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THE QUASI-MARKETS OF SOCIAL SERVICES: THE COMPETITIVENESS OF RUSSIAN NONPROFIT ORGANIZATIONS AGAINST FOR-PROFIT ORGANIZATIONS AND PUBLIC PROVIDERS

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THE QUASI-MARKETS OF SOCIAL SERVICES: THE COMPETITIVENESS OF RUSSIAN NONPROFIT ORGANIZATIONS AGAINST FOR-PROFIT ORGANIZATIONS AND PUBLIC PROVIDERS

This paper explores the competitive bidding process in eight regions of Russia where local governments entered into. The bidding documents have been analyzed in terms of the type of provider ownership, public or private, levels of nonprofit activity, and nonprofit competitiveness. The findings indicate considerable discrepancies between the numbers of competitive tenders for social services in the regions in question. The types of social services that local governments procure vary significantly from region to region. It is suggested that these differences are an essential factor in nonprofit participation. The most active nonprofit involvement is found in regions where procured services are that which the nonprofits usually produce. The results reveal a substantial lack of competition in Russian social service quasi-markets. In many cases, nonprofit organizations can be competitive in terms of competitive bidding in Russia; however, this result raises questions about the quality of social services procured by local and regional authorities.

Key words: social service delivery, nonprofit organizations, social services quasi-markets, nonprofit competitiveness

JEL Classification: H57, L31, L33

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Introduction

Public service delivery via quasi-markets has become one of the main elements of ‘new public management’, the second mode of public governance development (Osborne 2006). The use of provider competitions and contracts aims to increase the efficiency of public service provision. As a result of increasingly devolutionized government, there has been an expansion of the contracting out of services to nonprofit organizations, especially in the field of social services.

Nonprofits play a growing role in social service delivery because of the non-distributional constraints and a service oriented mission – specific features of numerous nonprofits (Wolpert 2001). Therefore, the relationships between governments and nonprofits have been extensively studied in recent years. Most studies have emphasized the competitive advantages that nonprofits have over business and governmental organizations. However, they focus on the activity of nonprofits in advanced countries where markets and quasi-markets of social services are well developed and all participants of the process have to some extent equal opportunities to enter the market (Kendall, Knapp & Forder 2006; Osborne 2010). Less attention has been paid to how nonprofit involvement in government social service develops in transition economies such as Russia, where the key characteristic of the social service sphere is the state predominance. Previous research has been concentrated essentially on overall tendencies of nonprofit development in countries in transition (Kuti 2004; Jakobson & Sanovich 2010) or on social service provision when the quasi-markets were underdeveloped (Sokolowski 2000; Struyk 2002; Chagin & Struyk, 2004).

This paper explores the competitive bidding process in eight regions of Russia in 2011 and 2012 where local governments entered into social service quasi-markets. This is a pilot study, preliminary to a full-scale one, which will be extended to all Russian regions. The aim is to investigate whether nonprofits are successful when they have to compete with other social service providers for government contracts. We evaluate the competitiveness of nonprofit providers in the regional social service quasi-markets in eight Russian regions. The official website of the Russian Federation on procurement information, where competitive tendering documents are presented, has been used as the main source of data. To investigate the participation of nonprofits, the evaluation records of the tenders have been analyzed in terms of the type of provider ownership (public or private), the levels of nonprofit activity, and the competitiveness of nonprofits. The figures are the number of for-profit and nonprofit firms and public organizations bidding on contracts to provide social services, the price they offer, and the number of tenders which nonprofits took part in.

The findings indicate considerable discrepancies between the number of social service competitive tenders in the regions in question. The types of social services that the local governments procure vary significantly from region to region. They range from strictly standardized services to services with intangible quality. We suppose that these differences are an essential factor of nonprofit participation in procurements because of the characteristics of nonprofit organizations. The most active nonprofit involvement has been found in regions where procured services are typical for nonprofit providers.

As the main result, several types of nonprofit behaviour in the regional quasi-markets have been identified. Nonprofit organizations differ considerably in the intensity with which they compete with others. Local peculiarities of quasi-markets create different opportunities for nonprofits to compete with business and public organizations. The examination of bidding documents in some regions has shown either a monopoly of nonprofit providers or their non-appearance as bidders.

This paper is structured as follows. In the next section, the essential characteristics of quasi-markets as components of public governance are presented. The reasons to involve nonprofit organisations in quasi-markets as local government social service contractors are also reviewed. The third section describes the results of the competitive bidding process examination. The forth section is devoted to a discussion of the findings and conclusion.

Theoretical Background

Dramatic changes in the public sector in many countries in the last decades imply the implementation of a public service quasi-market as one of the main instruments for increasing government efficiency. Welfare reforms in developed countries have raised the importance of independent nonprofit organizations as government contractors and, as a result, scholarly interest in the benefits of nonprofit service provision.

Improving the Efficiency of Government: a Quasi-market

The implementation of the quasi-market mechanism into public governance has allowed authorities in many countries to combine the principles of the traditional approach with market ones for the benefit of public service efficiency. The quasi-market essence is that a state continues to finance and regulate goods and service provision, but a direct public delivery monopoly is absent. This process is open to all types of providers, including governmental, for-profit and nonprofit organisations that have to compete for service delivery contracts.

Quasi-market principles are implemented in public social service delivery with at least two purposes. First, it increases the efficiency of social service provision financed by taxes. On the one hand, provider competition encourages the reduction costs and losses, linked with X-inefficiency (Le Grand 1991; Kähkönen 2005; Kitchen 2005). On the other hand, contracting out gives the opportunity to enjoy provider flexibility, better technology and better comprehension of the target groups' needs (Feiock & Jang 2009). Furthermore, competition of service providers may improve allocative efficiency because the direct choice of alternative sources of supply raises the economic power of social service users and, consequently, allows them to choose the best option (Le Grand 1991; Domberger & Jensen 1997).

To maintain the competition between providers under government financing, demand on goods and services – a method of resource allocation – may be created in two ways. First, the recipients receive subsidies or vouchers and choose service providers themselves. Second, the choice is made by the social service authorities who determine the requirements for the quantity and quality of the services to be procured using contracts (Kitchen 2005; Le Grand 2007) via competitive bidding. In the first option, the completeness of information about the quality of different provider services is vital for effective quasi-market performance (Nyssens 2010, p.503). The efforts of the consumers to collect this information usually result in a rise in transaction costs (Williamson 1979). When competitive bidding is applied, the problem of consumer sovereignty maintenance arises. In other words, social service consumers do not have the opportunity to influence providers by means of their choice (Lowery 1998, p.160) and to satisfy their needs to a greater degree. It means there is a necessity for the authorities to make their choice between these options to satisfy recipient needs in the best manner.

The crucial factor influencing the efficiency of competitive bidding is the number of potential providers taking part. The level of competition between potential government service contractors determines to what extent the authorities can save budget expenditure. A lack of competition may become a serious limitation for competitive bidding (Dehoog 1990). Scholars speculating how many competitors would be ideal in terms of the aims of government procurement suppose, as a rule, that it has to be more than two. Dehoog (1990, p.321), and Girth and colleagues (2012, p.888) believe that three or more competitors make the tendering more efficient. Van Slyke wrote about three or more bidders at municipal level, and at the national and regional level, two competitors “may be enough if the organizations are competing for market share” (2003, p.309). Lamothe, observing previous research considered, three bidders as the minimum (2014, p.4).

Nonprofits Involvement in Social Service Delivery: Pros and Cons

The participation of nonprofit organizations in public service delivery has to be considered from the standpoint of the benefits and drawbacks. It has been mentioned that private service provision, financed by taxes, should be more efficient than public. The reasons are either a costs reduction without deterioration of the services quality or the improved quality with unchanged costs. We suppose that one of the most challenging issues related to social services is to determine its quality. Social services have the properties of credence² and emotional goods, and are greatly significant for maintaining recipients' standard of living. The technology of social service delivery is complex, and the outcomes appear to be problematic to evaluate (Van Slyke 2003; Kendall, Knapp & Forder 2006; Feiock & Jang 2009). For this reason, it may become a challenge for public authorities to standardize a service provision process with the aim of quality monitoring. As Domberger and Jensen (1997, p.71) point out, non-contractable aspects of the quality hamper the effective control of the service provision process. Under these circumstances, one of the key quality assessment criteria is the extent of consumer satisfaction, which, in turn, depends to a large degree on the attitude of social workers towards their job.

We are convinced that these features engender the high significance of nonprofit organizations as government social service providers. In many advanced countries, independent nonprofits play an important role in the sphere of social care, which the government is responsible for (Frumkin 2005, p.71). Almost three quarters of Italian social services providers are nonprofit organizations (Borzaga & Tortia 2006). In German nearly two thirds of home care services are provided by the nonprofit sector (Kendall, Knapp & Forder 2006). Thus, at present nonprofit organizations quite often become the key participants in social service provision. There are a range of explanations for this fact.

We suppose that nonprofit involvement in public service delivery may have several explanations. First, in terms of any competitive provider involvement, is a reduction in budget expenditure (Feiock & Jang 2009). Second, nonprofits, like public organizations, frequently aim at producing public goods and social welfare, and operate under non-distributional constraints. Consequently, they are more likely to care about recipient satisfaction, given the complexity of social service quality and the quality assessment and control problems (Francois 2003). In general, nonprofit service providers demonstrate greater responsiveness to the needs of their clients (Feiock & Jang 2009). Third is the use of their innovative capacity and their ability to implement innovations in social care (Osborne et al. 2008; Pestoff & Brandsen 2010; Smith &

² According to Darby and Karni, the evaluation of the credence goods quality is expensive for a consumer, for example, as in a case of medical treatment. Lack of knowledge complicates the assessment of these goods value and requires additional information costs (Darby & Karni 1973).

Smyth 2010). This means either using new technology for traditional services or the supply of new products (Smith & Smyth 2010).

However, along with these advantages, compared with for-profit providers, nonprofits face more limitations in terms of the ability to reduce inputs without a deterioration in quality. The improvement of efficiency caused by decreasing costs is possible if a service provider applies advanced methods to raise productivity under a low labour cost condition (Kähkönen 2005). In our opinion, most nonprofit organizations operate in a sphere where labour costs are the main item³, and the quality of a service depends on staff motivation and the relationship between social workers and clients. Additionally, in social care, economies of scale, which mean that costs per unit have been reduced when production grows, are frequently absent.

At the same time, the weakness of nonprofit providers who may suffer from an absence of sustainable funding and a deficit of qualified personnel leads to risks of contracting nonprofits to public service delivery (Salamon, Hems & Chinnock 2000). For instance, it may become impossible for the provider to guarantee quality and quantity of the services as contracted (Kitchen 2005, p.138). Moreover, Savas notes that for-profit social providers can be more effective than their nonprofit counterparts (Savas 2002, p.90). Another problem of contracting out to nonprofits is the possible unsatisfactory fulfilment of the contract requirements, which may cause returning delivery to public organisations (Lamothe & Lamothe 2006). Nevertheless, they found that, compared to the for-profit sector, the level of contract failure in the nonprofit sector appears to be lower.

The strengths and weaknesses of nonprofit organizations as services providers are generated by the specific characteristics of social services and nonprofits. Empirical studies concerning government contracting and government-nonprofit relationships focus on the competition level in social service quasi-markets in advanced countries (Savas 2002; Lamothe 2014) or the factors of contracting out to nonprofits (Lamothe & Lamothe 2006; Feiock & Jang 2009; Hefetz & Warner 2012). Considerably less attention has been paid to the nonprofit providers in transition economies where governmental agencies dominate the social service area. Struyk (2002) examined local governments contracting to nonprofits in seven countries in the eastern Europe-CIS region including Russia. Chagin and Struyk (2004) assessed competition for the delivery of social services in three Russian municipalities. However, those papers described the situation when social service quasi-markets, in fact, were absent in Russia. The enactment of the regulating procurement laws in 2005 and 2013 largely changed this situation in terms of different provider participation. The introduction of compulsory competitive tendering obliged

³ Findings obtained by researchers of Johns Hopkins Center for Civil Society show that in nonprofits the share of employee compensations in value added is higher than intermediate consumption (Salamon, Sokolowski, Haddock, & Tice 2013).

Russian local and regional authorities to procure goods and services and to include private and in-house providers in the competitive process.

Overall, in many countries a solid theoretical background of nonprofit participation in public service delivery has been formed. Nevertheless, there is a dearth of similar in-depth studies in Russia. Therefore, the exploration of the modern state of art appears to be necessary.

Data and Methodology

Various methods have been used to measure competition levels on quasi-markets in recent research. They encompass case studies, surveys, the use of proxies, and the direct count of procurement competition participants (Lamoth 2014). Given the drawbacks of these approaches - e.g. the subjectivity of managers' answers or the excessive generalization of proxies - in this exploration we have used the examination of competitive tendering documents. This method allows us to obtain precise details about every competitive tendering. The use of bidding documents is facilitated considerably by free access to the files of the official website of the Russian Federation on Procurement Information, our main source of data. It contains reports on all federal, regional and local government procurement contracts over the country. We have explored data on social services tendering in Russian regions over the period 2011-2012.

Looking through tender bid evaluation records, we can find information about the service itself, the number of participating bidders, the types of these entities, the price they offered, the score they were given, and who was chosen to be the authority's contractor. The competitive procurement techniques the Russian regional and local governments use are: lowest-price sealed-bid tendering, lowest-price e-auctions, and requests for proposals. All the methods evaluate potential providers in accordance with their bid price, which means that the contracts are awarded to the lowest bidders. Moreover, in the case of lowest-price sealed-bid tendering, additional requirements may be imposed, for instance, a provider's experience or qualifications. However, even in these cases, the bid price remains the main criterion of government bodies' choice.

Eight Russian regions that accounts for one tenth of all provinces in the Russian Federation were included in the sample on this preliminary stage of research. The selection was based on the overall number of private nonprofit organizations registered on January 1, 2010 per 10,000 residents. This was employed, in turn, as a proxy for a rough estimate of regional nonprofit sector sizes. The regions were selected, on the one hand, to represent the range of the figures in comparison with mean and median, on the other hand, to compare provinces where the quantities of nonprofits are similar. Full details about the distribution of the regions are given in the Appendix. The results of the selection are presented in Table 1.

Table 1. Size of nonprofit sector in the eight Russian regions

<i>Region</i>	<i>Number of Nonprofits per 10,000 residents</i>	<i>Region</i>	<i>Number of Nonprofits per 10,000 residents</i>
Perm Region	33.2	Tyumen Region	10.7
Sverdlovsk Region	30.3	Tatarstan Republic	23.7
Novosibirsk Region	34.8	Lipetsk Region	16.3
Primorsky Region	34.5	mean	27.2
Kamchatsky Region	48.0	median	25.3

Source: Information on official registration of legal entities, available at: <http://www.nalog.ru/html/docs/>; Rossijskij statisticheskij ezhegodnik (2012) [Russian Federation statistics yearbook, 2012], Moscow: Federal State Statistics Service

As Table 1 shows, the size of the nonprofit sector in these regions varies considerably. There is an insignificant difference between the mean and median, and the distribution of this variable is close to a normal one.

As a next step, initial regional samples including contracts that fell into the “Social services” category were formed. Examination of these initial samples showed that the governments treat the notion of social service too broadly. They procure two types of products: standardized products like delivery of equipment, medicines and software, repair and maintenance services, transportation services; and services with quality that tends to be more difficult to measure such as consulting for economically deprived citizens, home care, employment training, services for the elderly, and child welfare. High-quality provision of the second type of social services requires a trust relationship between a provider and a recipient, an appropriate motivation from the provider and the awareness of consumer special needs. For these reasons, competitiveness of independent nonprofit organizations in this sphere seems to be higher than for-profit entities (Kendall, Knapp & Forder 2006). At the same time, it may be impossible for nonprofits to provide the first type of services due to their key features, for instance, their mission or non-distribution constraints. In other words, the provision of standardized services may be inconsistent with the principles of nonprofits. Given this consideration, we have excluded cases representing the first type of services, which tend to be provided by businesses, from the sample under examination. In the end, our final data set consists of 786 observations that we have termed ‘consistent tenders’.

Prior to the assessment of nonprofit bidder competitiveness, the degree of nonprofit activity in regional quasi-markets was explored. We suppose that it allows us to estimate approximately the intensity of competition between nonprofits and other providers. To examine the activity of nonprofit providers as bidders, the number of tenders where nonprofit

organizations took part was calculated. Comparing the numbers of consistent tenders and tenders with nonprofit bidders enables us to determine whether nonprofit social service providers take a chance in being chosen as government contactors under competition with business and public providers. Additionally, two presumptions about the factors affecting the level of nonprofit competition have been examined. First, Lamoth et al. (2008) suggested the number of firms in a region as a proxy for assessing the extent to which the market is competitive. Following these scholars, we assume a positive relation between the size of the regional nonprofit sector and the activity of nonprofit quasi-market participants. Second, other than the number of potential market participants, one can presume that the size of social service quasi-market, estimated as the quantity of consistent tenders, will influence nonprofit quasi-market activity. If the government procures the standardized products, mentioned above, these providers will have no chance to win contracts because of their inefficiency. Consequently, the number of consistent tenders is predicted to be positively related to the nonprofit bidders. Kendall's tau coefficients were calculated in order to reveal a correlation between: a) the number of tenders with nonprofit bidders and the number of nonprofits adjusted for population in a region; b) the number of tenders with nonprofit bidders and the number of consistent tenders adjusted for population in a region.

To assess the level of competition in the regional quasi-markets we examine directly all the types and the number of bidders of every tender. This allows us to determine how many for-profit, nonprofit and public potential providers have bid in every case and to find out who exactly won the contract. Thus, we can ascertain to what extent nonprofit organizations are able to be successful in competition with other providers. To perform this task, the average number of bidders per contract, the number of different type providers, and the share of contracts won by nonprofit are calculated. According to procurement legislation in the Russian Federation, even a single participant might be granted a contract as a winner. Obviously, there would be no competition in such a tender. Therefore, it is worth considering those cases when the level of competitiveness is being assessed. Additionally, we pay attention to the prices the bidders offered to single out the tenders completed with a 'technical' winner having a bid price that was the same as the others.

Results

At the preliminary stage of analysis, the size of regional social service quasi-markets was evaluated. We used the data on the distribution of the tenders between the regions in question presented in Table 2. Column 4 evidences that the proportion of consistent tenders ranges considerably from 9.3 per cent in the Kamchatsky Region to 81.2 per cent in the Perm Region.

This fact reflects the differences in the structure of these quasi-markets in terms of the ratio of credence goods to standardized ones procured by the governments. The number of tenders adjusted for population in a region seems to be another important characteristic of the competitive bidding process. This enables us to evaluate the inclination of local and regional authorities to hire independent providers instead of direct public social service provision. As columns 5 and 6 show, the conspicuous feature of this information is a sharp distinction between the Perm Region and the others, especially the distinction between the number of the consistent tenders, which is more than 2.5 times as much as the others figures. The other remarkable point is a size of the quasi-market in the Primorsky Region. It is smallest both in absolute and relative terms, and one consistent tender, which was invited for two years, appears to be negligible quantity.

Table 2. Size of social service quasi-markets in the eight Russian regions

<i>Region</i>	<i>Initial Number of Tenders</i>	<i>Number of Consistent Tenders</i>	<i>Share of Consistent Tenders, %</i>	<i>Initial Number of Tenders per 100,000 residents</i>	<i>Number of Consistent Tenders per 100,000 residents</i>
1	2	3	4	5	6
Perm Region	490	398	81.2	18.62	15.13
Sverdlovsk Region	211	71	33.6	4.90	1.65
Novosibirsk Region	118	88	74.6	4.39	3.28
Primorsky Region	6	1	16.7	0.31	0.05
Kamchatsky Region	43	4	9.3	13.44	1.25
Tyumen Region	338	79	23.4	9.77	2.28
Tatarstan Republic	222	154	69.4	5.84	4.05
Lipetsk Region	97	66	68.0	8.32	5.66

Source: Official website of Russian Federation on procurement information. Available at: <http://zakupki.gov.ru>

As Table 3 shows, the percentage of the tenders with nonprofit bidders differs noticeably in the regions. First, the absence of nonprofit bidders in the Primorsky Region attracts attention. In fact, this result was expected to some degree, because, as shown above, social services were put out only to one consistent tender in this region. Second, it is interesting to consider the findings for the Tyumen Region. Although the number of consistent tenders here was higher than the figures in some others regions, for instance, in the Sverdlovsk Region or Lipetsk Region, the quantity of tenders with nonprofit bidders practically does not differ from the Primorsky Region. It should also be pointed out that once more the Perm Region demonstrates the maximum figures, namely the number of tenders with nonprofit bidders adjusted for population.

Remarkably, testing our first presumption about the effect of the quantity of nonprofit organizations in a region on the competition intensity showed that no significance correlation exists between the size of the nonprofit sector and the level of the activity of nonprofit bidders ($\tau = 0.071$; $p\text{-value} = 0.904$). In other words, this result does not confirm our assumption that the level of involvement of nonprofits in social service quasi-markets positively related to the size of the nonprofit sector in a region.

Table 3. The numbers of tenders with nonprofit bidders

<i>Region</i>	<i>Number of Consistent Tenders</i>	<i>Numbers of Tenders with Nonprofit Bidders</i>	<i>Share of Tenders with Nonprofit Bidders, %</i>	<i>Numbers of Tenders with Nonprofit Bidders per 100,000 residents</i>
1	2	3	4	5
Perm Region	398	101	25.4	3.84
Sverdlovsk Region	71	8	11.3	0.16
Novosibirsk Region	88	54	61.4	2.01
Primorsky Region	1	0	0	0
Kamchatsky Region	4	3	75.0	0.94
Tyumen Region	79	1	1.3	0.03
Tatarstan Republic	154	117	76.0	3.08
Lipetsk Region	66	20	30.3	1.72

Source: Official website of Russian Federation on procurement information. Available at: <http://zakupki.gov.ru>

It was also presumed that the activity of nonprofit organizations in this quasi-market is connected with the number of consistent tenders. In this case, using Kendall's tau coefficient reveals a moderate positive relation between these variables ($\tau = 0.643$; $p\text{-value} = 0.032$). This means that the type of social services procured can be, to some extent, an important factor in the involvement of nonprofits providers in competitive bidding.

As was reported in the preceding section, the assessment of the level of competition between bidders was executed by the precise examination of how many and what providers contended. Tenders with nonprofit bidders were analyzed only, considering the purpose of this research. Table 4 reports the distribution of the number of tenders according to the quantity of potential contractors in every case. It can be seen that the quasi-markets in two regions may merely be deemed competitive to some extent. At the same time, the most tenders with more than one bidder were found in the Perm Region and in the Tatarstan Republic. As regards the Novosibirsk Region and Lipetsk Region, the average quantity of competing providers numbered

less than two. This implies that in most cases competition between the bidders was absent entirely. Interestingly, the result of such bidding might be twofold: the contract was awarded to a single participant or the tender was found by the authority to be a failure. To illustrate this fact, in the Lipetsk Region and Tatarstan Republic five and seven competitive bidding processes with one bidder, respectively, were completed with a contract awarded. In the Novosibirsk Region, only four tenders from 31 failed.

Table 4. Level of competition in tenders with nonprofit bidders

<i>Region</i>	<i>No. of Bidders</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>Average</i>
1	2	3	4	5	6	7	8	
Perm Region	11	56	19	15	-	-		2.38
Sverdlovsk Region	3	3	-	2	-	-		1.38
Novosibirsk Region	31	17	5	1	-	-		1.57
Primorsky Region	-	-	-	-	-	-		-
Kamchatsky Region	3	-	-	-	-	-		1.00
Tyumen Region	1	-	-	-	-	-		1.00
Tatarstan Republic	34	40	23	10	5	5		2.38
Lipetsk Region	17	3	-	-	-	-		1.15

Source: Official website of Russian Federation on procurement information. Available at: <http://zakupki.gov.ru>

An investigation of what types of providers bid reveals both intra- and inter-sectoral competition between them. The findings referring to the distribution of the tenders are presented in Table 5⁴. As they indicate, the nonprofit bidders competed principally with for-profit firms who were the most numerous participants in these quasi-markets. The sole exclusion is the Novosibirsk Region where the social service quasi-markets seem to be predominantly ‘nonprofit’: the tenders with a single nonprofit bidder accounted for 57.4 per cent of all tenders in question and the tenders with exclusively nonprofit competitors accounted for 47.8 per cent of the rest. It can be noted further that the Perm Region and Tatarstan Republic demonstrate the most variety in the combination of competitors; in other words, nonprofits in those regions were involved in inter-sectoral competition more frequently. However, it should be remembered that in the Tatarstan Republic more than a quarter of all tenders were conducted with a single bidder. In general, nonprofits faced more inter-sectoral competition than intra-sectoral one.

Table 5. Bidders of the tenders

⁴ The tenders with two and more nonprofit providers and bidders of other types are included in columns 3, 4 and 5 respectively.

<i>Types of Bidders</i> <i>Region</i>	<i>Nonprofit and Nonprofit</i> <i>(No. of Tenders)</i>	<i>Nonprofit and For-profit</i> <i>(No. of Tenders)</i>	<i>Nonprofit and Governmental Organization</i> <i>(No. of Tenders)</i>	<i>Nonprofit, For-profit and Governmental Organizations</i> <i>(No. of Tenders)</i>
1	2	3	4	5
Perm Region	14	59	12	5
Sverdlovsk Region	2	3	1	-
Novosibirsk Region	11	7	5	-
Primorsky Region	-	-	-	-
Kamchatsky Region	-	-	-	-
Tyumen Region	-	1	-	-
Tatarstan Republic	18	38	23	4
Lipetsk Region	1	2	-	-

Source: Official website of Russian Federation on procurement information. Available at: <http://zakupki.gov.ru>

Finally, we explored the results of the inter-sectoral competition to determine to what extent nonprofit organizations are capable of being competitive against other providers (Table 6). As mentioned above, in the Russian Federation the main criterion of a public buyer's choice is contract price. This implies that the winners offered the lowest price, and consequently they were able to provide social services at the lowest cost. At first glance, our findings appear to demonstrate the high competitiveness of nonprofit providers, where inter-sectoral competition existed, especially in the Perm Region and Novosibirsk Region. However, it has to be pointed out that comparing the prices offered by bidders in several cases (11 cases in the Perm Region and 13 cases in the Tatarstan Republic) the price of a winner and a next bidder was the same. Winning a contract became possible due to the earliest time of a bid, and this allows us to declare a 'technical' win when the bidder awarded a contract had no actual competitive advantage. The exclusion of these 'technical' wins reduces the percentage of the tenders won by nonprofit providers from 61.8% to 47.4% in the Perm Region and from 38.5% to 18.5% in the Tatarstan Republic.

Table 6. Competitiveness of nonprofit bidders

<i>Region</i>	<i>Perm Region</i>	<i>Sverdlovsk Region</i>	<i>Novosibirsk Region</i>	<i>Primorsky Region</i>	<i>Kamchatsky Region</i>	<i>Tyumen Region</i>	<i>Tatarstan Republic</i>	<i>Lipetsk Region</i>
<i>No. of Tenders won by a Nonprofit Provider</i>	47	2	8	-	-	-	25	1
<i>Share of Tenders won by a Nonprofit Provider, %</i>	61.8	50.0	66.7	-	-	-	38.5	50.0

Source: Official website of Russian Federation on procurement information. Available at: <http://zakupki.gov.ru>

Discussion and Conclusion

The present pilot investigation has compared eight regions of the Russian Federation in terms of the features of social service quasi-markets. The paper has examined the composition of bidders and the results of competitive bidding in 2011-2012 presented in tender bid evaluation records. The main goal of the current study was to determine whether nonprofit providers are competitive with for-profit firms and governmental organizations when they enter a social service quasi-market as a bidder.

This study has found that significant discrepancies in the scope and size of the competitive bidding exist between these eight Russian regions. Regional and local governments procure not only conventional social services (Van Slyke 2003; Kendall, Knapp & Forder 2006; Feiock & Jang 2009), but also standardized services, for instance, delivery of equipment or repair services – usually provided by for-profit firms. The relatively high share of these tenders means that a government procures mainly standardized goods, and nonprofits have few opportunities to compete with businesses for the contracts. In this sense, the regional social service quasi-markets can be defined as more or less ‘nonprofit-orientated’.

Other important findings emerging from this study are the vast differences in the activity of nonprofit organizations as bidders, and in the intensity of competition between them and other providers in the regional social service quasi-markets. The data on the number of the tenders with nonprofit bidders per 100,000 residents and the share of the tenders with nonprofit bidders demonstrates a low degree of nonprofit activity in some of the regions in question. For instance, nonprofit providers were almost absent from the Tyumen Region quasi-market despite the 79 consistent tenders the local and regional authorities invited. Our analysis has not supported the suggestion made by Lamoth et al. (2008) to use a number of firms in a region as a proxy for the level of market competition. The calculation of Kendall’s tau coefficient has shown an absence of any connection between the size of the nonprofit sector in a region and the number of tenders with nonprofit bidders. We assume that the range of institutional factors may explain this result: insufficient maturity of Russian nonprofit organizations as social service providers, their unwillingness to work as a government contractor, or features of the competitive bidding process which inhibit access to the quasi-markets for nonprofits. At the same time, the correlation analysis has revealed that the activity of nonprofit providers is positively connected with a number of conventional social service tenders (‘consistent’ tenders). Therefore, it is reasonable to regard the structure of regional quasi-markets as the crucial factor of nonprofit organization involvement. Nonprofit organizations in the regions have different chances to provide social services as governments agents because of obvious discrepancies in the percentages of consistent tenders.

The examination of the quantity of competitors in each tender has illustrated that most only have two or one bidders. For this reason, only in two regions did the average number of bidders exceed two. Thus, a substantial lack of competition in Russian social service quasi-markets has been revealed from this sample. At the same time, the findings are similar to those reported in previous research. According to Savas (2002) and Lamoth (2014), the average bids/contracts ratio for seven social services ranged from 1.08 to 2.48 with one exclusion. As Van Slyke (2003) and Girth et al. (2012) found, public and social service delivery is characterized by a low level of competition that may be explained by various factors – the preferences of public managers, behaviour of nonprofit organizations, government-imposed barriers, and others; Girth et al. (2012) listed eight such factors.

The next significant findings concern the competitiveness of Russian nonprofit providers. Our exploration of competitive bidding information has demonstrated that they faced both intra-sectoral and inter-sectoral competition. Interestingly, the nonprofit bidders competed mostly with their counterparts and for-profit firms in quasi-markets. This, in turn, implies quite a high degree of privatization of social service delivery. In many cases, nonprofit organizations can be competitive in terms of competitive bidding in Russia because they can offer the lowest price and provide the social service with the lowest cost. However, this result raises a question about quality of these services, which includes intangible components, like trust and the motivation of staff, and might require additional expenditures. As was pointed out in previous research, the main competitive advantage of nonprofit providers in the social service sphere is the special attitude towards the needs of clients and innovative technologies of service delivery (Francois 2003; Feiock & Jang 2009). The main and often single criterion of authorities' choice of a bidder probably did not enable them to select the most appropriate provider. Therefore, the findings of this study suggest that in the Russian Federation, competitive bidding in social service provision in many cases did not give nonprofit organizations the opportunity to enjoy their advantages as services providers.

This study has gone some way towards enhancing our understanding of behaviour of nonprofits as local government contractors in social service quasi-markets. Results reveal three types of nonprofit behaviours in the regional quasi-markets. Firstly, they take an active part in the bidding and compete with business and public organizations successfully. Secondly, they actively participate in this process, but compete with similar producers only. Finally, they are rather inactive as potential local government contractors.

Several limitations to this pilot study need to be acknowledged. First, the sample size seems to be too small to transfer the findings to the rest of the Russian regions. Possibly, the relatively distinct state of art in the Perm Region will not be the case when all regions are

included in the sample. Second, the small number of tenders in three of the regions in question does not give the opportunity to assess the real competitiveness of nonprofit providers. Third, the quantitative analysis of nonprofit providers has not allowed us to determine how wide their range was. Finally, tenders conducted by regional and local governments were not separated, whereas recent research has shown that the quasi-markets of municipalities can differ in size and scope, as well (Van Slyke 2003).

As a result, vital issues exist for further research. The sample should be widened to all Russian regions, enabling us to make conclusions that would be more valid. It will be essential to examine what organizations took part in social service competitive bidding to evaluate the potential of the nonprofit sector in the provision of these services. Comparative analysis of concrete social service quasi-markets in Russian regions and abroad will give the opportunity to investigate development factors more deeply. Special research needs to examine existent barriers, inhibiting access to these quasi-markets for nonprofit providers.

A new law on procurement in the Russia Federation was enacted from January 1, 2014. It obliges authorities procuring goods and services to give some kinds of preferences to so-called 'socially oriented nonprofit organizations' as their contractors. This measure is aimed at encouraging nonprofit sector development. In light of this, the findings of this study have important implications for future practice. A shift in procurement structures in favour of social services, that is, an increasing share of consistent tenders, seems to be an incentive for nonprofit providers to be more involved in this quasi-market. Changing the procurement policy of regional and local governments, if it results in the growth of social service quasi-market volume, can give additional support to independent nonprofits because of the rise in the number of contracts between authority bodies and nonprofit providers.

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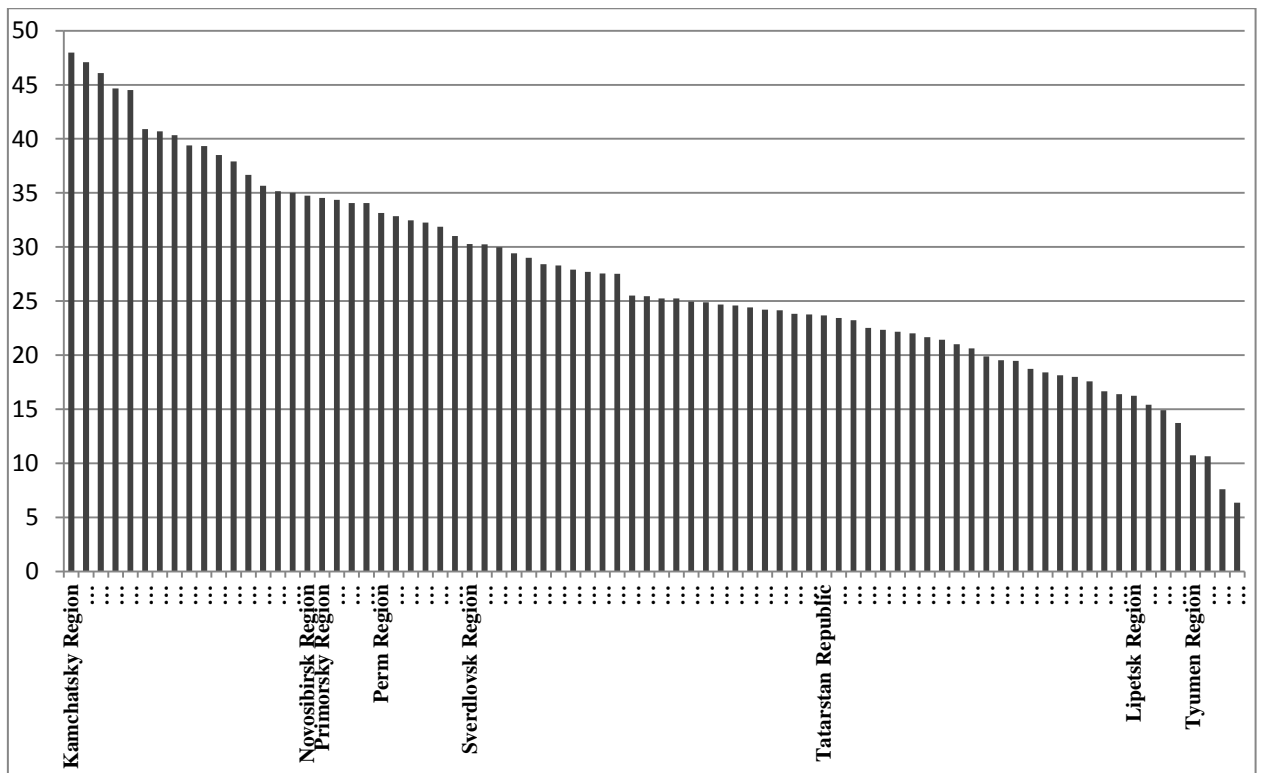
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Appendix

Number of nonprofit organizations per 10,000 residents in Russian regions



Source: Information on official registration of legal entities. Available at: <http://www.nalog.ru/html/docs/>

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