnston 2005; Frederickson 1999; Friesema 1971; Van Slyke 2007).

In many ways, the strongest consideration of the possible links between interpersonal relationships and relational contracting traces from Van Slyke's (2007) examination of contracts made between public and nonprofit administrators involved in social service exchanges in New York. Van Slyke examines these contractual relationships through two different theoretical lenses: agency and stewardship theories. Stewardship theory arose as a direct challenge to agency theory, which holds individuals are utility maximizers and that the interests of principals and agents may diverge in significant ways. Divergence, in the case of agency theory, can be managed by employing various structural control mechanisms to direct agents (Davis, Schoorman, and Donaldson 1997; see also Van Slyke 2007; Dicke 2002; Dicke and Ott 2002;

Morgan et al. 1996). Challenges to the limits of agency theory in psychology, sociology, and business administration ultimately gave rise to stewardship theory, which represents an attempt to explain organizational relationships through other, noneconomic lenses (see e.g., Davis et al. 1997, p. 20; Hirsch, Michaels, and Friedman 1987; Perrow 1986; Doucouliagos 1994). At the most basic level, stewardship theory represents a "model of man…based on a steward whose behavior is ordered such that pro-organizational, collectivistic behaviors have higher utility than individualistic, self-serving behaviors. Given a choice…, a steward's behavior will not depart from the interests of his or her organization" (Davis et al. 1997, p. 24).

Van Slyke (2007) applies both of these theories to examine, more critically than past efforts, whether social service contracts between government and nonprofit administrators more closely align with aspects of agency or stewardship theory. He suggests contractual relationships viewed through agency theory are characterized by an assumption that the goals of principals and agents will likely be divergent. Consequently, it becomes important for principals to, for instance, assign risk to the agent, monitor agents more frequently, and develop sanctioning and incentive systems that ensure goal alignment through control-oriented approaches. The aim is to eliminate opportunistic behavior by monitoring, sanctioning, and incentivizing agents at the appropriate level. On the other hand, stewardship theory presupposes mutual goals and shared objectives guide the contracting process. While stewardship theory implies larger up-front transaction costs, it also assumes better outcomes over time. Trust and reputation play a stronger role in the contracting process; sanctioning and monitoring are used less frequently and serve primarily as mechanisms for realigning the goals of both parties. Agents are granted greater responsibility, autonomy, and power, and efforts are taken to develop shared cultures and norms and to provide other, non-pecuniary rewards intended to ensure continued goal alignment.

Van Slyke further suggests the differences between agency and stewardship theories lead to two different postulates about how the contract management process should [normatively] work. Simply, agency theory leads to the conclusion that monitoring and sanctioning are more common when principals do not trust providers; stewardship theory, conversely, relies more on trust and involvement and less on monitoring and sanctioning. Interestingly, though, results from Van Slyke's research suggest elements of both agency and stewardship theories explain the contractual relationship between government and nonprofit administrators. He proposes that both theories are ultimately complementary, context matters, and contractual relationships evolve over time—frequently reflecting the level of perceived trust present as relationships mature between principals and providers. Unfortunately, little is known about the evolution of trust in public organizations. In fact, Van Slyke is quick to point out that the inherently political environment within which public organizations operate—an environment characterized by intense scrutiny and regular calls for increased oversight and accountability—may make it difficult for public organizations to trust providers early in their relationship.

While this trend may hold for nonprofit and private providers who contract with government organizations, there is considerable reason to suspect formal interlocal service agreements between governments, and especially local governments, may be subject to higher levels of trust and professionalism and lower levels of monitoring and sanctioning. For instance, LeRoux and colleagues (2010) argue research on local government contracting and collaboration—even when studied from different theoretical perspectives—converges "on the principle that social networks help establish trust, create norms of reciprocity, and reduce transaction costs, thereby increasing the likelihood that local government officials will engage in service cooperation" (p. 269). Research further demonstrates these sorts of social networks are

both common and frequently utilized in the context of local governments (e.g., LeRoux et al. 2010; Frederickson 1999; Feiock 2004, 2007; Collins 2006; Thurmaier and Wood 2002; Wood 2006; Friesema 1971; Marando 1968; Zimmerman 1974; Smith 1979).

If the assertion made by LeRoux and colleagues (2010) is true, it seems likely the nature of ISAs should more closely align with the principles and practices of stewardship theory rather than agency theory. In other words, it should be more likely local government administrators will believe their goals are similar to those of their service providers, who, in this instance, include fellow cities and other neighboring jurisdictions; furthermore, trust and autonomy should be more important than sanctioning and monitoring. Administrators should generally see greater value in contracting and collaboration (through ISAs), and subsequently believe ISAs increase organizational performance.

In addition, many of the elements Moynihan (2008) argues should be employed throughout the contracting process to safeguard the altruistic intentions of public employees (while simultaneously marrying the market model and PSM) are more likely to be present in ISAs to begin with—namely, a strong public service culture, norms frequently reinforced through interpersonal exchanges and social networks[5], good communication and relational ties, greater trust, open-ended contracts, and elements of procedural fairness. In many ways, ISAs arguably represent a formal mechanism that fosters a collective culture across public organizations—one that allows for greater coordination between agencies while minimizing the seemingly negative effects of the market model and the contracting process generally (Moynihan 2008). If ISAs represent a method for pursuing coordinated behavior through shared, collectivistic cultures and the arguments raised by PSM scholars hold merit, it seems likely employees with higher levels of public service motivation should report trust matters more than

[5] For evidence of this tendency, see LeRoux, Brandenburger, and Pandey (2010).

monitoring and sanctioning in ISAs. Because ISAs allow local governments to do more with less, employees with higher levels of PSM should also report stronger organizational performance. Therefore, the following hypotheses seem appropriate:

H_1: Employees with higher levels of public service motivation are more likely to value trust and cooperation than mechanisms for monitoring and sanctioning collaboration partners.

H_2: Employees with higher levels of public service motivation are more likely to report trust and cooperation improves organizational performance more than monitoring and sanctioning.

STUDY DESIGN, SAMPLE CHARACTERISTICS, AND MEASUREMENT

Data for this study come from Phase IV of the National Administrative Studies Project (NASP-IV). NASP-IV is multi-method study, a key part of which includes a survey administered to a nationwide sample of city managers, assistant city managers, and department heads in U.S. local government jurisdictions with populations at, or above, 50,000 residents. Departments surveyed include Finance/Budgeting, Public Works, Personnel/HR, Economic Development, Parks and Recreation, Planning, and Community Development.

The sample design and construction for the NASP-IV study was aided by the International City/County Management Association (ICMA). ICMA is widely regarded as the authoritative source of information about U.S. local government jurisdictions and professionals serving in these jurisdictions. Based on study criteria, ICMA compiled a list with contact details of potential respondents.[6] The NASP-IV team used the initial list provided by ICMA and augmented it in a number of ways to finalize the sample. These steps—relying on publicly available information—included:

[6] For policy reasons, ICMA was not able to provide e-mail addresses.

1. Verifying the accuracy of the information;
2. Augmenting the list where ICMA list did not have complete information;
3. Correcting the list to ensure only individuals who met study criteria were included; and
4. Compiling working e-mail addresses for sample members.

These efforts resulted in a sample of 3,316 potential respondents. The study protocol was reviewed and approved by the Institutional Review Board at the University of Kansas. Each respondent in the sample received an initial letter through the U.S. mail that introduced the project and provided details on how to participate in the study. Potential respondents were directed to the study website and provided a secure participation code. On visiting the website, the respondent received an informational note about their rights as a study participant. This note highlighted participation was voluntary; except for respondents' time there were no foreseeable risks; and the study team would take all necessary steps to protect respondents' confidentiality, including conducting analyses and reporting results at the aggregate level only. After the initial letter, multiple methods were used to follow-up respondents, including e-mail, fax, and phone calls. When the study concluded, 1,538 individuals had participated for a response rate of 46.4 percent. The 1,538 respondents came from 545 different jurisdictions—with one respondent from 126 jurisdictions, two respondents from 130 jurisdictions, and three or more from 289 jurisdictions.

Select demographic characteristics of the 1,538 respondents are provided in Table 1. The mean age of respondents was 51.4 with an inter-quartile range of 10 (25th percentile being 47 and 75th percentile being 57). As expected in this sample, a sizable majority were male (70.6 percent), white (85.9 percent), highly educated (more than 60 percent with graduate degrees), and well compensated (68.3 percent with salaries over $100,000). The table also displays the

functional specialization of managers: 28.6 percent were general managers (city managers or deputy/assistant city managers) and the rest managed specific city departments and/or functions. This distribution closely matched the distribution of functional specializations in the sample.

<INSERT TABLE 1>

We use multiple survey items to operationalize four latent constructs: PSM, monitoring and sanctioning activity, trust, and perceptions of organizational effectiveness. First, PSM represents one of the most sophisticated measurement scales in public management. For the purposes of this paper, we rely on six survey items to assess PSM.[7] Second, we used five survey items to examine respondents' attitudes toward contracting and interlocal service agreements. Two of these items assess respondent beliefs that monitoring and sanctions are necessary for the success of collaborative efforts, and three tap the degree of perceived trust that managers display toward ISA partners. Finally, we employ two measures to tap overall organizational effectiveness. To rule out alternative explanations, we also employ four sociodemographic characteristics as full model covariates: race, gender, age, and education.[8] A list of all questionnaire items used can be found in this paper's appendix.

METHODS, RESULTS, AND DISCUSSION

In this paper we analyzed all survey data using multilevel structural equation modeling (MSEM). MSEM provides several distinct advantages over alternative statistical techniques (e.g. traditional multiple regression analysis). First, structural equation models—both traditional and

[7] Five of the six PSM items we use (PSM2 through PSM6) were originally developed initial public service motivation measurement instrument devised by Perry (1996). Although the first item we use was not part of the original PSM measurement instrument it partially taps other regarding behaviors, an integral element of public service motivation (Perry and Hondeghem 2008).

[8] By using the model controls as full covariates in structural equation models, it is possible to extract the variance in all constructs due to sociodemographic characteristics as opposed to the dependent variable only. This provides a much more accurate picture of the true relationships between the theoretical constructs of interest.

multilevel—correct for measurement error by separating the unique variance of questionnaire items from the variance shared between items presumed to tap the same underlying construct (Brown 2006; Kline 2005). Second, unlike traditional statistical techniques, SEM allows researchers to specify complex indirect relationships between variables in a single model. For the purposes of this paper, we suspect the relationship between PSM and perceived organizational effectiveness in the context of interlocal service agreements is indirect via perceptions of trust toward collaboration partners and monitoring activities. Finally, statistical advances now make it possible to build SEM models while accounting for nested data structures (Cheung and Au 2005; Muthen 1994; Selig, Card, and Little 2008). The data set we use for this paper, NASP IV, surveyed over 1500 individuals across more than 500 municipal government organizations. Because nested data structures (e.g. individuals within organizations) violate the independent and identically distributed assumption associated with traditional statistical models, parameter estimates can be biased if researchers ignore data nestedness (Snijders and Bosker 1999). We used Mplus version 6 to test a series of models that account for the nested data structure (Muthen and Muthen 1998-2010).

Before delving into the statistical findings, it is appropriate to discuss a few points regarding model specification and estimation. First, the monitoring and organizational effectiveness constructs used in this model are defined by only two indicators. When a latent construct is defined by fewer than three indicators it is under identified because the number of estimated parameters exceeds the known information (Brown 2006). Because this can pose problems for model estimation, we constrained the factor loadings associated with the monitoring and effectiveness constructs to equality to ensure that each construct is identified. Second, the PSM construct is defined by three indicator parcels as opposed to six single items.

Indicator parcels are advantageous when single items are either not distributed normally (Hau and Marsh 2004) or violate the continuous variable assumption associated with SEM models (Little, Cunningham, Shahar, and Widaman 2002). In this case, we constructed three parcels from six indicators by averaging pairs of indicators. As such, the item parcels to more closely adhere to the normal distribution and continuous assumptions associated with SEM.[9] The appendix provides information on how we generated each parcel.

The estimation of MSEM models differs slightly from traditional SEM. MSEM models in Mplus use an estimator that provides standard errors and chi-squared test statistics robust to data non-independence. As such, chi squared difference tests must be corrected based on scaling factors. Additionally, there is only limited guidance on appropriate group and individual level sample size in multilevel models, but research indicates that too few groups poses a greater threat to accurate analysis than to few respondents within each group (Hox and Maas 2001). Because the group level sample size in the NASP IV data set is large (over 500 municipal governments surveyed), and group level effects with cluster sizes of one can be difficult to interpret, we analyze only those jurisdictions offering responses from two or more individuals. After eliminating municipalities with a single respondent, the individual level sample size was reduced to 1,417, and the organization level sample size was reduced to 427. The average number of respondents for the remaining municipalities is 3.3.

To determine if multilevel techniques were necessary, we examined the within and between group covariance structures and the ICC (intraclass correlation coefficient) values for each manifest variable. Although the choice to pursue multilevel modeling strategies should not be based on ICC values alone, research suggests that intraclass correlations as low as .05 can bias

[9] For the purposes of this paper only the PSM construct is defined by parcels, because it was the only construct for which there were a sufficient number of single items.

parameter estimates (Julian 2001). Table 2 provides the within (individual) level covariance structure, the organization (between) level covariance structure, and the ICC values associated with each manifest variable. The ICC values range from .029 to .268, which suggests that between 2.9% and 26.8% of the variance in manifest variables is accounted for by organization level differences. Due to the relatively large proportion of variance in some indicators explained by organization level differences, we chose to model the multilevel structure.

<INSERT TABLE 2>

To account for data nestedness, we estimated three benchmark models to determine if modeling the multilevel structure improved the overall fit of the model (see also Mehta and Neale (2005) and Selig et al. (2008) for illustrations of building MSEM models). In addition to three commonly used model fit measures, CFI, NNFI, and RMSEA, we also examined the SRMR. SRMR is a useful model fit measure when modeling multilevel structures because it assesses fit for both the within and between group levels. Research suggests that CFI and NNFI values greater than .95 indicate good fitting models, whereas RMSEA values less than .06 and SRMR values less than .08 indicate good fitting models (Hu and Bentler 1999). In the first model we estimated a null model that freely estimates all parameters at the within level, but constrains all parameters at the between level to zero. While this model fits the data according to the RMSEA and $SRMR_W$ values, it does not fit according to the other measures. To improve the fit of the model, we estimated an independence model where the factor loadings at the between group level are freely estimated. While the findings suggest that this model fits the data based on all measures except the $SRMR_B$, it may be possible to improve fit further by freely estimating

factor covariances at the between group level.[10] Finally, we estimated a saturated model where all parameters were freely estimated. The results suggest that this is the best fitting model. However, the estimated organization level covariances between 1) PSM and monitoring and 2) PSM and trust approached zero. As such, we constrained these values to zero. We used this as a final model to further explore the relationships between PSM, contract monitoring, trust in collaboration partners, and perceived organizational effectiveness. Table 3 provides model fit statistics for the null, independence, and saturated models.

<INSERT TABLE 3>

Finally, we introduced four full covariates, or model controls, at the individual level to rule out alternative explanations.[11] Several studies suggest that professionalism, gender, education, and age significantly influence PSM (see Pandey and Stazyk (2008) for a comprehensive review). We included variables to account for gender, age, the presence of an MPA degree, and race to exclude these as possible alternative explanations.[12] Table 4 provides the parameter estimates and significance levels for the model covariates. Although this paper focuses primarily on the relationship between PSM and perceptions of organizational effectiveness via trust and monitoring activities, there are some significant relationships between control variables and other model constructs. First, older individuals and those holding MPA degrees report significantly greater PSM, but white individuals report significantly lower PSM.

[10] The independence model returned two inadmissible solutions. The results indicate that the between level residual variances for TRUST2 and ORGEFF were negative. However, Hox and Maas (2001) illustrate that this is extremely common in MSEM, and suggest that it is not unreasonable to allow these estimates to be negative.

[11] To correct for missing data we used the FIML estimation. However, this strategy discards observations missing information on model controls. This reduced the total sample size to 1355 respondents in 426 organizations. The average group size was also reduced to 3.2.

[12] Although previous research suggests that education and professionalism both have distinct effects on PSM we include only education level here to avoid multicolinearity problems. In this case education likely serves as a reasonable proxy for professionalism.

Second, females are more likely to favor monitoring and sanctioning activities to ensure collaboration effectiveness, whereas whites are less likely to support these measures. Third, older respondents tend to be more trusting of their collaboration partners, but no other control variables influence trust. Finally, white respondents tend to perceive their organizations as less effective, in contrast older respondents and MPA trained managers tend to perceive their organizations as more effective.

<INSERT TABLE 4>

Figure 1 illustrates the standardized parameter estimates and model fit statistics for the MSEM model that includes all covariates. The diagram we depict in figure 1, however, does not present information about the significance of the hypothesized parameters. To determine the significance of each parameter, we conducted chi square difference tests when a given pathway was constrained to zero.[13] Three of the five regression parameters in the model significantly contribute to overall model fit. The $\Delta\chi^2$ column presented in table 5 provides an accurate representation of changes in overall model fit when that parameter was excluded from the model. The pathways between PSM and trust in ISA partners ($p = .047$), PSM and organizational effectiveness ($p = .023$), and trust and organizational effectiveness ($p < .001$) were all significant contributors to the model. Table 5 presents the significance levels for all parameters in the within portion of the model.

<INSERT FIGURE 1 AND TABLE 5>

[13] Because the manifest variables in this analysis violate the independence assumption, chi square difference tests cannot be conducted in the usual way. We conducted all difference tests based on scaling corrections provided in the Mplus output. For two parameters (the relationship between PSM and trust as well as the relationship between PSM and effectiveness) this method resulted in a negative value. While this is not uncommon, an alternative test statistic, the Strictly Positive Satorra-Bentler Chi-Square, was used to determine the significance of these parameters (see Asparauhov and Muthen 2010; Satorra and Bentler 2010).

The results presented in figure 1 illustrate that those respondents who report higher PSM tend to trust collaboration partners more, and perceive their organizations as more effective. Additionally, those who perceive their ISA partners as more trustworthy also tend to rate their organizations as more effective. By virtue of its influence on trust, PSM also has a significant indirect relationship with organizational effectiveness. Total indirect effects are estimated as the product of multiple direct effects (Kline 2005). In this model the direct effect of PSM on organizational effectiveness is .160, and the indirect effect of PSM on organizational effectiveness via trust is .065. The overall effect of PSM on perceptions of organizational effectiveness is estimated as the sum of the direct and indirect effects, in this case .225. Finally, consistent with our hypotheses, the relationships between 1) PSM and monitoring and 2) monitoring and effectiveness are insignificant. This suggests that perceived organizational effectiveness for those individuals with higher PSM is influenced by feelings of trust toward collaboration partners as opposed to the implementation of contract sanctions and monitoring.

Whereas traditional regression models calculate only a single R^2 value, structural equation models calculate an R^2 value for each endogenous variable. First, the findings we present suggest that the model controls explain a modest 2.6% of the variance in PSM. Second, PSM, in combination with the model controls, explains 2.9% of the variance in preference for monitoring activities and 7.7% of the variance in feelings of trust toward collaboration partners. Finally, all other model variables explain 16.7% of the variance in perceptions of organizational effectiveness. Although the R^2 values for PSM, trust, and monitoring are modest, the R^2 value associated with organizational effectiveness suggests that this model has reasonable explanatory capacity.

Taken together, these findings provide a first glance into the relationship between PSM and NPM. Admittedly, ISAs represent only one type of practice commonly employed as a result of the NPM movement. Moreover, the use of ISAs in the U.S. clearly predates NPM. That said, the advent of the NPM movement heralded a rise in ISAs as one alternative service delivery mechanism frequently employed by state and local governments (Schneider 2007; Agranoff and McGuire 2003). In this sense, considering the possible links between PSM and ISAs offers a glimpse into how PSM and NPM "blur" in practice (Perry and Hondeghem 2008). Here, our findings are wholly in line with propositions raised by Moynihan (2008) as well as existing research on ISAs, contracting, and collaboration (e.g., LeRoux et al. 2010; Romzek and Johnston 2005; Van Slyke 2007).

Simply, our results suggest PSM affects how senior local government managers approach and view ISAs. Managers with stronger public service motives are more likely to favor trust and collaboration in their interlocal service agreements; these managers are also more likely to believe trust and collaboration lead to increased organizational performance. Conversely, managers with higher levels of PSM are no more likely to favor or disfavor monitoring and sanctioning techniques, or to believe these techniques increase organizational performance. In this sense, our findings imply that PSM may be closely linked to principles espoused in the relational contracting literature and stewardship and social network theories—at least in terms of ISAs. Each of these perspectives maintains trust is an essential ingredient in successful contracts and ISAs. Trust reflects professional courtesy, assumes shared interest between partners, likely entails greater autonomy and discretion, and emphasizes collectivistic norms and cultures. In other words, trust creates a culture of reciprocity or mutuality that allows for enhanced

coordination between local governments and may lead to better outcomes for citizens (Le Roux et al. 2010; Moynihan 2008).

Because social networks are common among local governments, ISAs seem more likely to be grounded in professionalism and trust generally. In this case, ISAs have many of the key characteristics Moynihan (2008) argues are essential in building a public service culture capable of managing contractual relationships effectively while simultaneously allowing individuals to fulfill their public service motives. ISAs rely on strong interpersonal communication and relational ties (based on trust) that provide opportunities for extra-role behaviors and value collectivistic cultures emphasizing shared goals and coordination in pursuit of the public good. Consequently, the increase in ISAs stemming from NPM principles and practices appears to have positive performance benefits for local governments—at least among the sample considered here.

Despite these findings, there are several limitations inherent in the current study. First and foremost, we have only considered the relationship between ISAs and PSM. It is likely other NPM principles and practices may provide considerably different outcomes. For instance, consistent with Van Slyke's (2007) research, local government managers may respond quite differently when contracts are made with private or nonprofit partners rather than other local government jurisdictions; in this case, social networks may be less common, trust may be harder to find initially, and monitoring and sanctioning may matter more up front. Consequently, future research should test the links between PSM and other NPM principles and practices. Second, this project is limited to data collected from local governments. Some effort should be made to determine whether these findings hold when considering agreements between other governmental bodies—for instance, between state and local governments or across states. Third,

the relationship between contracting and collaboration and PSM is likely to be influenced by a wider range of factors than considered in this manuscript. For instance, contract management capacity is likely to have a strong relationship with many of the factors we consider. Future efforts should seek to flesh out how additional factors affect outcomes. Finally, triangulating findings through other methodological techniques—particularly qualitative approaches—would greatly enhance our understanding of the links between PSM and NPM. Despite these limitations, results clearly suggest the theoretical model tested in this study adds substantial value to PSM studies and public management scholarship.

CONCLUSIONS AND FUTURE DIRECTION

Public service motivation scholarship has long recognized the importance of considering the service ethic held by many public employees (e.g., Perry and Wise 1990; Perry 1996, 2000; Perry and Hondeghem 2008). From a purely theoretical perspective, PSM stands in stark contrast to many of the principles and practices associated with the NPM movement and efforts to reinvent government. Simply, in contrast to NPM, PSM highlights the importance of accounting for the altruistic intentions of employees and designing collective institutional structures and systems (Perry and Hondeghem 2008). In practice, however, the tendency to treat PSM and NPM as dichotomous concepts ignores the reality facing many public sector employees—a reality more appropriately characterized by an institutional landscape that encompasses elements of both PSM and NPM (see Perry and Hondeghem 2008; Moynihan 2008).

Consequently, this manuscript examines how PSM and NPM might relate to one another by considering whether senior managers in U.S. local government jurisdictions with high levels of PSM respond differently to interlocal service agreements than managers with lower levels of PSM. Findings indicate managers with higher levels of PSM are more likely to value trust and

collaboration in interlocal service agreements and to believe organizational performance is better. However, managers with strong public service motives are no more (or less) likely to value monitoring and sanctioning collaboration partners or believe monitoring and sanctioning translate into better organizational performance. Taken together, these findings support the importance of relational contracting, social networking, and trust in the contracting process. Results further suggest NPM and PSM may be complimentary when collective institutional environments exist. Nevertheless, additional research is needed to confirm findings.

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APPENDIX

Public Service Motivation

Public service motivation was assessed using six items on a 6 point scale, ranging from strongly disagree to strongly agree. Five of these items came from Perry's (1996) original questionnaire; the sixth comes from the General Social Survey. The items were coded so higher values correspond with greater public service motivation. Respondents were asked to assess agreement with the following statements:

- PSM1: Opportunities to help others in my job are important to me.
- PSM2: Meaningful public service is very important to me.
- PSM3: I am often reminded by daily events about how dependent we are on one another.
- PSM4: Making a difference in society means more to me than personal achievements.
- PSM5: I am prepared to make sacrifices for the good of society.
- PSM6: I am not afraid to go the bat for the rights of others even if it means I will be ridiculed.

For this paper, we generated three item pair parcels from six single indicators. Parceling indicators has a normalizing effect, making items more continuous by decreasing interval size and increasing the number of scale points (Hau and Marsh 2005; Little et al. 2002). The parcels were constructed by computing the means from pairs of indicators in the following manner:

- PSMPAR1 = $\frac{PSM2 + PSM5}{2}$
- PSMPAR2 = $\frac{PSM1 + PSM4}{2}$

- PSMPAR3 = $\frac{PSM3 + PSM6}{2}$

Monitoring

Perceptions toward contract monitoring and implementing sanctions were examined using two measures rated on a 7 point scale, ranging from strongly disagree to strongly agree. The items were coded such that higher values reflect greater predilection toward monitoring interlocal service partners and implementing sanctions to deter deviation from contract specifications.

- MONITOR1: The ability to monitor partners involved in cooperative agreements is essential to the success of the agreement.
- MONITOR2: Appropriate sanctions must exist to deal with those participants who violate cooperative agreements.

Trust

Trust was assessed based on three items based on a 7, point scale ranging from strongly disagree to strongly agree. All items were scaled so higher values reflect greater trust in collaborative partners.

- TRUST1: My city and our cooperation partner(s) equally share the cost of cooperation.
- TRUST2: In general, I can trust our cooperation partners.
- TRUST3: My city and our cooperation partner(s) often run into conflicts over what is good for our respective cities. (Reversed)

Organizational Effectiveness

Managerial perceptions of organizational effectiveness were derived from responses to two questionnaire items. Respondents were asked to rate levels of organizational effectiveness between 0 (not effective at all) and 10 (extremely effective) based on the following statements:

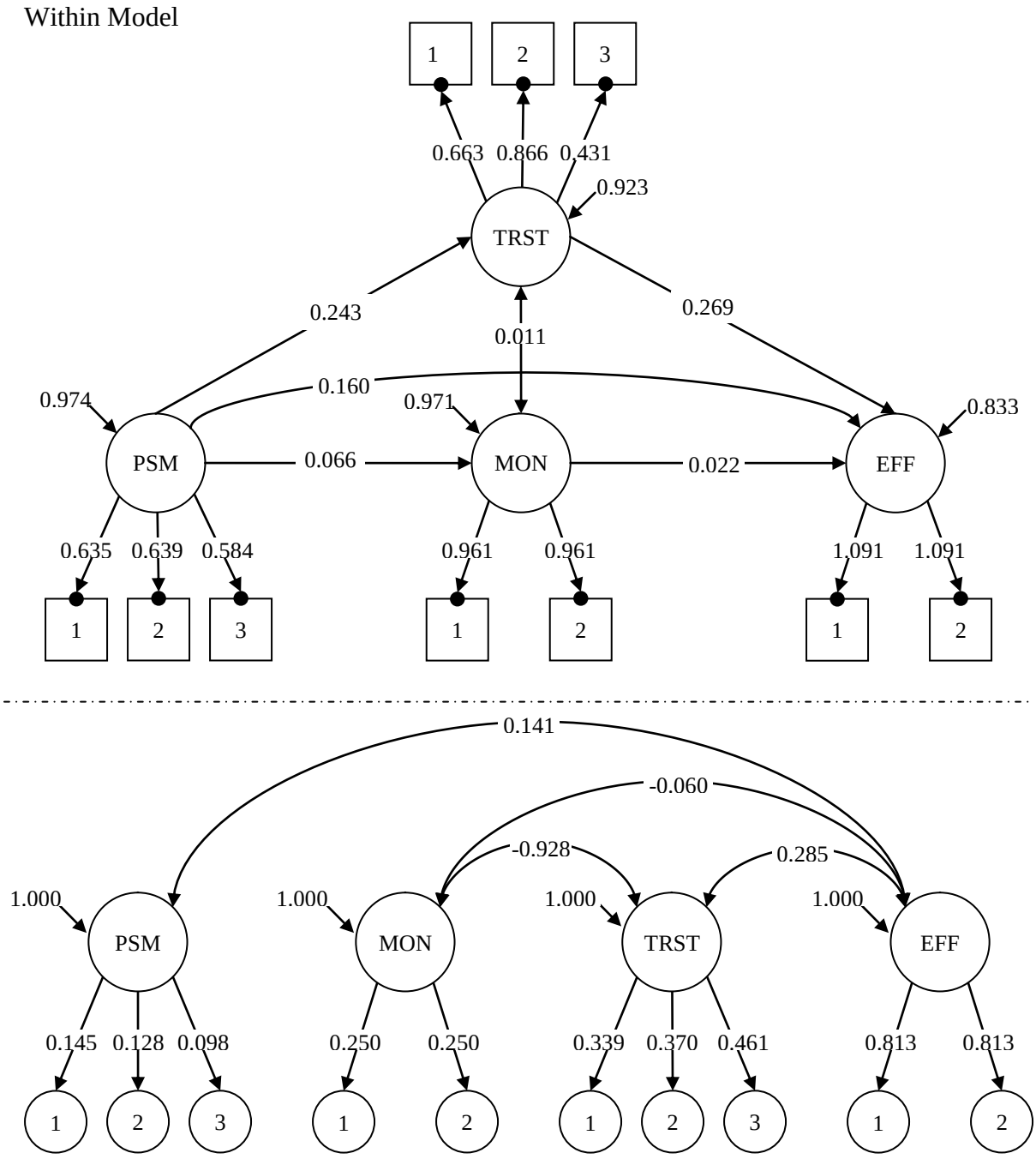
- ORGEFF: On an overall basis, please rate the effectiveness of your *organization* in accomplishing its core mission.
- STRATEFF: If decision making involves *processing and transmitting information across different levels of an organization*, please provide the following information regarding your city's ability to make strategic decisions.

Model Controls

- Race: 0=Other; 1=White
- Gender: 0=Other; 1=Female
- Education: 0=Other; 1=MPA
- Age of respondent in years

FIGURES AND TABLES

Figure 1. Standardized MSEM Parameter Estimates.



Model Fit: $\chi^2_{(88,\ n=1,355)}$ = 173.226, p < .001; RMSEA = .027; CFI = .978; NNFI(TLI) = .967; $SRMR_w$=0.035; $SRMR_b$=0.164

Table 1. Sample Characteristics (n = 1,538).

	Percent
Gender	
Female	29.4
Male	70.6
Education	
Some College	2.9
Bachelors	32.5
Masters in Public Affairs (MPA, MPP)	37.2
Other Graduate Degree	27.4
Race	
Hispanic Origin	4.1
Black or African American	6.7
White	85.9
Asian	2.3
Salary	
Less than $50,000	1.4
$50,000 to $75,000	6.9
$75,000 to $100,000	23.5
$100,000 to $150,000	50.2
$150,000 or more	18.1
Functional Specialization	
City Manager /CAO	14.0
Deputy or Assistant City Manager	14.6
Finance/Budgeting	12.3
Public Works	11.6
Personnel/HR	10.9
Economic Development	7.7
Parks & Recreation	13.7
Planning	10.9
Community Development	4.3

Table 2. Covariance Structure and ICC Values.

Within (Individual) Level Covariances

	TRUST1	TRUST2	TRUST3	MONITOR1	MONITOR2	ORGEFF	STRATEFF	PSMPAR1	PSMPAR2	PSMPAR3
TRUST1	2.074									
TRUST2	0.524	1.421								
TRUST3	0.354	0.398	2.030							
MONITOR1	-0.010	0.088	-0.370	1.511						
MONITOR2	-0.035	0.052	-0.266	0.937	2.165					
ORGEFF	0.181	0.283	0.211	0.052	0.014	1.754				
STRATEFF	0.301	0.357	0.348	0.103	0.076	1.175	3.336			
PSMPAR1	0.096	0.132	0.006	0.050	0.068	0.156	0.188	0.496		
PSMPAR2	0.109	0.167	0.024	0.047	0.026	0.158	0.209	0.415	0.527	
PSMPAR3	0.148	0.174	0.004	0.077	0.076	0.177	0.198	0.380	0.382	0.616

Between (Organization) Level Covariances

	TRUST1	TRUST2	TRUST3	MONITOR1	MONITOR2	ORGEFF	STRATEFF	PSMPAR1	PSMPAR2	PSMPAR3
TRUST1	0.357									
TRUST2	0.186	0.212								
TRUST3	0.096	0.135	0.179							
MONITOR1	-0.062	-0.106	-0.036	0.109						
MONITOR2	0.001	-0.079	-0.050	0.054	0.091					
ORGEFF	0.119	0.092	0.082	0.009	-0.043	0.468				
STRATEFF	0.158	0.119	0.109	-0.028	-0.087	0.693	1.219			
PSMPAR1	0.000	0.001	0.001	0.014	-0.021	0.033	0.053	0.020		
PSMPAR2	-0.009	-0.007	0.014	0.023	-0.010	0.032	0.050	0.015	0.016	
PSMPAR3	-0.026	-0.018	0.010	0.024	-0.010	0.032	0.065	0.014	0.016	0.019
ICC Values	0.147	0.130	0.081	0.067	0.040	0.211	0.268	0.040	0.029	0.029

Table 3. Model Fit Statistics.

Model		χ^2	*df*	*p*	CFI	NNFI	RMSEA	SRMR Within	SRMR Between
	Null Model	330.149	86	<0.001	0.938	0.935	0.045	0.046	0.384
	Independence Model	142.725	68	<0.001	0.981	0.975	0.028	0.043	0.264
	Saturated Model	129.418	64	<0.001	0.983	0.977	0.027	0.043	0.209

Note: The saturated model fit statistics reported here are based on a model that does not estimated the organization level covariances between 1) PSM and Monitoring or 2) PSM and Trust.

Table 4. Control Variable Estimates and Significance Levels.

	β	*SE*	*EST/SE*	*p*
Public Service Motivation				
Female	0.088	0.066	1.332	0.183
White	-0.254	0.093	-2.723	0.006
Age	0.018	0.004	3.967	0.000
MPA	0.143	0.060	2.377	0.017
Monitoring				
Female	0.167	0.095	1.758	0.079
White	-0.373	0.130	-2.863	0.004
Age	0.003	0.005	0.555	0.579
MPA	0.005	0.082	0.057	0.955
Trust				
Female	-0.132	0.115	-1.150	0.250
White	0.118	0.161	0.735	0.463
Age	0.010	0.006	1.787	0.074
MPA	0.042	0.089	0.471	0.638
Organizational Effectiveness				
Female	-0.021	0.081	-0.256	0.798
White	-0.211	0.104	-2.036	0.042
Age	0.019	0.005	4.193	0.000
MPA	0.130	0.073	1.784	0.074

Table 5. Parameter Significance Levels.

Model	*df*	$\Delta\chi^2$	Δdf	*p*
Full Model	88	N/A	N/A	N/A
PSM-->Monitoring	89	2.263	1	0.132
PSM-->Trust	89	3.944	1	0.047
PSM-->Effectiveness	89	5.202	1	0.023
Monitoring-->Effectiveness	89	0.166	1	0.684
Trust-->Effectiveness	89	10.884	1	<0.001