

CONTRACTING FOR HUMAN SERVICES: WHAT WE HAVE LEARNED AND AN RX FOR THE FUTURE

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Article:

INTRODUCTION

This article examines some of the major trends in social service contracting and what has been learned about it in the past 15 or 20 years. Enormous strides have been made in understanding alternative approaches to service delivery, as well as in realizing the key role played by the nonprofit sector in service delivery. Yet some perennial questions about the relationship between public and private sectors continue to plague us.

Much has changed since this author wrote her dissertation in the late 1970s and early 1980s which then became a book on human services contracting (DeHoog, 1984). The scholarly literature on human services contracting or purchase of services (POS) was scant at that time, although practitioners and advocates of human services contracting had generally positive expectations for it (Kettner and Martin, 1993; Wedel *et al.*, 1979) and there was a strong tradition of public-private cooperation in human services (Demone and Gibelman, 1989).

The models of contracting from public choice scholars and other empirical works on the "hard services" (*e.g.*, Savas, 1982) did not seem to fit the cases that the author examined in Michigan, *i.e.*, social services under Title XX, the amendments to the Social Security Act and employment and training services under the Comprehensive Employment and Training Act. The economic or market model wherein government uses a competitive bidding process to choose among many service agents to obtain the most efficient and effective supplier seemed far removed from the reality of limited competition, political pressures, and organizational constraints. This model did not take into account the unique roles that nonprofit service providers played (and continue to play) in the human service contracting system.

This article reviews some of the academic literature that has contributed to a more sophisticated understanding of contracting as well as some of the major trends and issues in social services contracting which are important to the changing relationships between the public and nonprofit sector. (While social service contracts sometimes are with for-profit and other public agencies, the largest and most interesting contracts are with nonprofits.) This article also offers some suggestions for how government and nonprofits do and can work together in delivering services by an awareness of each other's motives, problems, and concerns. In conclusion, some ideas are offered to stimulate future work on the subject.

LITERATURE REVIEW

Over the last two decades, scholars from a variety of different disciplines and approaches have contributed to our understanding of human services contracting. Early in the development of the literature, public choice economists (*e.g.*, Bennett and Johnson, 1981; Savas, 1982, 1987) argued that human services could more efficiently and effectively be delivered by contract because of the benefits of competitive market forces, private efficiencies, greater personnel flexibility, and avoidance of public bureaucracies in much the way other types of public services (*i.e.*, garbage collection) have been successfully contracted out.

With generally less enthusiasm for the privatization alternative, political scientists and public administrationists (*e.g.*, Donahue, 1989; Ferris, 1986; Ferris and Graddy, 1986; Kettl, 1993; DeHoog, 1984) have tended to emphasize how government agencies make contracting choices, monitor service delivery, and deal with basic accountability failures. Scholars in schools of social work (*e.g.*, Bernstein, 1991; Demone and Gibelman, 1989; Kramer, 1981; Kettner and Lawrence, 1986, 1993; Wedel *et al.*, 1979) have usually focused on the purchase-of-service systems, service delivery problems, and the impact of contracting on the social agencies and their clients.

Finally, a variety of economists and policy analysts (see, for example, O'Neill, 1989; Salamon, 1987, 1989; Weisbrod, 1988) have examined the contracting topic from the perspective of the nonprofit sector--its dependency on contracts, the competition among agencies, and the distinct characteristics of the sector and social agencies providing public services. The literature has certainly yielded some useful empirical information, a variety of perspectives, and a list of difficulties that may occur when government purchases social services.

One of the clear messages from this literature has been to validate the distinction between human ("soft") services and other types, as well as emphasize the complexities involved in the service delivery system (Kettl, 1993; Paulson, 1988; Savas, 1987). As Paulson (1988) argues, with mental health services as an example, "People and garbage are not the same." Those who have examined health services, veterans' affairs, professional services (*e.g.*, medical) and others have shown that human services offer additional difficulties when government purchases them (Demone and Gibelman, 1989; Paulson, 1988; Schlesinger *et al.*, 1986; Kettl, 1993). Goals are often unclear, outcomes are difficult to measure, competition among private suppliers is often not desirable or useful, and the costs of monitoring services are frequently high. Service contracts typically are negotiated, not competitively bid, as they are for most other public services.

The relationship established between the contractors and the government are critical in what Williamson (1984) has referred to "relational contracting." In addition, service coordination among various agencies (public and private) and continuity of providers are usually necessary. As a result, some (DeHoog, 1990; Paulson, 1988) have argued that a cooperative, rather than a competitive, approach is more appropriate in many of the social services. Thus, social services contracting is certainly an important area of contracting and privatization; yet, its unique characteristics mean that generalizations drawn from other services do not necessarily apply (Paulson, 1988).

Not only is social services contracting worth considering some-what separately from other services or products but the variety of services included under the general rubric of "social services" is also wide-ranging from the "harder," more easily defined services (*e.g.*, transportation), to the "softer," more difficult services (*e.g.*, family counseling) (Kettner and Martin, 1993). As a result, care must be taken to understand the many variables that affect the delivery of social services--for example, from the types of agents (individuals, nonprofits, for-profits, or public agencies) that provide them to the range of clients being served (*e.g.*, low-income, elderly, ill, handicapped, etc.). Generalizations drawn from one type of service may not necessarily apply to others and exceptions to general trends are frequent.

BACKGROUND AND CONTEXT

The 1980s certainly provided many new contexts in-which to examine human services contracting and to experiment with alternative approaches to service delivery. The Reagan-Bush administrations and many state and local governments expanded contracting in an effort to seek fiscal relief, a reduced bureaucracy, and more effective services (DeHoog, 1984; Kettner and Martin, 1993). To what extent these goals were fully realized is still unclear, although single cases suggest mixed results (DeHoog, 1984; Drew, 1984; Schlesinger *et al.*, 1986; Smith and Lipsky, 1993). It has been difficult to tease out the effect of the contracting mechanisms in isolation since many other social, political, and economic forces also affect service costs and outcomes.

What can be said with some assurance is that the roles and relationships between governmental and nonprofit agencies have been changed and reevaluated as a result of increased contracting as well as other forms of partnership (Salamon, 1987). As Donald Kettl (1993:21) points out:

First, government is relying on private partners to do public work. The growth of this trend has created a new kind of public management. Second, the practice of this new public management is scarcely uniform. Public-private partnerships produce highly variable relationships. The government often enters very different markets, deals with radically different organizations, and frequently receives surprisingly different results ... Third, government's role has changed. Government is less the producer of goods and services, and more the supervisor of proxies who do the actual work.

As government agencies developed specific service contracts with outside organizations during the 1980s, they moved away from using a partnership or grant approach to encourage certain types of programs (Salmon, 1989). Whereas many organizations (state, local, and nonprofit) had been receiving funds from the federal government via categorical or block grants, as the federal government decentralized, cut or eliminated many programs, service contracts (as well as consumer vouchers) increasingly replaced the more open-ended grants as the mechanism of funding the service delivery.

This approach, while certainly allowing for greater specificity and accountability, offered less flexibility for both parties to the contract agreement. On the government side, bureaucrats had to be much clearer and more specific in the request for proposals (RFPs) about client eligibility, service levels, quality expectations, and service methods. Once details were specified, the government could not fund services that deviated from the bid advertisement even if bidders offered appropriate and creative approaches to the service. For contractors these agreements typically required more reports, more paperwork, and changes in reimbursement mechanisms, such as per-unit service allocations for eligible clients (Bernstein, 1991). These requirements implied that the agencies had to change their policies, procedures, and personnel to adapt to these changing government expectations.

City and county governments also engaged in greater scrutiny and reductions in discretionary funding of human services programs. Formerly, elected officials typically had provided lump sum allocations (sometimes called grants or subsidies) to many worthwhile nonprofit agencies in their communities. In some cases, these funds were eliminated entirely during budget cuts or, if they survived at all, were converted to specific purchase-of-service contracts. Certainly scandals of agency mismanagement and even fraud contributed to the tightening of requirements and the reduction in funding in addition to the fiscal squeeze on local governments. Whatever the causes, the result was that general funding for agencies and programs was often replaced by funding for units of service for specific target populations to be performed in specified ways.

TWO SIDES OF CONTRACTING EQUATION

For the most part, nonprofit agencies are the suppliers of choice for most human services. This has meant added complexities for government agencies that purchase services. While nonprofits in general have certainly improved their management and fiscal capacities in recent years, many local nonprofits' are run by highly committed but inadequately trained executives. They may have strong political and public support in their communities and may have excellent professional reputations. Their expertise in producing desirable services and serving certain citizen groups offers strong inducement for state and local governments to contract with them. Nonetheless, they often struggle with basic administrative and accountability requirements imposed by the contracting government (Bernstein, 1991; Smith and Lipsky, 1993). Often they have not been able to afford the professional managers and staff (*e.g.*, grantwriters, financial managers, program evaluators) to be able to ensure service and administrative compliance. Their traditional reliance on volunteers in service delivery has not always assisted them in providing continuous care for more indigent clients who are serviced by the government contracts (Smith and Lipsky, 1993).

Of the three sectors (*i.e.*, public, nonprofit, and for-profit), the nonprofit sector has been the fastest growing in terms of employees. The number of nonprofits has also expanded significantly during the 1970s and 1980s, approximately tripling the number of IRS designated, charitable organizations (Weisbrod, 1987). This growth drew a great deal of attention during the 1980s, especially since nonprofits have had to seek out new sources of revenues in the face of declining federal grants and contracts (Hodgkinson and Weitzman, 1986; Salamon, 1987) as well as stiffer competition among nonprofits for donors and between the nonprofits and the business sector for fee-paying clients.

Certainly the growth of human service nonprofits has been due in part to the growth and/or increasingly serious social problems. While some of these problems have been addressed with direct government action, many of them have been approached by a more fragmented combination of public and private efforts. The result is an often dizzying array of many different kinds of nonprofit agencies with unique histories, missions, services, and staffs. Many nonprofits were created within the last twenty years in response to government funding while others, primarily small, local agencies developed in response to unmet community needs (Smith and Lipsky, 1993). The former type of agency may well have stronger administrative resources with which to obtain government contracts, but may be too dependent upon government funding to be able to withstand shifts in public priorities and funding (Ferris, 1993; Smith and Lipsky, 1993).

Both government and the nonprofit sector have been affected-- probably fundamentally altered--by increased contracting, and not only in terms of their financial and management processes. The public sector--federal, state, county, and municipal agencies--cannot serve (and, of course, never has served) all the needs of its citizens, especially those who are poor and disadvantaged. On the other hand, private human service agencies cannot provide services for these needs without public financing and support. As a sector, they have not been able to raise sufficient private donations or fees to be able to pay the high costs of serving needy clients.

In becoming interdependent, the buyer (government) and the seller (nonprofit agencies) have had to address fundamental questions about their basic functions and roles in service delivery. For government, the questions include: To what extent does government give up its governance role in exchange for merely a management role? How far should government go in ridding itself of service functions before it becomes a "hollow state?" What responsibilities cannot be delegated to private agencies (Kettl, 1993; Moe, 1987; Moskowitz, 1989)?

For the nonprofits which largely supply social services the basic questions include: How dependent should a nonprofit agency be on government funding (Kramer and Grossman, 1987)? To what extent should the lure of public funding persuade nonprofits to alter their missions, goals, and accountability mechanisms (Demone and Gibelman, 1989)? How much should an agency exchange its voluntary character for a professional management culture often required by government? How committed are nonprofits to lobbying administrators and legislatures to continue the funding of key programs (Moskowitz, 1989)? To what extent does goal displacement occur when agencies exchange their emphasis on service missions to contract seeking and warding off competitors (Paulson, 1988)? Will nonprofits be more effective in their service delivery with increased government support (Bernstein, 1991; Kramer, 1987)?

The tension between private independence and public control continues to be very much a part of the public-private relationships in human services. Referring to this tension, Smith and Hague (1971) titled their book, *The Dilemma of Accountability in Modern Government: Independence vs. Control*, over twenty years ago. This same issue was more recently addressed by Ferris (1993) in his article. Our experience with social service contracting over the last decades has in no way resolved this tension. The increased number of public-private relationships mean that these issues must continue to be discussed in different contexts, perhaps with no real consensus among government managers, nonprofit professionals, and scholars.

The blurring of the traditional boundaries between public and private sectors has quite likely created confusion about responsibility, ownership, and funding sources not only for those who work "in the system" but also for citizens and clients. Certainly the complexity, fragmentation, and blending of government and nonprofit

structures and processes is cause for some concern regarding how social policy is developed, implemented, and evaluated in a democratic system.

When many participants (including legislators) do not understand how public services are funded, operated, and monitored, it is difficult to hold one accountable for them. This is an area of study that has not yet been fully addressed in the literature but certainly bears further empirical examination. As Smith and Lipsky (1993:119) conclude:

In essence, contracting with nonprofit agencies diffuses responsibility for public services. To be sure, public services are not always responsive to citizen complaints, but at the very least the locus of responsibility is clearer ... [Contracting] shifts the risk and responsibility of service delivery to the private agency and creates the nonprofit contract agency as a buffer between the citizenry and the state.

LEARNING TO WORK TOGETHER

The importance of partnerships between the public and private sectors to deliver social services leads to the question of what both sides need to learn and how they must adapt to these new relationships. While strong efforts in this direction have already been made, both sides of the contracting equation need to continue to improve their management training and skills, particularly in areas that involve interorganizational coordination and accountability systems. Both sides need to recognize that they operate in an interdependent, but dynamic, relationship.

Government needs to understand better how the goals, resource constraints, and voluntary character of nonprofits make them different from public agencies. In doing so, however, government needs to be aware of the diversity of agency types and that each agency has unique cultures, histories, service mixes, and missions (Smith and Lipsky, 1993). Officials should realize that many agencies are largely dependent on government funding so that any changes in contract arrangements significantly affect these agencies. They should also be more aware of the desirability of service continuity for both the nonprofits and the clients (Paulson, 1988). In understanding the unique concerns of nonprofits, public officials may have to be more flexible in accountability and service delivery requirements, but only if the quality and effectiveness of the programs are maintained. In particular, government officials have to be more sensitive to the cash flow problems of nonprofits, which is a primary complaint from recipients of service contracts (Smith and Lipsky, 1993; Bernstein, 1991).

Government managers of contracted services should also rethink their roles and training vis a vis nonprofit contractors. They should understand their role as boundary spanners more explicitly--i.e., reach out more effectively to nonprofit agencies through information exchange, cooperative planning, and service feedback. Their training should include negotiating, conflict resolution, monitoring, evaluation skills. They should be more aware of the advantages and disadvantages of using the three primary models of contracting--i.e., competitive bidding, negotiation, and cooperative partnership. In sum, they have to learn how to cope with the uncertainty and risks involved in social service contracting as well as how to reduce them (DeHoog, 1990; Kettl, 1993).

On the other hand, nonprofits need to understand bureaucracy, government, and politics better. They need to know that government officials do not speak with one voice and may disagree about the need for contracting in general, and the use of certain services and agencies in particular (DeHoog, 1986).

For the most part, the established, traditional nonprofits have developed professional staff and appropriate mechanisms to obtain and renew contracts; yet newcomers and community agencies still have to overcome some basic obstacles (Smith and Lipsky, 1993). By now most understand that they will not be rewarded with a contract simply for doing good but for doing good effectively, efficiently, and responsively. Nonetheless, some nonprofits must learn how better to demonstrate these qualities for public officials concerned with the process as well as the outcomes. Unfortunately, many smaller nonprofits operate so close to the margin that they have few resources to hire necessary staff and/or obtain the necessary training. Thus they often fail to employ middle

managers or specialized staff with the appropriate management skills, legal expertise, and financial acumen necessary to survive over the long run in the contracting business.

Contract writing, cost estimation, and negotiating skills are essential to obtain contracts in the first place. To continue receiving funds, nonprofits must develop accountability systems compatible with government requirements, including objective, systematic evaluation systems. Probably most important to success is to develop a diversity of funding sources and an entrepreneurial approach to seeking out new opportunities. Some nonprofits are quite skilled in scanning the political environment, sharing information, and developing creative programs that are responsive to changing social agendas.

What are some specific ways in which these suggestions have been and can be realized? Several approaches have been used to improve communication and understanding between the two sectors. These include joint training programs and workshops, joint management contracts, strategic planning efforts, personnel exchanges or explicit hiring strategies to obtain staff members with experience in the other sector. Graduate education that broadens, rather than narrows, one's professional outlook is advisable--e.g., public administration programs encouraging their students to enroll in social work courses and vice versa. Contracting managers in both sectors should seek out other methods that will prepare their employees to work with their counterparts in other agencies.

Seeing others in the system as allies, not adversaries, will go far to improve contracting management. The system itself may require adjustment. In some ways perhaps the impetus to increase competitive forces in contracting may have gone too far. In examining the impact of government contracting on the nonprofit or voluntary sector, Salamon (1989) argues that it no longer is a partner with government in serving clients. Rather, recent developments are moving the sector into the private market economy of competition in which nonprofits will be competing for clients and services among each other and against the private, for-profit sector. Whether or not one accepts this outlook, it is true that contracting, among other things, has changed the way nonprofits behave. Nonetheless, greater sensitivity on the part of government agencies to the needs and desires of nonprofits may soften some of the harsh realities that this competitive scenario implies.

CONCLUSION

The human services contracting system is increasingly complex and even troubling for many observers of recent trends. Contracting, however, is likely to become a permanent part of the social service delivery system. It will continue to offer advantages for government, nonprofits, and clients.

We have learned a great deal about how to improve the contracting system and make it work fairly well. Our understanding of the relationships between public and private sectors has certainly improved over the last decade or more. Nonetheless, unanswered questions still remain about the appropriate balance between public and private service delivery and between public desires for accountability, efficiency, and cost controls, on the one hand, and private agencies' need for independence, creativity, and stability on the other.

Scholars and practitioners can continue to contribute to our empirical base by examining exemplary cases of contracting systems, developing comparative studies of a range of contractual mechanisms to identify beneficial conditions, and focusing on the differential impacts of contracting on government, nonprofits, and clients.

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