**<u>The Managerial and Relational Dimensions of</u>**
**<u>Public-Nonprofit Human Service Contracting</u>**

**<u>Abstract</u>**

Public-nonprofit contracting for human services is complicated by the difficulty of fully specifying contracts in the face of complex human service delivery issues. To understand how public and nonprofit agencies resolve these complications while serving client populations effectively and meeting public accountability requirements and performance expectations, this article examines the following research question: Given the complexity of human service delivery, how do public and nonprofit managers address the challenges of contract management? The study analyzes qualitative data from interviews and focus groups with managers from three San Francisco Bay Area (California) county human service agencies and three nonprofit agencies contracting with these public agencies to deliver human services. Findings from these three public-nonprofit dyads uncover the deeply relational and collaborative nature of human service contracting amidst technical and interorganizational challenges that reflect the underlying complexity of human service delivery. Results also show how public and nonprofit managers address these dynamics to inform the task of organizing and delivering human services effectively.

The delivery of human services has been organized historically through contracts between public agencies and nonprofit service providers. Private provision of public human services has expanded over recent decades through calls for privatization, devolution initiatives such as the New Federalism, and the New Public Management, and as of 2012 stands at roughly $81 billion in publicly funded and contracted services (Pettijohn & Boris, 2014). As a result, services across the major human service domains—including child welfare, mental health and substance abuse treatment, income assistance, and aging and disability services—are commonly provided by nonprofit agencies under contractual arrangements organized and overseen by public managers (Smith, 2012).

The contractual relationship between public and nonprofit human service agencies has over this time been well studied. Scholarship has applied different theories to inform the development of governance tools to improve contract outcomes and promote public-private collaboration (Lynn, Heinrich, & Hill, 2001). Studies drawing on resource dependency and institutional theories have suggested that nonprofit agencies may be challenged in managing the different goals and requirements of public and private funding sources (Gronbjerg, 1993; Smith & Lipsky, 1993). Network-based models have emphasized the role of clear principal-agent relationships, resources, and stability for supporting multi-agency service systems (Milward & Provan, 2000). The research informed by principal-agent theory has highlighted the importance of goal alignment, monitoring, and targeted incentives for managing contractors and attaining desired public outcomes (Dubnick & Frederickson, 2010; Koning & Heinrich, 2014). The relational contracting literature has drawn insights from game theory concerning the effects of repeated interaction and norms on contract collaboration (Bertelli & Smith, 2010; Gazley, 2008).

These studies have helped clarify the interconnected yet different roles of public and

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nonprofit managers in organizing contract-based human services (Gazley, 2008; Romzek, LeRoux, & Blackmar, 2012; Romzek, LeRoux, Johnston, Kempf, & Piatak, 2013; Van Slyke, 2007). The public management role may involve contract planning and community needs assessment, contract development and solicitation, and contract execution, monitoring, and evaluation. ~~Nonprofit~~ In contrast, the nonprofit ~~managers~~ management role ~~are responsible for~~focuses on program development, program implementation, and performance measurement and program reporting. These spheres of managerial activity overlap substantially through the nexus of the human service contract and are contingent upon one another.

By contrast, the underlying nature of human service delivery has received less attention from public administration scholars. ~~Scholarship~~ The scholarship on human service delivery generally ~~seeks to understand~~focuses on the users of ~~who receives~~ publicly-~~-~~funded services, ~~when and how~~the processes and timing associated with the delivery of these services ~~are delivered~~, ~~by whom services are delivered~~the service providers, and the ~~consequences~~ outcome of service provision. Some studies of human service provision have relied on a street-level bureaucracy framework to identify the challenges facing frontline human service workers in serving diverse client populations, and in implementing policy and program requirements (Carnochan & Austin, 2015; Sandfort, 2010). Other studies have examined the manner in which human service delivery is informed by managerial and organizational factors (for reviews of this literature, see Marsh, Angell, Andrews, & Curry, 2012; and McBeath et al., 2014). Overall, this literature has sought to explain: how clients progress through human service programs; whether the services are effective in addressing client needs; and how frontline workers serve clients amidst competing professional and organizational demands and variable discretion and autonomy (Goldman & Foldy, 2015).

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~~What is surprising about~~ It is important to note that the literature on human service delivery ~~is that it~~ has emerged ~~largely distinct~~separately from the broader research on human service contracting. ~~That is~~For example, studies of human service contracting have generally paid little attention to the specific services being contracted out, or to how public and nonprofit managers respond to different challenges in the direct delivery, organization, and administration of human services. The limited attention in the contracting literature to the products and services being delivered by nonprofit agencies is ~~to some extent sensible~~understandable when considering the fundamental differences between the public and nonprofit sectors. From a New Public Management perspective, contracting lets public agencies "steer but not row", and provides nonprofit agencies with the opportunity to develop and implement innovative, community-based approaches to service delivery ("where they row in the directions that they are being steered"). This basic logic is also reflected in the scholarship on the co-production of human services (Kettl, 2015).

~~R~~Yet research on the co-production of human service delivery can help illuminate the complex challenges associated with developing and managing human service contracts effectively. The human services are a classic example of a complex product, in which the means of production (i.e., the transformation of inputs into outputs and outcomes) may be unknown, highly variable, and/or dependent on factors beyond the control of the public or nonprofit agency (Hasenfeld, 1982; 2010). For example, public managers may struggle to estimate changes in the population requiring services prior to contract development; and nonprofit managers may not know in advance which clients will be referred to their human service programs, or how best to address the needs of clients. In the face of these dynamic contingencies, managers may ~~face~~find it difficult ~~to~~y establish~~ing~~ accurate prices and forecasting supply and demand, resulting in. ~~And~~

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contracts as a result may be incomplete in essential areascontracts that can increase, thus increasing the risk assumed by public and nonprofit agencies bear in contracting and challenging the ability of managers to and the complexity of developing rigorous performance systems. These complexities pose immense management and governance challenges that cannot be ignored if public and nonprofit agencies are to serve client populations well and meet public accountability requirements and performance expectations.

In an effort to strengthen the connection between these literatures on human service contracting and human service delivery, our study is organized around the following research question: Given the complexity of human service delivery, how do public and nonprofit managers address the challenges of contract management? We first situate our inquiry in the literature on human service delivery, in order to deepen our understanding of what is complex about human service delivery. We then introduce a theoretical framework—the Managing Complex Contracts (MCC) model (Brown, Potoski, & Van Slyke, 2010, 2013, 2015)—that is focused explicitly on the issue of contracting amidst complex products. Guided by the MCC model, we undertake an analysis of public and nonprofit human service managerial behavior. Specifically, we examine qualitative data from interviews and focus groups with managers from three San Francisco Bay Area county human service agencies and three nonprofit agencies contracting with these public agencies to deliver human services. Our findings uncover the deeply relational and collaborative nature of human service contracting amidst technical and interorganizational challenges that reflect the underlying complexity of human service delivery. Our results also show how public and nonprofit managers address these dynamics to inform the task of organizing and delivering human services effectively. We conclude with implications for strengthening the literatures on human service contracting and human service delivery.

**Contracting for Human Services Under Conditions of Complexity**

In principle, contracting would be simple if full information were available to the involved parties as to the requisite frontline, managerial, and organizational processes through which capital and human resources are transformed into goods and services and if managers could control these production processes. In the human services, however, uncertainty and variety make it difficult to effectively, efficiently, and reliably link means (e.g., client engagement and service delivery) and ends (e.g., desired program and/or policy outcomes) effectively, efficiently, and reliably (Hasenfeld, 1982, 2010). Programmatically, it may not be possible to identify with precision the client needs requiring redress, the order in which needs are to be addressed, and the service outcomes (with respect to modality, intensity, and timing) that provide the greatest odds ofare achieving a desired outcomeed. Additionally, clients may vary in their pathways into services and their responses to them (Novins, Spicer, Fickenscher, & Pescosolido, 2012). These program dynamics may be affected in unanticipated ways by changes in clients and staff, resources, and demands from funders, policymakers, and local agencies (Sandfort, 2010; Smith & Lipsky, 1993).

Program complexity places significant demands on human service managers, who may be asked to develop, implement, and monitor programs without acquiring the confidence that program staff are being trained and deployed optimally or that frontline work is calibrated to enhance program performance. In situations where agencies invest in new service technologies such as evidence-based practices (i.e., manualized frontline interventions that have been found through experimental research to be associated with net improvements in specific outcomes), managers may struggle to adapt models to the specific client population and ensure treatment fidelity in the face of changing workforce demands and resource levels (Barth et al., 2012).

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Similar challenges may arise in response to investments in evidence-based management and performance measurement. For example, managers charged with the development of multi-dimensional program dashboards may face difficulties in selecting appropriate performance indicators, developing technological platforms that promote reliable data input and ease of use by practitioners and managers, and modifying programmatic emphases in response to new information (Carnochan, Samples, Myers, & Austin, 2013). Thus, specialized investments in staff development, service delivery, and technology—which are designed to reduce uncertainty and variability—may add to the complexity of human service delivery (Smith & Phillips, 2016).

This condition of complexity is not particular to public or nonprofit agencies although but it may affect each other differently. It challenges nonprofit agencies to organize resources effectively and efficiently (i.e., to achieve program performance goals while reducing the use of suboptimal service strategies). It also results in human service contracts that are fundamentally incomplete. Public and nonprofit agencies may be unable to identify needed services and anticipated costs in relation to expected program gains and thus may be challenged to accurately price services and specify timeframes for contract deliverables accurately. Complexity may also challenge public managers seeking to use contracting and other institutional tools (e.g., performance management systems) to promote accountability. Despite the growing use in the human services of performance contracting, rate setting, and other approaches that link financing, service delivery, and program outcomes, it may be difficult to identify and implement appropriate incentives and penalties to achieve performance milestones (Koning & Heinrich, 2014; McBeath & Meezan, 2010).

**Situating Human Service Contracting in Relation to Complex Human Service Delivery**

Models of human service contracting have generally paid little attention to the

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complexity underlying human service delivery. However, attention to complex services can be seen in studies that find that nonprofit human service agencies that are dependent on specific public funding streams may struggle to adapt to the changing needs of client populations, and may be unable to tailor services to the preferences of individual service users (Gronbjerg, 1993; Smith & Lipsky, 1993). The condition of complex services serves to anchor questions of whether human service providers in performance contracting environments distinguish between easier to serve vs. more difficult to serve clients, and whether they serve them differently (Dubnick & Frederickson, 2010; Koning & Heinrich, 2014). Recognition of the complexity of human service delivery has also informed the development of relational models of informal contract accountability emphasizing repeated interactions, communication, and specifying the norms needed to promoting promote information exchange (Bertelli & Smith, 2010; Gazley, 2008). For example, Romzek and colleagues find that norms of trust and reciprocity, and frequent communication and information sharing, support the development of social networks across human service collaboratives (Romzek, LeRoux, & Blackmar, 2012; Romzek, LeRoux, Johnston, Kempf, & Piatak, 2013). Yet while While these studies touch upon the prospect of capture some of the complexity of human service complexitydelivery, there has been insufficient attention overall to the manner in which complexity shapes the operational context of contract management, or of how public and nonprofit managers address it.

As compared to these studies, the MCC model develops a generic framework to understand contracting in relation to complex products and services.[1] The MCC model, which we (summarized in Figure 1) using uses a human service lens, focuses on the unfolding of the contracting process within an environment of product complexity, emphasizes contract incompleteness, and captures the importance of funder-provider interdependency. The MCC

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model distinguishes between simple products and complex products where, in which production processes are complicated by uncertainty and asset specificity. Due to these underlying conditions, contracts are specified incompletely along product and/or exchange dimensions: products are not able to be specified with sufficient specificity around production processes (i.e., techniques that turn inputs into outputs and outcomes) and costs; and compensation and the timing of payment in relation to desired goals are not able to be defined fully. In the presence of complexity and incomplete contracts, simple contract exchanges are transformed into interdependent relationships that involveing shared risk.

In this situation, public managers may use different strategies to promote desired program outcomes. They may apply institutional tools (e.g., contract performance monitoring, ex ante stipulations against cost overruns, and performance incentives) to promote mutual understanding and a structuring of incentives and sanctions to dissuade contract shirking, although the model raises questions about the extent to which whether these techniques may beare effective given within the context of product complexity and contract incompleteness. Managers may engage in repeated contract exchanges to make contract renewal contingent on past performance. They may also incorporate reputational considerations so that past poor performance threatens future contract rewards. These strategies are designed to reduce uncertainty, increase mutual understanding, and promote credible commitment.

[Figure 1 About Here]

To some extent, the MCC model can be viewed as expanding upon the central concerns of Johnston and Romzek (1999), who through their analysis of Medicaid privatization in the state of Kansas provide a useful typology of the complexity of human services. Notably, Johnston and Romzek argue that contract management becomes more difficult as the nature of human services

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become more ~~of a~~ public benefit ~~in nature~~, as service outcomes become less tangible and more difficult to measure, as timeframes for outcome measurement increase, and as the pool of potential providers shrinks.[2] In these situations, the authors suggest, the public management solution is to implement strong governance structures to increase contract oversight and prevent shirking by providers. Unlike earlier studies of human service contracting, however, the MCC model explicitly links the complexity of human service delivery with asset specificity and contract incompleteness, and derives implications for contract management that go beyond the use of formal contract-based accountability tools.

More specifically, empirical investigation informed by the MCC model might enhance understanding of the managerial dimensions of human service contracting in at least two ways. First, the model suggests that a major task of public and nonprofit managers is addressing the complexity of human service delivery. At base, the model proposes that managers may not have the requisite information and know-how to navigate complex human service delivery situations effectively. Public managers may be challenged to locate needed information to make make-or-buy decisions or evaluate provider performance, and may not have sufficient technical knowledge to specify contracts fully. Nonprofit managers may not have control over essential inputs (such as client flows), and may have invested substantially in existing service approaches, thereby limiting their ability to make strategic adaptations. The model proposes that these dynamics must be managed effectively for public and nonprofit agencies to attain desired contract performance outcomes. Previous contracting studies have not ~~specifically~~ adequately explored ~~what~~ the formal and informal strategies needed by public and nonprofit managers ~~use~~ to ~~harness~~ manage the complexity of human service delivery. ~~Empirically unpacking~~Searching for the links between human service complexity and human service contracting ~~would~~ represents an

important ~~contribute~~ contribution ~~usefully~~ to the literature.

Second, the model implies that public managers may face challenges in selecting appropriate tools to ~~promote~~ assess contract effectiveness when working with ~~some~~ nonprofits ~~agencies~~. For example, ~~Public~~ public sector managers may face few oversight and accountability challenges with high-performing nonprofit providers with ~~which~~ whom they have had stable contractual relationships. But it is not clear how public managers work with less effective providers, particularly in situations involving ~~thin provider~~ markets with a limited number of providers where it may not be possible to abandon non-performing agencies. The MCC model joins with current research in suggesting that the presence of explicit performance incentives/disincentives within contracts may not change contractor performance substantially (Girth, 2014). Yet it is not clear how public managers use informal accountability mechanisms to support poorly performing providers. Nor is it obvious that these mechanisms are sufficiently powerful to shape the behavior of these nonprofit agencies, particularly in a context of complex human services. Research on this front would also be valuable.

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## Methodology

Our empirical study is guided by these two considerations (reflecting the premises and propositions of the MCC model) and by our overarching research question. The study centers upon a set of case studies of contractual relationships involving public and nonprofit human service agencies in three California counties in the San Francisco Bay Area region. In California, county governments administer human service delivery including child welfare, public assistance, employment and training, and adult and aging services. Federal and state human service funding is directed to counties, which also have an obligation to provide local funding. Every county delivers human services through a combination of county-delivered services and

contracted services. The current study was conducted in partnership with two human service agency consortia. The Bay Area Social Services Consortium (BASSC) is a consortium involving 11 county human service agencies, five university social work educational programs, and a local foundation. The Bay Area Network of Nonprofit Human Service Agencies is a consortium of eight nonprofit human service agencies in four counties that contract extensively with multiple public sector agencies.

The data supporting the case studies included: a) quantitative information about contracts held by three BASSC county human service agencies in Fiscal Year 2013-2014 (FY 13-14); and b) qualitative data drawn from interviews and focus groups over this time period with senior and mid-level managers from the three public agencies and three nonprofit agencies contracting with the county to deliver human services (one public agency-nonprofit agency dyad per county).

**Agency Sample**

Public-nonprofit human service agency dyads were selected using a purposive sampling strategy designed to maximize variation across counties with respect to contracting processes, organizational size, and underlying county demographic characteristics. The three counties were selected to represent the Bay Area's urban, suburban, and rural communities and also due to their involvement in contract improvement initiatives.[3] The three nonprofit agencies were selected for their extensive contracting relationship with each county human services agency and because they delivered a full range of contracted services.

Table 1 provides descriptive information on the public and nonprofit agencies in the study. The degree of human service contracting with nonprofits by the public county agencies ranged from 27% of the budget of the large, urban county (County A) to 5% for the smaller, rural county (County C). In comparison, the three nonprofit agencies were reliant on service contracts

from various public sources for the majority of their revenue, ranging from 78% in the case of Nonprofit Agency B to 59% for Nonprofit Agency A. Each nonprofit agency had multiple contracts with their respective county human service agency: Nonprofit Agency A had a total of 16 contracts across four different service areas; Nonprofit Agency B had three contracts, all in the area of child welfare; and Nonprofit Agency C had five contracts across three service areas. These contracts constituted only a small proportion of each nonprofit agency's overall revenue, ranging from 20% in the case of Nonprofit Agency B to 11% for Nonprofit Agency C. Thus, while nonprofit agencies were reliant on public service contracts for most of their revenue, their degree of financial dependence on specific contracts with their county human service agency was small.[4]

[Table 1 About Here]

**Data Collection**

Each county provided information on its private sector human service contracts in FY 13-14. This contract data included: identifying vendor information; contract service area and description; and contract terms and values. Because this study focused on the services provided via purchase of service contracts with private agencies, this contract data was limited to contracts with nonprofit or for-profit organizations. It excluded contracts for services with individual providers such as individual therapists, contracts or memorandums of agreement for services with other government entities such as cities or school districts, and administrative contracts such as leases, building security, employee training, or technology. This information about the scope of service contracting provided context for the findings from the focus groups and interviews.

In each county and nonprofit agency, in-depth qualitative interviews were conducted with executives, senior and mid-level managers, and program managers who had extensive

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involvement in the contracting process. The participating individuals were selected by their own agency and represented different service areas. As can be seen in Table 1, interviewees represented a range of organizational roles involved in contract oversight and management.

The study research team (consisting of four Ph.D. level researchers, two doctoral fellows, and one MSW fellow) collaborated to develop the interview and focus group protocols, conduct 31 in-person interviews and two focus groups, and analyze the resulting qualitative data. The focus groups were conducted first to develop a general portrait of the human service contracting process. Individual interviews were then completed to examine contracting experiences within and across agencies in each county public-nonprofit dyad. In total, 40 individuals participated, in two, 2-hour focus groups and/or 31 60-90 minute interviews. The interview and focus group instruments were semi-structured to elicit the observations of expert informants. Primary topics included: (1) respondent role in the contracting process; (2) inter- and intra-organizational relationships that the respondent was involved in as part of the contracting process; (3) performance measurement, including major challenges and efforts relating to achieving desired program and service goals and/or delivering high-quality services; and (4) the complexity of human service delivery and its relationship to contract processes and outcomes.

The interviews and focus groups were designed to support the development of rich case studies for each of the six organizations, and thus enabled interviewers to pursue unique topics that might emerge for individual organizations (Stake, 2005a). A responsive interview approach was used, in which interviewers did not ask a uniform set of questions, but instead were able to focus each interview on the respondent's specific expertise with respect to organizational contracting procedures (Charmaz, 2005; Yin, 2003). The focus groups and interviews were audiotaped, transcribed professionally, and then corrected by the interviewer. Transcripts were

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then uploaded to Dedoose, a cloud-based qualitative analysis software platform.

**<u>Analytic Method</u>**

To provide a description of the contracted human service in the three counties, simple descriptive statistics were calculated using the contract data. The qualitative coding and analysis process for the focus groups and interviews was informed by the case study approach of Yin (2003) and Stake (2005a), the grounded theory approach of Oktay (2013) and Charmaz (2005), and the qualitative analysis approach of Miles, Huberman, & Saldaña (2014).

First-cycle coding was iteratively deductive and inductive with four original deductive codes derived from the literature on human service contracting (i.e., complexity, inter- and intra-organizational relations, and performance measurement) and additional inductive codes identified from the data. The three researchers who collected and coded the data communicated during first-cycle coding to strengthen the reliability of code creation and application. First-cycle coding resulted in 62 codes. Two of the three researchers coded in Dedoose, which allowed for a cross-researcher comparison of coding application (which was found to be similar).[5]

Using the first-cycle codes, the three researchers independently developed case studies for each study agency. This decision to forgo collaboration during this second stage ensured that each case study drew from the same set of 62 codes but represented the unique themes of each participating agency. Stake (2005b) refers to this process as "teaming" in which different researchers are assigned different sites and, although they collaborate on activities such as design and coding, each produces an independent, in-depth study. The case studies produced for this study were the first phase of a multi-stage research agenda and were therefore descriptive in nature, and intended to explore the range of variation in managerial perspectives on human service contracting in these counties. The case studies also included chronologies of the

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contracting process to help understand managerial experiences over time.[6]

## **The Scope of County Human Services Contracting**

The contract data provided by the three county human service agencies illustrates the scope of human services contracting in the three Bay Area counties, and provides context for the analysis of the MCC model using the focus groups and interview data. The three county agencies held in FY13-14 a total of 589 human service contracts with 248 unique private agencies, for a total value of $229M. Contracting out was greatest in the areas of economic assistance ($99M) and employment and training ($75M). In these areas, contracts supported community-based anti-poverty programming via the provision of housing supports, medical insurance, nutrition benefits, cash assistance, and employment supports. Service contracts in the areas of adult and aging services ($28M) and child welfare services ($28M) included support for these basic needs and also focused on the delivery of services for at-risk and/or maltreated children, seniors, and adults. Across all three counties, the number of service contracts being administered was larger than the number of private vendor agencies. This was particularly the case in County A, which had 416 contracts being delivered by 134 private agencies.

With respect to the distribution of contracts by agency, 149 of 248 private agencies (60.1%) had only one contract with their respective county human service agency over FY13-14. In contrast, 74 private agencies (29.8%) had 2-5 contracts with their county agency; 19 private agencies (7.7%) had 6-10 contracts with their county agency; and 6 private agencies (2.4%) had from 11-22 separate contracts with their county agency. Therefore, the three study nonprofit agencies were likely most similar to those Bay Area private human service agencies with multiple contracts with any particular county human service agency.

## **Findings**

Review of the six case studies from the three county agency-nonprofit agency dyads identified themes of relevance to the question of how public and nonprofit managers address the challenges of contract management amidst the complexity of human service delivery. Main findings are summarized in Table 2, using the MCC model as an organizing framework. We describe these findings in this section, with care taken to assess the representativeness of study findings by organization and sector.[7]

[Table 2 About Here]

## The Complexity of Human Service Delivery

Public and nonprofit managers uniformly regarded human service delivery as complex. In this section, we describe the major factors that public and nonprofit managers understood to contribute to the complexity of human services, including: (1) challenges associated with serving at-risk clients with unexpected, changing, and/or unknown needs; (2) the uncertainty of the client referral process impacting client flow into programs; and (3) difficulties in organizing services to suit the demands of multiple funders and service partners.

### *Changing, Conflicting, and/or Unknown Client Needs*

Human service programs exist to respond to the presenting conditions of at-risk populations and, in particular, to address the needs of clients who are deemed appropriate for treatment (Hasenfeld, 1982, 2010). Program goals, service technology, and frontline caseworker efforts are organized to maximize responsiveness to clients. However, this rational planning approach to human services is challenged by situations where client needs are different than expected or where client needs are unknown, ambiguous, or changing. In this situation, which was noted as being common by managers in all public agencies and nonprofit agencies, contracts are developed and programs are implemented amidst considerable uncertainty. This theme was

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registered by managers as: (a) client populations with needs that were different from what was anticipated by managers or noted in contract specifications; (b) in situations involving family groups, difficulties determining whether to serve a single client alone or with others; (c) variation in the level and type of client needs within any program, which complicated staff deployment and program planning; and (d) needs that were in excess of what the program could support. Although managers across the public and nonprofit agencies consistently registered this theme of changing needs and difficult-to-serve clients, there was no consensus among managers as to how to best serve such client populations. Managers in two public agencies and one nonprofit agency noted that they tried to coordinate with other programs and professionals to develop a profile of clients who might be expected to need services and then forecast how many eligible clients might be expected over time. However, as noted by a public manager, this process of collaborative needs assessment is "less of a hard science than you would think, and [involves] a certain amount of essentially guess work".

### *Unpredictable Flow of Client Referrals*

Clients are the critical input in human service agencies: service delivery, the attainment of desired outcomes, contract-based payment, and the financial position of the agency are dependent on them. Managing the composition and flow of clients into, within, and out of programs is therefore an essential task of human service managers (Sandfort, 2010). Yet managers in all agencies but for one nonprofit agency noted difficulties associated with the unpredictability of the client referral process, particularly insufficient numbers of referrals and inappropriate referrals. This unpredictability was understood to be problematic for financial, administrative, and performance-related reasons. Financially, because many service contracts reimburse nonprofit agencies per client served or require that a minimum number of clients are

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served, managers suggested that nonprofit agencies could be impacted if county staff did not refer sufficient numbers of eligible clients to receive services. Administratively, managers noted that referring staff could be unfamiliar with program eligibility criteria, leading to the referral of ineligible (and thus non-reimbursable) or inappropriate clients to nonprofit providers. Finally, public and nonprofit managers suggested that agencies serving inappropriately referred clients might be challenged to serve them effectively and attain desired program outcomes. As one public manager stated, "Service providers can receive referrals for families where the family is…not in the best place to take advantage of the services. It really would be unfair of us to hold the service provider responsible for that mismatch". Managers from two public agencies and two nonprofit agencies noted that their agencies used different strategies to gain some control over the client referral process, including: tracking client referral numbers and the sources of those referrals; nonprofit managerial outreach to line staff of public agencies referring with large numbers of clients who might be potential referrals; and developing systematic referral procedures in partnership with private providers.

### *Managing the Demands of Multiple Funders and External Service Partners*

A final theme concerned the complexity involved in delivering services while responding to (1) different and sometimes contradictory demands of funders and (2) coordination demands embedded in multi-agency service consortia. This two-part theme arose among managers in all public and nonprofit agencies as contributing to the interorganizational and institutional complexity of human service delivery, by requiring managers to meet contract goals amidst complicated funding and interorganizational service arrangements, and by limiting the overall autonomy of nonprofit agencies in serving clients. First, managers in each public agency noted that it was common for counties to integrate different pools of federal and state funding to

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support human service programs serving a common client population. Managers in each nonprofit agency also noted that their agency and other nonprofit providers routinely supplemented their county human service contract funding with revenue from other public and private sources, including: other county departments such as the health department and criminal justice system; other governmental entities including school, city, state, and federal agencies; and local philanthropic foundations, individual donors, and service user fees.

Nonprofit managers described being challenged to braid funding from multiple sources to support single programs, where each funding source may have come with disparate program eligibility, service delivery, and evaluation requirements. This often resulted inrequired managers having to be aware of and manage different requirements expectations while administering the program to suit each funder/contract. For example, respondents from two of the three nonprofit agencies noted that this braiding together of funding challenged managers to determine which funding stream to enroll clients under based onuse in connection with the needs of clients, the level of service provided through a particular funding stream, and program eligibility requirements. Public managers in each county noted their awareness of the challenges this causedfacing their nonprofit counterparts. A public manager stated, "Part of the difficulty on the provider's part is they're the ones in charge of enrolling people into the program and deciding what funding stream they're being paid out of. That's a very difficult thing for the community-based organization to do". However, public managers suggested that counties would continue to support the braiding of public revenue streams to guard against funding downturns in needed service areas.

Second, managers in two public agencies and two nonprofit agencies noted that service delivery could be organized through formal consortia involving nonprofit agencies supported by

different funders. These service initiatives were described as being organized through explicit contract requirements for multiple agencies, including the use of lead contractors and subcontractors, often in response to an RFP prioritizing community collaborations. Public managers justified the use of a service consortium model by referring to the expected benefits of service coordination for providing a continuum of services to client populations, and for promoting nonprofit specialization in particular service areas. Yet these contracts were also viewed as increasing managerial demands related to interorganizational coordination: public managers noted having to monitor resource levels for consortium partners in relation to community needs; and nonprofit managers identified challenges associated with developing program policies, service delivery procedures, and funding agreements spanning multiple agencies. Thus, while managers highlighted the benefits of service coordination, there was a general belief that these initiatives made the delivery of human services more complex.

**The Incompleteness of Human Service Contracts**

Given the complexity of human service delivery described earlier, it is ~~unsurprising~~ not surprising that public managers in each of the three county human service agencies suggested that service contracts were regularly developed and implemented in a way that can be considered "incomplete", although managers did not use this word specifically to describe their contracting procedures or describe ~~exactly how~~the prevalen~~ce of~~t incomplete contracts ~~were~~. Instead, ~~Contract~~ contract incompleteness was ~~instead~~ described primarily in relation~~ship~~ to product and exchange rules. With respect to product rules, public managers in each county described contracts sometimes being developed without requirements concerning specific numbers of service units to be provided or specific types of clients to be served. Nor did contracts always specify the full set of service-related activities through which program outputs were to be

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achieved and for which reimbursement could be requested. A public manager stated, "We don't need to tell the contractor how to do the work (aside from regulatory guidelines)". Regarding exchange rules, contracts were generally specified for preset time periods (often in one year increments, with the possibility of renewal for up to an additional two years). These contract time parameters were generally arranged without a clear connection to expectations around output or outcome achievement; and no nonprofit agency noted that they were currently providing services under a performance-based contract.

Although contracts could be written quite simply and non-specifically in relation to product and exchange rules, managers at each of the public agencies suggested that amendments to the contractual scope of work could later be made as the public and nonprofit agencies gathered information on client numbers and emerging client needs, service costs, and program outputs that was not available during initial contract development. For example, a public manager noted, "We look at the data and if something's not working, or we have set the goal too high or low, we adjust". A public manager in another county stated, "One thing that has happened is that nonprofit agencies [now] go through their contract funding much more quickly than they were allocated for just because of the complexity of the cases. Let's say that you got a contract three years ago and now you are seeing more complex problems; in order to provide the same level of quality services, you may have to go through more money. Suddenly [the nonprofit agency] comes back and says, "We are projecting that we are going to run out of money". We have to basically understand whether…it has truly become so complex in some areas that we have to increase the contract". This process of adding contract specifics in light of newly identified contingencies was noted as being desirable only if the amendment was viewed as necessary to support the ability of the nonprofit agency to provide critical services to clients.

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Public managers justified initial contract incompleteness as (1) a practical response to the difficulty of fully specifying the contract in relation to the complexity of human services. They also viewed it as (2) a strategy to introduce needed flexibility into contract implementation. Non-specific contract language provided nonprofit agencies with discretion as they began program implementation and service delivery. A public manager suggested, "Sometimes you don't want everything detailed. You want to be able to have a little gray to give some flexibility…you don't want me to provide you a checklist". Embedding this "gray space" into contracts—through initial under-specification—was intentional and was designed to provide public and nonprofit managers with the ability to respond (through subsequent contract amendment) to the complex and/or unforeseen client and service delivery scenarios noted previously.

Negotiation and communication were viewed as facilitating this process of contract development and refinement. This process would often begin during contract planning and solicitation, with nonprofit managers responding actively to public agency requests for comment on community service needs and promising programming models. Public managers in each county noted that they would begin the contract development process with a standard contract template. The contract would then take shape as the public and nonprofit manager developed the scope of work including contract goals, service plans, outcome indicator selection (sometimes in relation to federal and state contract mandates), and the budget. Dialogue would then continue through contract implementation and if amendments were deemed necessary.

**Formal Governance Through Program Reporting**

In the presence of complex products and incomplete contracts, the MCC model suggests that governance tools may have little effect on contract outcomes. Findings suggested that managers across public and nonprofit agencies were challenged by the governance rules most

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common to them, which primarily concerned performance monitoring and reporting. From the perspective of public and nonprofit managers across all three counties, performance was generally understood in relationship to the delivery of contracted services (outputs) rather than improvements in client wellbeing or reductions in client need (outcomes). Managers described performance monitoring as involving the reporting of nonprofit program information concerning service units provided and clients served. This process allowed public managers to evaluate whether services were delivered as contractually required. Program data were also used to make decisions concerning contractor selection and contract renewal.

Public and nonprofit managers generally viewed contract-required performance reporting as an exercise in activity-based auditing and largely irrelevant to practitioners or to the attainment of outcomes. A nonprofit manager stated, "All [my clinical staff and I] really care about…is connecting with that teen, learning what their world is about. Where do they have challenges? What do they hope for themselves? That's what we want to do, but we have to do all this other stuff. I am just being honest with you, I don't really care about what's in that paperwork". Additionally, managers in two of three nonprofit agencies suggested that program monitoring interfered with frontline service delivery. This concern was described in two ways. First, program monitoring increased managerial oversight of frontline workers, who responded to requests to track their service activities by not documenting their real service efforts. Second, frontline workers took time away from direct service provision to conduct client satisfaction surveys and gather other data from clients, which was required by their service contracts.

While public and nonprofit managers understood that performance indicators were often required (particularly for programs using federal and state funds), they were not convinced that their reporting would be helpful for program monitoring or for improving contract performance.

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Nor was it clear to them that public agencies were using agency program data to compare agencies and program models, identify top performers and best practices, or forecast service needs. This sentiment was shared by public and nonprofit managers, who questioned whether county contract managers had the resources and time to engage in performance management.

Managers generally noted that their agencies were interested in developing performance tracking systems and using these to incentivize performance, including outcome evaluation and performance contracting. As noted by one public manager, "We should be less invested in [tracking] objectives and how contractors produce those outcomes, and more invested in clear measurable outcomes so that we can see the results of our services—that clients' lives are better". Managers from each public and nonprofit agency shared this interest in using program monitoring to link service delivery to client outcomes. Yet there was a general awareness that developing such evaluative systems was beyond the capacities of county or nonprofit agencies, and would be much more expensive than the current approach. A public manager from a different county noted, "We typically don't have the bandwidth to do 60 day, 90 day, six month, one year follow ups, and it's often very difficult to track people down. None of these populations is necessarily very stable or stationary, and follow up is challenging and generally not funded. We generally rely on people coming back to us rather than us seeking them out. But when people come back to us, it is generally not a good thing. So we know when people are failing; we just don't know when people are succeeding". Thus, while managers reported searching for other methods to incentivize performance and monitor one another's behavior effectively, there was no clear consensus as to practical and effective next steps for enhancing performance monitoring.

## Relational Contracting Is Common and Is Viewed as Important

As proposed by the MCC model, public-nonprofit human service contracting is more

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likely to lead to positive outcomes if it has been preceded by prior successful contract exchanges. Public and nonprofit managers commonly understood contracting through a relational lens, and emphasized strongly the importance of professional networks, regular interchanges with their counterparts, and collaborative problem solving. Cooperation was identified less as a means to an end than as an essential aspect of contract-based program implementation given the complexity of human service delivery. Moreover, public and nonprofit managers uniformly described their contractual work as collaborative and building on prior contract successes, defined generally as providing effective services in response to client needs.

Findings also highlighted the iterative and interactive processes at the heart of contract management. Specifically, a theme of relationship management was strongly noted by managers in every agency. Their contract-based relationships were often described as partnerships; nonprofit agencies were rarely described as contractors or vendors, and never as competitors. Public managers used this terminology to suggest that their collaborations with nonprofit agencies helped to extend the public sector mission. Managers in each county also identified dialogue and regular, open communication as essential in supporting contract-based relationships. Managers perceived their counterparts as accessible and their relationships as personal. More broadly, managers noted the importance of interpersonal relationships in facilitating interorganizational, contractual processes. For example, a public manager suggested, "Relationship is 95 percent of the game. When you get to my level of the organization, it really comes down to mostly relationships and relationship building…Pick up the phone and call the executive director of [nonprofit agency] and say, "Hey, we have this issue coming up. What can we do to get around that?" Boom – you can cut through the emails and all that stuff".

These relationships were described as longstanding, often evolving over decades of

successful contracts with one another. Some county managers noted having led nonprofit service programs; similarly, some nonprofit managers noted having been employed in state or county settings. This level of cross-sector familiarity was accompanied by considerable technical knowledge of current and past contracting practices as well as one another's agencies. As stated by one nonprofit manager, "The majority of our contracts are renewed contracts, meaning that we have had them for 10, 20, 30 years. I know [county managers] understand what we're doing. They know inside and out what our contracts are on the services side and the financial side". As a result, managers suggested that they benefited from a reservoir of working knowledge of their key counterparts and a familiarity with contract-based issues from the dual perspective of the county and nonprofit agency.

However, public managers did not characterize all their contractual relationships as equally successful. Public managers in all three counties noted that they had experienced difficulties with some nonprofit agencies, particularly if they were undercapitalized, recently established, and/or contracting to deliver unfamiliar services. In this situation, public managers noted the importance of monitoring and communicating with agencies more frequently during the early stages of contract monitoring. Additionally, public managers from two of three counties suggested that in these infrequent situations, they would broaden their role beyond contract monitoring to include the provision of technical assistance and even consultation around organizational development. In these two counties, it was noted that this assistance might go beyond the individual contract to sustain the viability of an essential agency. A public manager noted, "I am giving them direction and advice on anything and everything. Like some of their internal decisions, internal processes, their personnel issues, how they are structuring things, and how it's being delivered out into their partnership". This expansion in managerial role beyond

formal contract monitoring and evaluation was justified through reference to the importance of active engagement with nonprofit agencies to support important services. A manager in the other county stated, "What does it mean to be a partner? We're only partners with you when you're doing well? But if there is a problem that comes up, well, you're on your own? We could say, "You failed", but if there is some intervention we can do, then it's better".

**Agency-Specific and General Beliefs Structure Expectations About Performance**

Finally, the MCC model proposes that nonprofit agencies behave consummately when they are aware that a reputation for perfunctory behavior threatens future contract rewards. Managers in all three nonprofit agencies generally understood reputation to encompass specific and recent experiences as well as more general and older beliefs concerning one another. Nonprofit managers spoke in general terms of the longstanding positive reputations of their agencies for delivering human services effectively and within contract parameters, and suggested that their current success in contracting reflected many years of diligent contract maintenance and partnership. They also noted the importance of continuing to deliver on the promise of their past successes to avoid weakening the relationships they had developed with public agencies and other funders. It was in this context that nonprofit managers noted the importance of demonstrating their trustworthiness for effective service delivery through continual attentiveness to county contract managers.

Public managers did not mention being influenced by these broad, general considerations in their selection of nonprofit contracts or their interactions with nonprofit agencies. Rather, managers in each of the three counties suggested that they developed expectations concerning future nonprofit performance based on their review of available information from contract documents and their consideration of recent experiences with nonprofit agencies. In some

instances, this let public managers avoid monitoring closely the performance of agencies deemed (based on recent history) to be successful, as they presumed that these providers would remain successful in future contract cycles. A public manager noted, "We start with the assumption that every contracted provider is going to have an annual in-person monitoring visit. But in reality we don't review 100 percent of our contracts every year. We have waivers or exemptions for those contractors that have demonstrated solid performance in the past". In contrast, public managers noted the increased monitoring they dedicated to nonprofit agencies that had over-spent contract funds but had delivered too few services. These agencies were flagged for special scrutiny.

These agency-specific methods of developing performance expectations were undergirded by a general belief that nonprofit agencies are essential for human service delivery due to their expertise in serving at-risk client populations. This belief was noted by managers in all public and nonprofit agencies in the following ways: (1) nonprofit agencies have expertise developed through decades of service delivery; (2) being small in size generally, nonprofit agencies are agile and able to respond to changing community and client dynamics; (3) as compared with public bureaucracies, nonprofit agencies have stronger connections to community groups and are thus able to deliver services in a more accessible, desired manner; and (4) because of differences in public vs. private workforce and administration, nonprofit agencies are able to provide a lower cost per unit of service than public agencies. A public manager stated, "We recognize that we are not always the best direct provider of services. We do have programs that we administer directly, but we can't do that for the entire array of services we offer communities. Nonprofits provide a community and cultural and language competency that we don't have". In short, nonprofit agencies were perceived to be generally expert in human service delivery as well as more suited to this task than public agencies.

## Discussion

Overall, the tenor of our qualitative interviews and focus groups with public and nonprofit human service managers across the three San Francisco Bay Area county-nonprofit dyads suggest close, longstanding relationships facilitating information exchange and collaborative problem solving in an environment of structured complexity. Albeit reflecting a purposive sample of highly involved contract partners, the current study highlights the stability of the human service contracting network and the interpersonal, organizational, and interorganizational foundations of contract development and implementation. These findings sit comfortably beside studies drawn from stewardship theory and the relational contracting literature (Romzek, LeRoux, & Blackmar, 2012; Romzek, LeRoux, Johnston, Kempf, & Piatak, 2013; Van Slyke, 2007). Our results also suggest multiple places where complex human service delivery challenges impact human service contract management. We begin our discussion by reviewing main findings with respect to the complexity of human service delivery.

**Understanding and Managing Complexity in the Human Services**

Traditional approaches to contract management might suggest that such closeness between public and private agencies threatens public sector impartiality in contracting and accountability overall (Cohen & Eimicke, 2008). Such a perspective relies on an understanding of the contracting process as driven by simple products and complete contracts. In stark contrast, human service contracting across the three county dyads can be characterized as dynamic, often uncertain, and complex. Managers at public and nonprofit agencies uniformly noted being challenged to deliver services in the face of changing and unpredictable client needs and referral levels. Other factors noted by public and nonprofit managers as adding complexity to human service delivery include conflicting client eligibility and funding requirements and coordination

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difficulties involved in interagency service delivery and program reporting. These challenges add degrees of difficulty for nonprofit agencies delivering human services and for public agencies in developing and monitoring human service contracts. Managers noted some common strategies for addressing these challenges, including: (a) gathering information from providers to develop profiles of client needs, and coordinating with providers to prepare for changes in service demand; (b) identifying the major sources of client referrals, conducting outreach to strengthen referral flows, and formalizing referral procedures; (c) and being knowledgeable of different program eligibility criteria and funding requirements, and their impacts on staff and clients.

These findings ~~concerning the dimensions of human~~related to service complexity~~,~~ and managerial strategies ~~to address them,~~ add ~~nuance~~ more nuanced interpretations ~~to~~ of findings from previous studies (Johnston & Romzek, 1999; Van Slyke, 2007) and add to ~~the~~ our understanding of product complexity within the MCC model. Our findings suggest that managerial concerns with human service complexity often concentrate upon supply chain issues relating to the adequate, appropriate, and timely supply of clients who are able to meet program eligibility criteria and therefore receive services (thus triggering agency reimbursement), and to changes in these supply functions over time. This attention to program inputs ~~centers~~ helps to focus discussion ~~of~~ on how managers address the complexity of human service contracting around the task and technical environment of frontline human service delivery (Hasenfeld, 1982, 2010). It also suggests that managers actively manage those interorganizational relationships ~~on which key supply chains depend~~needed to manage supply chains. The following questions reflect the major concerns of public and nonprofit managers in managing the complexity of human service delivery.

- Which client population(s) is our program best suited to serve?

- How can we secure an optimal supply of appropriate clients?

- In the face of multiple and possibly overlapping funding streams, how can we best serve clients in the manner to which we are suited?

- How can we gather information from and collaborate with other public and nonprofit agencies to prepare for future changes on these questions?

**Adapting Strategically to Multiple, Incomplete Contracts**

Our analysis of the 589 FY13-14 contracts administered by the three Bay Area county agencies suggests that the reality of human service delivery is more complex than what is suggested by the MCC model, which focuses on a single dyad (i.e., one buyer and one vendor) linked by a solitary contract. ~~We find that a large~~The major ~~-~~challenge of managing human service delivery is the sheer volume of contracts (with their associated eligibility policies and reporting and monitoring schedules) and different contract partners in play for any single public or nonprofit agency. As seen in our contract data, roughly 40% of all private agencies had multiple contracts with at least one of our three Bay Area county human service agencies. And all three of our study nonprofit agencies had multiple contracts with their respective county agency in addition to contracts with other public and private funders, and relied upon their county contracts for only a minority of their budgets. In this multi-contract environment, the task of the human service manager is to organize service delivery within potentially different institutional settings (e.g., multiple contracts supporting a single service program, with each contract potentially having different service delivery, performance, and reporting expectations) while attending to client flow, frontline service quality, and interorganizational coordination with partner agencies. In this regard, our study adds needed context to the MCC model and recalls findings from classic studies of nonprofit human service contracting (Gronbjerg, 1993; Smith &

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Lipsky, 1993) as well as more recent scholarship (Smith, 2012; Smith & Phillips, 2016).

As anticipated by the MCC model, we find that human service delivery is occurring through broadly defined contracts. But while the MCC model suggests that incomplete contracting is an inevitable result of complex products, our findings suggest that incompleteness may be a practical and strategic response to managing human service contracting under conditions of uncertainty. The complex nature of human service delivery illuminates an essential paradox in contracting for complex products; namely,: ~~Managers~~ while managers are challenged by the indeterminacy of incomplete contracts; ~~yet~~, the very incompleteness in contracting may provide helpful institutional flexibility for managers to engage in program implementation in complex, interdependent, and risky service settings without threat of immediate sanction for contract non-compliance. Engaging in course correction through contract amendment is the solution to this paradox, as it allows for negotiation around program objectives and performance goals as public managers gain new knowledge through interaction with their nonprofit contract counterparts and are able to develop more precise service and performance expectations. For example, managers from public and nonprofit agencies in our study suggested that while initial contracts provide a foundation for human service delivery, the unanticipated program implementation challenges that threaten the ability of nonprofit agencies to deliver services effectively (e.g., unexpected program costs, greater client needs) can spur discussion of program adjustment and serve as the basis for contract amendment requests.

We thus agree with the conclusion of a recent study of public child welfare agencies contracting for nonprofit mental health services: " Contracts that are cooperative and flexible are likely to be higher performing since discretion is important in human services, where tasks, services, and outcomes are often uncertain" (Bunger, Cao, Girth, Hoffman, & Robertson, 2015,

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p. 9). We see value in research assessing the extent of contract incompleteness in the human service sector as well as, and its benefits and costs. A One hypothesis drawing that can be drawn from our findings is that contracts are written intentionally to be simply simple and broadly so as to create space for managers to develop service strategies that address emerging human service delivery issues without significant financial liability. An alternative hypothesis is that public agencies purposely draft incomplete contracts incompletely in order to eventually tighten reimbursement schedules, alter payment schedules, and reduce overall payments through contract amendment (Pettijohn & Boris, 2014). Each possibility reflects a strategic orientation to contracting amidst complexity, although the motives underlying the scenarios hypotheses are contradictory and the outcomes of each can be expected to differ.

**Institutional Rules, Relationships, and Reputations**

In the presence of complexity and incomplete contracts, the MCC model proposes that 1) repeated collaboration and 2) reputational considerations may help promote shared positive outcomes for public agencies and nonprofit agencies but that 3) it may be difficult to develop performance-promoting institutional rules (e.g., effective performance measurement systems) due to the complexity of human services. Our findings mirrored these expectations.

First, there appears to be a shared understanding among managers that partnership through regular dialogue is the most effective method of resolving service and contracting dilemmas. This is where we may see most clearly the protective effects of the collaborative contract management noted by managers from all public and nonprofit agencies. Within these enduring and active networks, communication and a familiarity with one another's programs and agencies may facilitate problem solving on fundamental challenges that cannot be addressed through ex ante contract specification.

The language that public and nonprofit managers use to describe their contract-based interactions is profoundly relational and familiar, and supports the use of a relational contracting lens. References to goal conflict, methods for guarding against moral hazard and shirking, competition, or calculated cooperation were largely absent from the manager interviews. In contrast, findings support a portrait of managers with substantial shared experience and cross-sector knowledge engaging in problem solving in a way that promotes dialogue. It is not clear that public managers always lead this conversation, since in our data public managers expressed a belief that nonprofit managers have significant service delivery expertise, and that nonprofit agencies are better equipped than public bureaucracies to respond to community-based social needs. Moreover, our study provides some evidence that public and nonprofit managers may partner to identify emergent needs and promising service approaches, and that nonprofit managers may initiate critical service delivery and contract improvement processes (e.g., to improve referral pathways, to amend contract scopes of work). This supports the thesis that, at the managerial level among study agencies, "the public and private sectors are joined in an intimate, ever-changing, and intricate dance" (Katz, 2001, p. 138).

Second, we find that these ongoing conversations are supported by a norm of commitment to being a good contract partner. Managers across public and nonprofit agencies emphasized the importance of relationship development, partnership cultivation, cross-sector knowledge (i.e., learning the perspectives of their contract counterparts), and active communication. There also exists a belief among managers across our study agencies that nonprofit agencies deliver services better than public agencies, a finding that comports with Gazley's (2008) suggestion that generally shared norms can support credible commitment in the absence of clearly defined service agreements. However, it is unclear from our interview data

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whether these general beliefs have much influence on the selection of nonprofit contractors or the development of future performance expectations around service delivery. In these areas, managers appear to rely on their review of available information and their understanding of recent interactions with one another. In short, specific and recent performance may be more powerful than general beliefs in structuring future performance expectations.

Third, institutional rules—particularly those pertaining to performance measurement and contract-based program monitoring—appear to complicate the contracting process. There is an absence of experimentation with performance-based contracting or other high-stakes methods of promoting nonprofit performance. And there is widespread agreement among public and nonprofit managers that current approaches to program monitoring do not promote program performance (as understood in terms of improved client outcomes). Dialogue is occurring frequently around the difficulties involved in producing and sharing program data, which many feel are not being utilized as fully as they could be to inform system improvement; and managers are engaging in performance reporting without an expectation that it will promote organizational improvement or real benefits for clients. These findings are similar to those found in studies highlighting the difficulties of mandating performance measurement without explicit dialogue concerning the value of performance measurement and agreement regarding how performance measurements should be incorporated into contract evaluation (Campbell & Lambright, 2016; Carnochan, Samples, Myers, & Austin, 2013). More broadly, our general finding that public and nonprofit human service managers are relying on strong informal norms to supplement weak institutional rules is supportive of current research (Romzek, LeRoux, & Blackmar, 2012; Romzek, LeRoux, Johnston, Kempf, & Piatak, 2013).

**Implications for Theory and Research**

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These findings illuminate opportunities for theory and research on the management of complex human service delivery ~~amidst complexity~~systems. First, if human service contracting involves strong and perhaps stable interdependencies that link public and nonprofit organizations in order to manage the underlying complexity of human service delivery, then it is important to examine whether contract management may under some conditions take on a more distributed and interorganizational character. Prior research on human service contracting, including the MCC Model, has been informed by theories of the firm and has tended to assume strict organizational boundaries and the autonomy of institutional actors within service delivery networks. In contrast, we wonder if, when, and how boundary spanning managers collaborate across organizations to build networks of accountability that span individual principals and agents (Quick & Feldman, 2014). This possibility is seen perhaps most vividly in our findings that public managers can take an active role in providing technical assistance and organizational development to valued but at-risk nonprofit agencies, and that nonprofit managers can make suggestions to public managers about program needs that may result in contract modifications.

These results may reflect the nature of our study sample, and the well-developed and stable interorganizational relationships between public and nonprofit agencies. However, they also recall Milward and Provan's suggestion that "Stability is a function of principals allowing agents to learn from their mistakes. It does not imply that principles should not intervene or help agents cope with problems. It does mean that principals should play a positive role in allowing agents to solve social dilemmas" (2000, p. 377). Research might therefore examine how public managers involve their nonprofit contract counterparts in collaborative problem solving around technical human service delivery issues. Research might also reverse the direction of influence to determine the importance of nonprofit agencies for organizational innovation in public

bureaucracies, particularly in areas around community needs assessments and human service program development (where nonprofit managers may be expected to have expertise).

Second, the interpersonal dimensions of relational contracting require elaboration. If relational forms of contract management may be powerful tools for shaping contract outcomes in situations of service complexity, interdependency, and contract incompleteness, then research is needed to enhance our understanding of what exactly is relational (i.e., social and psychological) about relational contracting. Future studies might examine the behavior of managers within and ~~across~~ between agencies to explore the characteristics and formation of intra-organizational and inter-organizational social networks. Such inquiry might focus attention on how contract-based groups and teams develop to support problem--solving ~~around~~ related to ongoing and emerging~~ent~~ issues.

We see value in additional research on the evolution of norms of trust and reciprocity as a foundation for collective action. We also see opportunities for the development of studies on the following questions: (a) How do public and nonprofit managers engage in problem--solving around complex contract-based issues?; (b) To what extent do managers within and across public and nonprofit agencies share common perceptions and worldviews with respect to contract-based goals, objectives, and strategies?; (c) Do the quality and consistency of managers' contract-based relationships inform their contract management activities?; (d) How do answers to these questions vary by managerial factors (e.g., experience), organizational factors (e.g., auspices, dependency on contract-based revenue), and institutional factors (e.g., performance-based contracting)?; and (e) Do the answers to these questions affect contract outcomes? If managers working together to make contracts work better, then it is important to study how they do it.

**Conclusion**

While the content of a contract supplies the legal and fiscal framework for human service organizational activity, it is simply the institutional vessel within which public and nonprofit managers engage in dialogue and problem- solving on longstanding as well as emerging service issues. Understanding this requires broadening our focus beyond organizations and contracts to include managers as critical units of analysis. It requires examining how managers make decisions, develop partnerships within and across agencies, and organize human service delivery amidst uncertainty and complexity.

Public and nonprofit managers interested in improving human service delivery and contract performance may consider the following conclusions from our study.

1. Effective human service contracting depends on the degree of knowledge and control of the services themselves. Human service contracting can be enhanced through improved understanding of how to: a) meet the needs of clients effectively, efficiently, and equitably; b) help clients access appropriate programs; c) coordinate across funders and agencies to serve a common clientele; and d) evaluate and incentivize program outcomes as opposed to outputs. A strong technical foundation for human service delivery supports institutional design (e.g., performance monitoring systems, performance-based contracting) and thus outcome achievement.

2. Because of the uncertainty associated with human service contracting for human services involves some that creates interdependency interdependence amidst uncertainty and change, there is every reason to expect public and nonprofit managers to interact regularly. Interorganizational collaboration in human service contracting is enhanced when public and nonprofit managers hold share common commitments, engage in dialogue and share exchange critical information, and have cross-sector

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service delivery expertise. These interactions serve as the basis for joint problem solving.

3. Performance measurement and program monitoring complement but are not substitutes for evidence-based management, in which performance information is used to support organizational learning. For managers to fully benefit from performance measurement, both sectors must continue to invest in the transformation of program reporting systems into knowledge sharing systems (Lee & Austin, 2012).

4. Contracting for human services is as interpersonal as it is technical. Governance models for human service delivery should attend to the fundamentally relational nature of contracting amidst complexity. Contract and program developers should (a) build in structured opportunities for cross-agency dialogue and technical assistance to promote service refinement over the life of a contract and across contracts and (b) provide incentives and resources to facilitate their use by managers. If these opportunities are not structured formally, then they will are most likely to continue to exist informally and likely be more available tofor experienced, networked managers than tobut less so for the new managers who need them most.

We conclude by re-emphasizing our initial point that the contracting literature has progressed largely independently of human service delivery research. While it is indisputably important to design and test institutional frameworks organizing and governing human service systems, equal attention is needed onneeds to be given to the question of how to develop, implement, and manage human service programs effectively. Our findings suggest that building linkages across these scholarly areas will support movement towards effective, contract-based human service delivery.

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Table 1. <u>County and Nonprofit Human Service Agency Dyads and Study Participants</u>

| | <u>County A</u> | <u>County B</u> | <u>County C</u> |
|---|---|---|---|
| 2010 Census Population | 837,442 | 747,373 | 495,025 |
| <u>County Human Service Agency</u> | | | |
| Annual Budget | $738M | $185M | $267M |
| % Budget for Service Contracts | 27% | 10% | 5% |
| FTEs | 1,916 | 752 | 800 |
| Data Collection | 4 interviews and 1 focus group | 7 interviews | 7 interviews |
| Study Participants | • Deputy director<br>• Program managers<br>• Program analysts<br>• Contracts manager<br>• Contracts staff | • Director<br>• Program division directors<br>• Fiscal director<br>• Administrative director<br>• Administrative analyst | • Director<br>• Deputy directors<br>• Program division directors<br>• Program analysts<br>• Contracts manager |
| <u>Nonprofit Agency</u> | | | |
| Annual Budget | $41M | $12M | $2M |
| Overall % Revenue from Public Contracts | 59% | 78% | 72% |
| % Revenue from Contracts with the Specific County | 12% | 20% | 11% |
| Service Areas of Contracts with the Specific County (# of Contracts) | Adults and aging (3); child welfare (1); economic assistance (10); employment and training (2) | Child welfare (3) | Adults and aging (2); child welfare (2); economic assistance (1) |
| FTEs | 459 | 205 | 43 |
| Data Collection | 4 interviews and 1 focus group | 5 interviews | 4 interviews |
| Study Participants | • Administrative manager<br>• Contracts supervisor<br>• Contracts staff<br>• Program managers | • Clinical director<br>• Administrative managers<br>• Program managers | • Executive director<br>• Program managers |

<u>Note</u>: Agency information is reported over State Fiscal Year 2013-2014 (July 1, 2013 through June 30, 2014).

Table 2. Main Study Findings in Relation to MCC Model Conditions and Propositions

| MCC Model | Major Study Findings |
|---|---|
| Conditions | |
| Human services are complex products | Complexity in human service delivery is heightened due to: a) unexpected and/or unclear client needs; b) the unpredictability of the client referral process; and c) challenges in managing the demands of multiple funders and external service partners. |
| Human service contracts can be incomplete | Contracts can be incomplete in critical areas relating to clients, service delivery, and funding. Contracts may be written to allow for nonprofit discretion in implementation, and may be amended in response to critical information that was not available prior to initial contract ratification. Contracts may also be written generically, such that different nonprofit agencies may deliver services under essentially identical contracts. |
| Propositions | |
| Governance rules may not promote performance given the complexity of human services | Public and nonprofit managers view the governance tools most commonly in use (i.e., program monitoring through performance reporting) as irrelevant for promoting effective service delivery and client outcomes. There is a desire to incentivize outcome achievement but it is not clear how to achieve this. |
| Performance is enhanced through long-lasting, successful contract-based exchanges | The relationships between public and nonprofit agencies can be characterized as partnerships developed as a result of successful contract-based interactions and significant cross-sector knowledge. Managers prioritize relationship management, and communicate with their counterparts regularly to share information and problem solve around technical contract-based issues. |
| Reputational considerations promote performance | Public managers use recent, agency-specific information as opposed to generic beliefs to develop performance expectations about nonprofit contractors. There is a general norm of commitment to partnership development as well as a general expectation that nonprofit agencies are essential for human service delivery due to their expertise in serving at-risk client populations. |

Figure 1. <u>Summary of the MCC Model As Applied to Human Service Contracting</u>

<u>Model Conditions/Premises</u>

- The human services are a complex product.
    - A characteristic of human service delivery is the intense degree of uncertainty due to complexity.
    - Complexity in the human services leads to asset specificity – i.e., the demand for specialized investments such as staff with particular skills and specific types of clients who are most suitable for an agency's service models.
- In situations with high uncertainty and asset specific, human service contracts may be written in an incomplete manner.
    - Product rules (regarding what is to be produced, and how and when it is to be produced) may be difficult to specify contractually.
    - Exchange rules concerning prices and contract processes (e.g., performance milestones, deliverables) may also be difficult to specify contractually.
- In such situations, there may be an acknowledgement of mutual dependency and risk sharing.
    - Incomplete contracts leaves ambiguity and discretion present, and turns a simple exchange into an interdependent relationship in which risk is involved for both public and nonprofit agencies. This can lead to lock-in.

<u>Model Propositions</u>

- In these situations, the use of traditional governance tools (e.g., contract performance monitoring, stipulations against cost overruns, performance incentives) may not be effective in structuring contract outcomes.
- Public managers may seek out nonprofit agencies with whom they have contracted successfully. Public managers may also engage in relational contracting.
    - The expectation is that repeated interaction will enhance mutual understanding and problem solving. This involves substantial dialogue, generally after contract development during contract implementation. These reciprocal exchanges promote problem solving, information sharing, and identification of promising strategies.
- Public managers may also distinguish between nonprofit agencies with reputations for excellent vs. poor performance, and alert nonprofit agencies to the possibility that future contracts depend on current performance.

## Endnotes

[1] To date, the MCC model has not been applied to human service contracting; its authors have used it to develop a case study of the U.S. Coast Guard Deepwater Program (Brown, Potoski, & Van Slyke, 2010, 2013, 2015).

[2] This conceptualization of the complexity of human service contracting draws upon Van Slyke (2007), and is mirrored to some extent in the MCC model.

[3] In County A, a new contract liaison position was created in the public agency to ensure alignment between agency and contract objectives, ensure that contract outcome data was included in performance reports, and strengthen intraorganizational coordination between the contracts unit and program managers with contract management responsibility. In the County A nonprofit agency, the executive director had developed a taxonomy of client outcomes, which was intended to link services to organizational mission and to serve as a basis for negotiations with funders regarding contract performance measures. In County B, the nonprofit agency had been engaged in a multi-year process aimed at engaging program staff to clarify program logic models and define client outcomes, while the public agency operated under an outcome-based management and budgeting framework. County C was the site of a community-wide policy initiative sponsored by the County Board of Supervisors to direct health, human service, and criminal justice funding to preventive, evidence-based programs. The nonprofit agency in County C was a founding and active partner in this initiative.

[4] These descriptive data on (1) the degree of contracting out by county human service agencies, (2) the overall reliance of nonprofit agencies on public funding, and (3) the proportion of nonprofit agencies with multiple contracts with a single county agency, suggest that study agencies may be reasonably generalizable to agencies in other metropolitan areas. First, the percentage of county human service budgets dedicated to service contracts is in range of other studies. For example, using an ICMA survey of 1,043 city and county government officials, Levin and Tadelis (2010) find that 55% of daycare services, 19% of elderly services, and 39% of drug and alcohol treatment programs are contracted out to the private sector. And Peterson, Houlberg, and Christensen (2015) note that 23% of Danish municipal expenditures are dedicated to private sector contracts. Second, levels of nonprofit agency dependence on public funding are well within the range of estimates of other studies. McBeath, Collins-Camargo, and Chuang (2012) analyze national survey data of private child welfare agencies and find that 69% of agency revenue comes from government contracts. This percentage is comparable to that from prior studies from other human service subsectors and overall (Milward & Provan, 2000; Smith, 2012). Third, Pettijohn and Boris (2014) note that roughly a third of US nonprofit social service agencies have multiple contracts with one or more government agency, and that the proportion of such agencies has increased by nearly 13% over 2009-2012.

[5] The two researchers identified and coded their own excerpts for their own interviews. Because they did not code the same excerpts, calculating a Cohen's Kappa was not possible. However, it was possible to calculate their proportionate use of codes. As shown in the following table, proportional use of the parent codes was quite similar ($X^2 = 13.48$, p< 0.005).

|  | Number of Code Applications | |
|---|---|---|
|  | Researcher 1 n (column %) | Researcher 2 n (column %) |
| Total Code Applications | 1,905 | 1,050 |
| Use of Parent Codes |  |  |
| Complexity | 922 (48%) | 446 (42%) |
| Interorganizational relationships | 665 (35%) | 391 (37%) |
| Performance measurement | 247 (13%) | 153 (15%) |
| Intraorganizational relationships | 71 (4%) | 60 (6%) |

[6] This method of producing individual case studies as part of a larger research agenda meets three of Yin's (2003) four principles for high quality analysis: attending to all the evidence; exploring rival interpretation; and addressing the significant aspects of each case. Each case study thus provided a comprehensive review of the most critical factors associated with human service contracting from the perspective of those individuals most involved in this process; and, collectively, the case studies introduce varied interpretations of similar and divergent phenomena. Yin's (2003) fourth principle recommends that the researcher actively and transparently use his/her own prior knowledge, a principle echoed by Charmaz (2005). The current study built on decades of practice experience and prior research led by study team members on public and nonprofit human service delivery, interorganizational collaboration, and performance contracting and performance measurement.

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[7] It was not possible to determine frequencies of individual managerial responses due to the responsive interviewing approach used where respondents were not asked a uniform set of questions.