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# Voluntary Agencies and the Contract Culture: “Dream or Nightmare?”

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This analysis of recent research on purchase of service contracting (POSC) is prompted by the emergence of POSC as the primary method for the delivery of the personal social services in the United States. The publication of five books on contracting since 1987 and other empirical studies provide a basis for examining what has been learned about POSC. After a discussion of the policy context of the contract state and the three major research paradigms, four topics are considered: (1) rationale and incentives for POSC; (2) processes, transaction costs, and strategies; (3) consequences for the service delivery system and for the governmental and voluntary nonprofit organizations involved; and (4) implications for policy, management, and future research.

In the past 5 years, there has been a remarkable resurgence of interest in purchase of service contracting (POSC), now the primary method of financing and delivering the personal social services in the United States. It is also likely to become much more significant in Europe and particularly in Britain, where there is great concern whether it will turn out to be a “dream or a nightmare.”<sup>1</sup> The growing significance of the use of voluntary nonprofit organizations to implement public policy is reflected in the fact that five major books on POSC have been published in the United States since 1987 and that there have been several other significant research contributions to a debate, which has been often conducted on ideological and impressionistic grounds.<sup>2</sup>

It is timely to examine some of this new research-based knowledge, as well as the prevailing conventional wisdom about POSC. What

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follows is a preliminary overview of the subject, a necessary first step toward a more systematic and comprehensive assessment. While the focus is primarily on contracting, most of the analysis is relevant to other fiscal transfers between government and nonprofit organizations in the form of grants and payments, except that POSC, because of its legal status, involves a greater degree of specificity and accountability.

What have we learned about purchase of service contracting? How do we know it? How useful are the various metaphors, models, and theories that have been proposed? What do we need to know about the contract culture if research is to contribute to the policy-making and management of voluntary organizations that seek to maintain their identity and independence while operating largely as providers of public social services in an environment of increasing uncertainty, scarcity, and competition?

After a brief description of the policy context and three dominant paradigms used in the recent research on POSC, we review its contribution to our understanding of (1) the rationale or the incentives to enter into POSC by both government and the nonprofit organizations; (2) the dynamics of the process, including the problems at various stages and the strategies used to cope with them; (3) the effects of POSC on the organizations involved and on the service delivery system; and (4) some implications for social policy, management, and future research.

### The Policy Context of the Contract State

Purchase of service contracting is part of a larger context in which the welfare state during the past 25 years has become much more of an “enabler,” whereby the funding and production of social services have been administratively separated.<sup>3</sup> Public responsibility has been retained for policy and planning, financing, regulating, monitoring, and audit, whereas nongovernmental providers, both nonprofit and commercial organizations, are increasingly used to deliver a growing number of social services.

This has meant that, as part of the public service delivery system of the personal social services, nonprofit organizations function more often as a substitute for government rather than in their traditional roles as an alternative, a supplement, or a complement. Michael Sosin and others have pointed out how POSC enabled the extension of the welfare state, particularly since the 1970s, when it has been under attack in the face of a declining economy.<sup>4</sup> A growing interdependence has developed over a period of 25 years between government and nonprofit organizations, with little planning or evaluation of the implications of their becoming “agents of the expansion of the welfare state” and with their future so closely bound to its fate.<sup>5</sup>

The growth of POSC with its greater reliance on nonprofit organizations can also be viewed as part of the “crisis of the welfare state,” during which the virtues of voluntarism were rediscovered in the 1980s, accompanied by the policies of privatization, decentralization, deregulation, and deinstitutionalization.<sup>6</sup> One outcome has been a pervasive blurring of the boundaries between the public and private sectors, whose interpenetration and mutual dependence is reflected in numerous metaphors such as third-party government, indirect public administration, the contract state, nonprofit federalism, the new or mixed political economy of welfare, and so forth. Although new roles and relationships (administrative, fiscal, regulatory, and political) between government and nonprofit organizations have developed, we still lack concepts, models, research paradigms, and data useful for policy and management.

### The Future of Nonprofit Organizations

Despite its pervasiveness, POSC is still viewed as a controversial issue in social policy, particularly in the voluntary sector. There are many persons in both the United States and the United Kingdom who have become greatly concerned about the impact of contracting on the character, goals, and role of nonprofit organizations in the personal social services. They fear that the public policy of contracting for the social services will undermine the essential and distinctive contribution of voluntarism to a pluralist democracy. Contracting is viewed as transforming nonprofit organizations into quasi-nongovernmental organizations or into wholly owned subsidiaries of a governmental agency with a quasi-public staff. Funds from government, whether as a partner, patron, or purchaser, are often viewed as inherently controlling, co-opting, and contaminating the mission of nonprofit organizations. For example, the editor of a recent international collection of studies on the third sector refers to the use of governmental funds by nonprofit organizations as having “inadvertently made a pact, as it were, with the devil.”<sup>7</sup> Some observers see a process of “devoluntarization” and goal distortion as one of the organizational costs of POSC.<sup>8</sup> Is this true? For what types of organizations? Under what conditions? Others, however, tend to minimize these dangers but are concerned about the difficulties of securing public accountability from large numbers of nonprofit organizations, particularly in states like Massachusetts and New Jersey, where virtually all human services are contracted out.<sup>9</sup> Also worrisome is the dubious ability of nongovernmental and specialized providers to assure the equity, universalism, and entitlements associated with public services. Finally, it is questioned whether POSC is really cost-effective, whether it provides more flexibility and greater choice in the service delivery system, or whether

it perpetuates the present array of services, limiting the meeting of new social needs.

## Overview of Research on POSC

What do we really know about POSC? While there is a long history of contracting in the United States for most governmental functions, and while there is an enormous literature dealing with municipal services that have been contracted out, the empirical research on POSC in the personal social services is still quite limited, despite its growing importance and enormous scale. To summarize much of the literature on POSC, a commentary once made on the state of organization theory is apt: not much is known, but it has been said over and over again in many different ways.<sup>10</sup>

Perhaps because much of the debate about POSC has been ideological, usually stressing the virtues of privatization that favor market transactions over governmental bureaucracies, relatively few empirical data have been gathered until the past decade. For example, surveys of statewide contracting practices have been completed in Massachusetts, New Jersey, Illinois, and New York, as have surveys of Social Services Block Grants in 36 states; of social services in New York City, Chicago, and the San Francisco Bay Area; and of specific programs in child welfare, such as adoptions and family preservation services, aging, Title XX, the Comprehensive Employment and Training Act, victim services, and mental health.<sup>11</sup>

Most of the studies of POSC have been conducted from the perspective of either the nonprofit organizations or the governmental agency, but rarely from the perspective of both, and, not surprisingly, they emphasize the problems and constraints but seldom the opportunities. Because of the nature of the organizational samples, their size and locus, it is not clear to what extent the findings are applicable to other fields of service and political settings, particularly in those states where most human services are contracted out. It is difficult, for example, to compare jurisdictions such as Los Angeles County, which contracts out 5.6 percent of the child welfare services to nonprofit organizations, with New York City, where more than one-third of these programs are contracted out and the total POSC budget is \$2.6 billion.

## Research Paradigms

Three basic models or metaphors are embedded in the recent research on POSC: (1) a partnership, stressing cooperation between government and nonprofit organizations, but including negotiation; (2) a market in which competition is assumed but in which it occurs infrequently; and (3) an interactional process conceptualized as a game or

as a regime.<sup>12</sup> In the few studies that have been guided by a theoretical framework, the dominant research paradigms are resource dependency and political economy models, with a nod toward the “new institutionalism.”<sup>13</sup> The following overview of recent POSC research begins with its rationale and then analyzes the process, consequences, and implications.

## Rationale for POSC

Why does government contract out most of the personal social services? Why do nonprofit organizations seek such contracts? There are four sets of answers that seek to explain the incentive for government to choose POSC instead of direct provision, which is the first stage of a two-step model used by James Ferris and Elizabeth Graddy; the second stage involves the selection of a nonprofit organization instead of another governmental agency or a private business.<sup>14</sup> The explanations fall into these categories: legislative mandate, ideology, rational decision making, and pragmatic expedient.

### *Legislative Mandate*

In many programs in fields such as aging, mental health, alcohol and drug abuse, food distribution, or Head Start, the governmental agency has no option because it is prohibited by law from offering the service itself: it must contract with a nonprofit organization, although, in many instances, commercial organizations may be used. Even under these conditions, the contract can be designed and implemented in a competitive, negotiated, or cooperative framework, dependent on the availability and resources of nonprofit organizations.<sup>15</sup> Similar provisions are now also found in England, requiring the Local Authority Social Service Departments to contract out a fixed amount of community care or face fiscal sanctions.<sup>16</sup>

### *Ideology*

The ideological argument is based on a series of organizational characteristics attributed to government and to nonprofit organizations, which are generally in the form of invidious stereotypes of private virtues and public vices, many of which have their origin in the nineteenth-century subsidy system. Typically, there is a deep distrust of government, accompanied by exaggerated, idealized notions about the advantages of nongovernmental organizations. Viewed as a moderate form of privatization, POSC is seen as a way of dealing with the inherent costliness and inefficiencies of government. More positively, POSC is sometimes viewed as an opportunity to optimize choice, promote

citizen participation, and provide specialized, innovative services in a more flexible way, closer to the user.

Justifications of this type, however, are found mainly in the professional literature on the subject; they are rarely elicited from respondents in the surveys on POSC. For example, in a typical survey in the San Francisco Bay Area, officials in nine counties justified their choice of POSC with nonprofit organizations in terms of lesser cost and greater flexibility in starting and terminating services and as a way of bypassing bureaucratic constraints and better serving hard-to-reach groups. Yet other qualities of voluntary agencies were perceived by the officials as the source of their major disadvantages as a public agent or vendor: lack of accountability, inadequate management, and readiness to use political influence.<sup>17</sup>

Ideologically, there is an unusual consensus on both the Right and Left for the use of voluntary organizations to implement public policy, though their motivations and organizational referents are quite different. On the Right, voluntary organizations are seen as a bulwark against further governmental intervention, or at least as an alternative to, if not as a substitute for, such intervention. On the Left, voluntary organizations are often viewed nostalgically, as a means of recovering a lost sense of community through greater citizen participation. Additional support for POSC has come from relatively new, community-based organizations, particularly those representing groups not previously part of the urban polity such as gays, feminists, and ethnic and racial minorities. Part of this ideological consensus may be due to a failure to distinguish between various forms of voluntarism: between volunteers as unpaid staff and as peer self-help and between community-based grassroots associations and service bureaucracies staffed by professionals.

### *Rational Decision Making*

The choice of POSC as the outcome of a rational decision-making process in government is one of the most frequently found models, both descriptively and normatively. It assumes that officials can or will systematically assess the relative costs and benefits of internal versus external production of the social services and then will choose the appropriate sector on the basis of an objective evaluation of relative advantages and disadvantages.

In an earlier model, I formulated a set of principles for government and voluntary agencies to consider before they embark on POSC.<sup>18</sup> These principles were later redesigned in 1981 as a series of questions on the basis of the purported advantages and disadvantages of POSC to each of the parties. Harold Demone and Margaret Gibelman present a similar but more comprehensive set of such considerations, which is found in the Appendix.<sup>19</sup>

Ferris and Graddy, using a 1982 survey of contracting in 1,780 cities and counties, found support for their hypothesis that nonprofit providers were selected more often if they had a good reputation for service delivery; factors also considered important were cost-efficiency, access, and quality. They inferred from a statistical analysis of the data that government takes into account both production and transaction costs in considering POSC and that nonprofit organizations or other governmental agencies are preferred for hard-to-monitor services, particularly in the social services.<sup>20</sup>

Perhaps the most systematic and complex of the rational decision-making models has been developed by Peter Kettner and Lawrence Martin, who proposed a set of criteria for government to consider before it embarks on POSC. These criteria include cost-effectiveness, productivity, and fiscal control; provider vulnerabilities; monitoring abilities; barriers to planning, design, and funding; impact on clients; public policy and legal considerations; and politics and agency loyalties.<sup>21</sup>

This framework was applied by Peter Pecora, Jill Kinney, Linda Mitchell, and Grant Tolley to family preservation services, a form of home-based, intensive family treatment designed to prevent child placement and funded by public child welfare agencies.<sup>22</sup> Reviewing current research on POSC, Pecora et al. tested Kettner and Martin's criteria to determine whether governmental or voluntary auspices were more appropriate for this highly specialized child welfare service. The outcome turned out to be equivocal: there are advantages and limitations with both auspices, but there are more staff and organizational barriers associated with public agency provision. The exercise also revealed the lack of comparative research data on relative cost-effectiveness and on other important considerations in deciding whether POSC is appropriate.

Kettner and Martin have also developed a continuum with two contrasting models of POSC as a partnership or a market, based largely on the relative degree of competition and accountability involved.<sup>23</sup> A partnership is based on cooperation, and, although it minimizes power relationships, it also has room for negotiation. The market model assumes that there is competition, although this is rare, and that the primary emphasis is on cost-efficiency. Kettner and Martin also suggest where different types of services might be placed on this continuum—for example, adoptions and foster care might be placed toward the partnership model, and transportation and day care toward the market model. The model is intended to be used with their decision-making framework described earlier. Different response levels to the criteria in each category will imply one model or the other. For example, if lowering costs is a high priority to government, then the market model is most appropriate; if flexibility in targeting resources is an objective, then the partnership model is best.



While the Kettner and Martin model can play a sensitizing role, it does not reflect the wide variety and complexity of contracting arrangements and administrative mechanisms that prevail today. These include research and demonstration grants, vendor agreements, cooperative agreements, performance-based contracts, cost-reimbursement contracts, and so forth. Also, the model seems to assume that the intent of a decision maker is to optimize a single value, whereas, in practice, governmental officials have multiple objectives—hence the frequent necessity for trade-offs. While partnership is generally lauded because it implies equality, the model tends to obscure the unequal power relationships that characterize the interorganizational relations in POSC. After all, there are junior and silent partners. Finally, the model presupposes the availability of appropriate information on dozens of items for which there often are no adequate data.

### *Pragmatic Expedient*

Apart from mandated services, contracting as a pragmatic expedient seems to be the most frequent explanation for POSC for both government and the voluntary agency. The imperatives of legislation and administrative realities predominate rather than a commitment to a set of principles or the outcome of a methodical, rational process of evaluative decision making, as suggested above. Detailed case studies and surveys of the POSC process in Massachusetts, New Jersey, New York City, Chicago, and the San Francisco Bay Area offer an inside look at the very practical considerations involved. This can be summed up in the generalization that POSC will occur when one agency has something that the other needs or wants and can provide it at a price that is acceptable. Primary determinants in this quasi market seem to be supply, including competition; demand; the nature of the service technology; and the politics and history of the community.<sup>24</sup> Concerning the latter, there is a tendency to underestimate the role of politics in POSC, particularly as it operates in urban communities with social service agencies under the auspices of emerging ethnic constituencies of Hispanic, Asian, and African-American groups.

An existential view of POSC is captured dramatically in the social-anthropological approach of Susan Bernstein's ethnographic analysis of the ways in which 17 New York executives of nonprofit organizations play the game against the staff of the governmental agencies with whom they have contracts.<sup>25</sup> The participants have evidently decided that, because there is such a conflict between the rules and expectations of POSC and reality as they perceive it, behavior suitable for a game is the only appropriate way of coping with its often absurd and onerous requirements.

Kirsten Gronbjerg, in her intensive case studies of a small number of Chicago nonprofit organizations, using a contrasting methodology

that includes rigorous quantitative analysis, also came to the conclusion that the actual operation of POSC does not conform to the beliefs of either its supporters or critics.<sup>26</sup> Similar conclusions about this disparity between reality and POSC rhetoric are found in the work of other researchers.<sup>27</sup>

Thus, legislative requirements and pragmatic administrative and fiscal considerations seem to justify POSC rather than ideology or a rational decision-making process.

## The Process of POSC

Bart Grossman and I identified five stages of the contract management process and, using a political economy model rather than the traditional notion of a partnership, analyzed the requirements, problems, and strategies in each stage for both government and the voluntary agency as the provider.<sup>28</sup> On the basis of empirical studies of social service contracting by local government in nine San Francisco Bay Area counties and of five voluntary agencies with contracts for child abuse prevention, the sequential POSC process includes requesting contract bids; rating and selecting bids; contract drafting, negotiating, and processing; operating, monitoring, and evaluating performance; and renewing or terminating the contract.

Most of the problems peculiar to each phase can be summed up in the concept of transaction costs for both government and the nonprofit organizations, although most of the research reports only the standpoint of the provider agency. Much less is known about the difficulties facing the governmental agency except for the problems of assuring accountability.

The transaction costs to nonprofit organizations who serve as vendors of public services can be grouped into four clusters: various time constraints such as "annualization" and multiple, conflicting deadlines that contribute to uncertainty and other job pressures; underfunding and cash flow delays; reporting, red tape, paperwork, and other accountability requirements; and undesired restrictions on staffing, client eligibility, and service methods.

Six types of organizational strategies were used to cope with the most frequent problem of underfunding: political pressure, usually as part of a coalition, to press for more equitable and stable rates of payment and for additional funds for more costly services; fiscal resource development to fill the gap between payments and costs through fees, foundation grants, fund-raising, commercial enterprises, and in-kind contributions; interagency collaboration to influence economies, mergers, cost sharing, or spin-offs of program units; modifying service delivery by "creaming," increasing workloads or referrals, or changing the case-staff mix; improving management systems or

changing structure; and employing unpaid volunteers or low-paid or part-time staff or converting full-time staff to consultant status.

To cope with the other main resource requirement of sufficient and suitable clientele, nonprofit organizations employed three strategies: marketing, interpersonal management, and expanding the referral base.<sup>29</sup>

Perhaps the most intensive case study of restrictive grants and contracts has been reported by Gronbjerg in her pathfinding book on the management implications of different types of funding streams in the fields of social services and community development.<sup>30</sup> She also uses a phase model—proposal and contract, and operating and reporting—with four key tasks or work dimensions in each phase, which vary according to the type of funding source. The contingencies and internal and external strategies utilized by service providers that rely on governmental funding are analyzed. Nonprofit organizations face a daunting complexity in coping with the uncertainties, competition, and scarcity stemming from their fiscal dependency on multiple funding sources.

### Consequences of POSC for the Service Delivery System, Government, and Nonprofit Organizations

In contrast to the more empirical descriptions of the dynamics of POSC and its problematic features—about which there is consensus—valid and reliable information about the consequences of POSC for the agencies involved, the service delivery system and the users, is scarce, controversial, and generally of a poorer quality. It is safe to say that there is relatively little tested knowledge about the effects of POSC. There is also a frequently overlooked distinction between what happened (effect) and whether the purpose was accomplished (effectiveness).

Many of the generalizations about the impact of POSC or governmental funds on nonprofit organizations or the service delivery system are inferred from findings that are often equivocal, anecdotal, or impressionistic. There are few longitudinal or comparative studies; most research is based on very small samples, over short periods of time, and in selected fields of service and political settings. Conclusions are sometimes based on the researcher's ideological presuppositions concerning the nature of the state, of governmental bureaucracy, and of voluntarism. These are also the source of much of the conventional wisdom about the alleged deleterious consequences of governmental funding of nonprofit organizations.

Many of the findings could, however, constitute a series of hypotheses for further testing and thus guide the design of future research. They could also sensitize policymakers and managers to what might

occur in POSC; that is, the findings can suggest some of the possible outcomes that could be taken into account in considering contracting as a policy option.

### *Impact on the Service Delivery System*

In general, relatively little is known directly about the effects of POSC on access or what difference it makes to clients if the service is provided by a governmental, for-profit, or nonprofit agency.<sup>31</sup> It is widely believed, however, that nonprofit organizations are particularly well suited to serve clientele with highly specialized needs or who are ineligible for or unlikely to use governmental services. Although it seems likely that POSC has made it possible for many public social services to be extended without high fixed costs, the evidence about relative cost-effectiveness is not very substantial.

There are, of course, formidable methodological obstacles to the determination of cost differences among the three sectors, apart from the difficulties of operationalizing outcome variables such as quality and effectiveness.<sup>32</sup> Valid and reliable comparisons are exceedingly difficult because of the significant differences between the sectors in the size and type of their client populations, staff, and modes of care and treatment that are difficult to control.<sup>33</sup>

Consequently, many researchers do not expect more than equivocal or idiosyncratic results because of the complexities of controlling and replicating the relevant variables. The inconsistent findings of most cost-effectiveness studies are also regarded as a function of differing statistical methods and assumptions, further reducing the possibility of applying the findings to other settings. Martin Knapp concluded that "it is impossible to generalize about the presence or direction of cost-effectiveness differences between the sectors," that conclusions reached for one industry or country are not transportable to others, and that often there are more cost differences among voluntary agencies than between them and the statutory bodies.<sup>34</sup>

Because neither government nor nonprofit organizations ordinarily know or calculate their indirect costs, the "real" production and transaction costs are rarely used in the determination of rates of payment and in comparing direct provision by government with the purported economies of POSC. Indeed, it could be said that the supply of voluntary agency services and the demand of government intersect at a price that is below the real cost for both parties. The conventional wisdom is that most of the cost savings in POSC, at least in the short run, come from the use of lower-paid and part-time staff, as well as from unpaid volunteers, who are not entitled to the same package of benefits received by civil service workers. In the long run, however, there is a tendency for such costs to increase, particularly as nonprofit organiza-

tions become subject to the same rules and standards of governmental agencies.<sup>35</sup>

A recent review of POSC research in the United States by a British observer concluded that there was no evidence that POSC was any better than other modes of service delivery.<sup>36</sup> This suggests that auspices or legal ownership may be less significant than organizational variables such as age, size, structure, complexity, degree of bureaucratization and professionalization, core technology, and type of population as determinants of cost, quality, effectiveness, and accountability. Consequently, in service delivery, *how* may be more important than *who*. As Malcolm Bush has aptly noted, "The designation of an organization as public or private, its relationship to government, and its sources of funding are not the critical variables in determining how effectively it responds to people in trouble."<sup>37</sup>

It is significant that auspice or tax status is seldom used as a variable in comparative research on human service organizations. David Austin is among the few scholars who have included "accountability structures" and the proportion of income from governmental sources as part of his analysis of the political economy of human service programs.<sup>38</sup> Yet other researchers ascribe certain dysfunctional aspects of the service delivery system specifically to POSC with nonprofit organizations. For example, Sosin, drawing on his study of homelessness in Chicago, claims that POSC has resulted in less flexibility and responsiveness to new needs because of the vested interest that both the providers and government develop in the status quo, a point also made by Ruth DeHoog and Kirsten Gronbjerg.<sup>39</sup> He also argues that the much-vaunted decentralization of public services for the poor embodied in Title XX and in the Social Services Block Grant has contributed to problematic service delivery patterns such as excessive selectivity and specialization and that it has weakened advocacy for appropriations at the state and federal levels. Although the review by Pecora et al. of the research on family preservation services under both auspices came to the rather equivocal conclusion that there probably were more organizational constraints associated with public agency provision, there were few data on the impact on the service delivery system itself.<sup>40</sup>

As far as it is known, no research on POSC has been undertaken in which the service delivery system was the unit of analysis; rather, inferences regarding its impact on a community network of services have generally been drawn from studies of the performance of a very small number of nonprofit organizations in one field of service and in states such as Massachusetts, where there are relatively few public social services delivered by governmental agencies. For example, there are few data on (1) when and to what extent client stratification is promoted by POSC, with nonprofit organizations serving the worst

or the best off; (2) whether governmental agencies “dump” some of their most intractable cases through referrals to nonprofit organizations obligated under contract to accept all persons or a specified number of referrals; or (3) whether through “creaming,” by nonprofit organizations, government ends up serving mainly low-income, minority cases, which are more difficult.

It is widely believed that contracting has made it possible for many public social services to be extended without high fixed costs and that it has provided more flexibility in the administration of these programs. Yet the inevitable decentralization of services and the use of multiple providers have been described as “fragmentation” by detractors and as “pluralism” or “diversity” by supporters of POSC. Similarly, as we shall see, what is “accountability” to some is “control” to others. Although little evidence has been published, POSC is believed to have the potential for “fragmentation, discontinuity, complexity, low-quality outputs, poorly targeted services, productive inefficiencies, horizontal and vertical inequities, wasteful duplication and inappropriate replication, sectarianism, and paternalism.”<sup>41</sup>

Despite these unhappy and untidy possibilities, POSC is still an integral part of the ubiquitous grants economy in the United States that reflects the piecemeal character of the American three-tiered governmental structure, which lacks any effective planning and coordinating bodies. This accounts for an often bewildering array of contracts and grants in a nonprofit organization, each based on a separate piece of legislation, and with different governmental agencies on three levels funding various components of a single-agency program. In this way, POSC is one of the major factors militating against coherence, continuity, coordination, and planning, which are the basic elements of a more rational service delivery system.<sup>42</sup> Nevertheless, POSC has become institutionalized and is more likely to grow in significance rather than decline—hence the importance of acquiring a better understanding of its dynamics.

#### *Consequences of POSC for Government*

As with the service delivery system, there are a number of widely held beliefs but relatively few empirical or research data except for a few surveys of POSC on the state level. There is general recognition of the paradox that POSC does not lessen the role of government in the delivery of public social services; rather, it heightens and transforms governmental functions into a new, complex, technical, and political arena where government is involved in mutually dependent relationships with nonprofit organizations with which it has contracted to purchase personal social services. In the process, however, government also may benefit from its reduced visibility and responsibility for direct provision of services.

Because there is less competition in the personal social services than in some other fields of service, governmental agencies are even more reluctant to seek new providers.<sup>43</sup> Consequently, the dominant pattern is to renew contracts, heightening the dependency on a small group of nonprofit organizations, and furthering bureaucratic symbiosis.<sup>44</sup> Attempts to change the provisions of the contract or to award it to another agency usually meet with considerable resistance and political pressures, which are resented by the staff of the governmental agency. Thus, POSC can presumably result in a loss of autonomy, not only for the nonprofit organization as is frequently claimed, but also for government, whose freedom of choice becomes more limited. Curiously, the influence of nonprofit organizations on government as part of the POSC process has rarely been studied; it is usually assumed that governmental control is the sole outcome.

The most problematic area for government relates to its requirements for accountability. Increased oversight is the cost of decentralizing or delegating public functions, and monitoring is expensive and elusive, subjecting the governmental agency to charges of unnecessary red tape and unwanted intrusions. Assuring accountability and contract compliance are not tasks in which government has traditionally excelled. Every survey of POSC on the state level identified the loss of control and difficulties of securing accountability as the major weakness of POSC for government.

Furthermore, it is usually overlooked that few governmental agencies and their staff members have high regard for the role of accountability (or monitoring), and it is rarely one for which staff members are trained. In the personal social services, POSC alters the role of professional staff in government to case management, rather than direct work with clients. On the organizational level, government struggles with the lack of centralized administrative oversight and planning, the absence of consistent standards, and its control of some inputs for nonprofit organizations' accountability.

Despite these constraints, the likelihood of more extensive delegation of service delivery by government seems even greater; witness the popularity of books such as *Reinventing Government* and its call for government to "separate steering from rowing."<sup>45</sup> This suggests that government and its nonprofit provider organizations will continue to interact as partners and rivals, with varying degrees of dependency.

### *Effects on the Nonprofit Organization*

Few studies are concerned with the impact of POSC on a provider agency. Yet despite the paucity of empirical research, there are two schools of thought regarding the impact of POSC on the autonomy

and the identity of nonprofit organizations. There are those who claim that the controlling influence of governmental funding has resulted in widespread distortion of the mission and role of nonprofit organizations, that such organizations have lost much of their autonomy and distinctiveness in becoming public agents who deliver social services according to government specifications on client eligibility, staffing, and service patterns. In addition, POSC is also held responsible for nonprofit organizations' dependency, co-optation, and dilution of advocacy because of governmental control over their programs. These trends are believed to be reinforced and result in "devoluntarization" by the increased formalization, bureaucratization, and professionalization required of a public agent.<sup>46</sup>

Others maintain, however, that the alleged loss of autonomy of nonprofit organizations is exaggerated, that, in the POSC process, which is more one of mutual dependence, public accountability is more likely to suffer. Changes in the organizational structure and performance of nonprofit organizations that have been criticized are believed to be part of broader trends in the society and not just a response to POSC.<sup>47</sup> Which view is correct? For which type of nonprofit organizations?

Undoubtedly, changes have occurred in the structure, governance, management, staffing, and service programs of nonprofit organizations, some of which are adaptations to changes in their fiscal environment. To paraphrase Geoffrey Vickers, the source of resources determines the type of and standards for success and failure, the character of decision making, accountability, and the external relations of an organization.<sup>48</sup> However, because nonprofit organizations typically obtain their funds from many sources, their number, form (fees, contributions, grants, fund-raising events, and contracts), proportionate share of income, and purpose each has variable effects on structure and performance.

The positive side of POSC is the recognition that it has enabled many nonprofit organizations to maintain, expand, and diversify their regular services in ways that would not have been possible without governmental funding. As Gronbjerg somewhat reluctantly concluded, "The overall advantages outweigh the disadvantages or are at least more obvious and certain than for alternative funding sources."<sup>49</sup> A distinction between nonprofit organizations on the basis of size and age, in addition to field of service and type of technology, is important here because POSC probably has a differential impact on them. For example, for more traditional, larger, and older agencies, it may have displaced philanthropic funds that were not able to keep up with the demand beginning in the 1960s. For smaller, newer, and community-based organizations, creatures of the 1960s that perhaps were born too late to have a supporting constituency and who were dependent



on government from the beginning, grants and contracts are often the primary, if not the only, source of funds.

What, then, are some of the major organizational changes that have occurred among nonprofit organizations? The major trends in the internal organizational structure of nonprofit organizations that have been observed during the last 10–15 years are increased size and scale of operations and greater formalization and bureaucratization, although it is not clear to what extent these changes can be attributed to public funding such as POSC. Generally, the bigger organizations get even larger, and the smaller ones get bigger, if they survive. There are, however, contrasting tendencies of centralization and decentralization based on size. Large organizations tend to develop more decentralized structures and resemble a miniconglomerate with dozens of programs, reflecting changing government priorities and funding opportunities, as part of the basic donor dependency of all nonprofit organizations. Smaller organizations, relying largely on governmental funding, have tended to become larger and more centralized, enabling them to better absorb the indirect costs and delays associated with POSC.<sup>50</sup>

It is ironic that smaller community-based organizations survive in the contract culture by modifying the very qualities that might have made them attractive as contractors in the first place: being smaller, more informal, and more accessible to a population that would be difficult for government to serve. The transformation undergone by community-based organizations that have become vendors and live by their grantsmanship skills was aptly described by one executive as having “moved from Alinsky to Drucker.” Or, as reported by Smith and Lipsky, “governmental funding precipitated change and growth in the services of the organization requiring internal formalization that was previously unnecessary,” and, one could add, ideologically suspect.<sup>51</sup>

Other internal changes that have been observed are also responses to the demands of the grants economy that nurtures grantsmanship and its preemption of administrative tasks. It is claimed that management has become more entrepreneurial and that boards of directors look more to the corporate world for models of administrative behavior. Several studies have reported that the role of the executive takes on much more importance when nonprofit organizations are involved in POSC and that there is a decline in the role of volunteers both in governance and in service provision.<sup>52</sup> Staff turnover, demoralization, burnout, and other negative effects on the worker-client relationship have also been attributed to the cost-containment environment of which POSC is part.<sup>53</sup>

Related to these structural changes are other trends in the fiscal resource system of nonprofit organizations such as the increased reli-

ance on fees and income from various commercial ventures, in many cases undertaken to replace the loss of governmental funds or to provide for growth when other sources are unavailable. A survey by Carolyn Adams and Felice Perlmutter of more than 100 nonprofit organizations in Philadelphia found that many agencies embarked on “venturism” as a means of obtaining funds with fewer restrictions than POSC. This extensive cultivation of revenue from the sale of services and products by nonprofit organizations has added to the controversies with the Internal Revenue Service over “unrelated business income,” and it has led to additional challenges to the tax exemption for nonprofit organizations.<sup>54</sup>

Externally, there has been a growth in structures such as provider coalitions that exert pressure on local and state government for increased rates of reimbursement and regulatory change. Some believe that this indicates a shift from advocacy on behalf of clients to organizational self-interest, although the nature of the evidence makes it very difficult to separate the two interests. There is no doubt that POSC thrusts nonprofit organizations into the public arena and requires the ability to maneuver politically. Although some public officials resent this intrusion into their domain because they then have to deal with another lobby, others have learned how to utilize the political influence of provider organizations to support their own agendas.<sup>55</sup> This is part of the give-and-take of the uneasy “partnership” between government and its contractors, which is sometimes “cozy,” other times more adversarial.

Although these changes in the organizational character of nonprofit organizations involved in POSC have been the subject of wide comment, their extent, significance, and causes are unclear. To what extent can they be ascribed to POSC? Four concepts are involved in this debate, all of which can be described as “unanalyzed abstractions”: goal deflection/distortion, autonomy, accountability, and “devoluntarization.”

*Goal distortion or deflection.*—This is a misleading phrase because of its multiple and ambiguous meanings. It is also significant that executives of nonprofit organizations rarely refer to this as an undesirable feature of POSC; their major criticisms concern deadlines, excessive red tape, and other transaction costs. Bernstein also noted that, for the executives in her study, the mission of their agencies was the most crucial factor in their decision making.<sup>56</sup> Similarly, in another case study of the influence of public funding policies on nonprofit organizations during the 1980s, Sarah Liebshutz concluded that there was no goal deflection during this period; agencies found a variety of ways to cope with the changes in the character of their funding sources without having to abandon their goals.<sup>57</sup> This may be partially due to the broad and diffuse character of the goals of human service organizations whereby virtually any socially beneficial action could conceivably be considered part of its “mission.”

Although changes in service delivery may occur under POSC, this is not necessarily a matter of goal deflection. What is diminished somewhat is the discretion of nonprofit organizations to make certain decisions about the type of clientele, staff, and mode of service without having to take into account the funding source. This is in addition to having to account via reporting for the funds received as part of a legal contract. In this respect, POSC is not much different than any other grant or gift, except in the degree of its specificity and accountability, as well as its capacity to preempt other administrative tasks.

In POSC, as in other resource exchanges, there is a trade-off: some decision making must be shared with government if a nonprofit organization wants to be funded. If it is unwilling to comply with the standards and procedures of the contract or to try to negotiate more acceptable terms, then it is not required to enter into such an arrangement.<sup>58</sup>

*Autonomy.*—Another loosely used concept, perhaps because it has such strategic importance for nonprofit organizations in warding off any unwanted external influence, is autonomy. Obviously, no organization can be completely autonomous or independent; autonomy is a matter of degree; it is relative and conditional, a means, not an end. All organizations are dependent on their environment and are embedded in larger systems of relations.<sup>59</sup> Nonprofit organizations, however, may be more vulnerable to external constraints because they have no mandated existence or legal claim to public funds. At the same time, the autonomy of governmental agencies is also limited, often by the actions of nonprofit organizations on whom they have become dependent.<sup>60</sup>

Autonomy, then, can refer to an optimum measure of discretion in organizational decision making that occurs in a context of trade-offs, exchange of resources, and, as part of the price for a measure of security and control, some sharing of discretionary judgments about types of clients, staff, and mode of service.

Evidence collected during the past decade in the United States, England, Australia, Israel, the Netherlands, and Germany suggests that the control of government funding on the behavior of nonprofit organizations is much less than is commonly believed.<sup>61</sup> As Walter Powell has observed, “governmental requirements are not always felt by organizations as direct coercion,” and, indeed, they are often less controlling than United Way requirements or the power of private donors.<sup>62</sup> A manager of a nonprofit organization receiving 80 percent of its funds from governmental agencies was interviewed by Bernstein and expressed it as follows: “We have more autonomy because we contract with several different government agencies, and we do make decisions that the city can’t make. We decide to stop providing a service because we decided that it was not the best use of our effort at that

time. We decide not to serve certain clients because they're not appropriate for our program. We decide to have different standards than the city." The ethnographic data of Bernstein provide revealing insights on the interpersonal level of what actually takes place in the complex interactions between the nonprofit organization and its funders.<sup>63</sup>

Without minimizing the serious problems presented by POSC, it has generally made it possible for most agencies to carry out their customary programs and/or start new ones. Organizational factors that seem to reduce the constraints of governmental funding on the autonomy of nonprofit organizations include the diversity of income sources, which tends to limit the control of any one agency; the countervailing power of an oligopoly of a nonprofit organization over a public service; the political influence of nonprofit organizations and their trade associations; and the administrative and political costliness to government of seeking more control or greater accountability.

*Accountability.*—Accountability is frequently understood to conflict with the autonomy of the nonprofit organization, particularly because it implies some form of external control. There is considerable confusion about the concept of accountability, which becomes an issue when resources or power have been delegated. It has been viewed as both an end and a means, defined in terms of procedures, results, disclosure of information, compliance with regulations, and recourse. While often indistinguishable from evaluation, efficiency, effectiveness, control, and responsibility, it means, at a minimum, having to answer to those who control a necessary resource. Accordingly, nonprofit organizations have multiple accountability: to their boards, bylaws, clients, staff, contributors, and other funding sources, such as foundations and United Ways, which also constrain their discretionary behavior. This is further complicated by the diffuse goals and technologies of nonprofit organizations, making it difficult to produce evidence of effectiveness. These factors help explain the substitution of inputs and occasional outputs for substantive outcomes, and they contribute to the extremes of over- or underregulation.<sup>64</sup>

Therefore, the conventional dualism between autonomy and accountability for a nonprofit organization may be more artificial than real. Perhaps the issue should be rephrased, not in terms of preserving the autonomy of nonprofit organizations, but rather in terms of how to make them more accountable without restricting the very qualities of flexibility and responsiveness that make them useful providers of public services. How can the organizational interests of government and its nonprofit providers be balanced? How can their organizational strengths be integrated to overcome their distinctive vulnerabilities?<sup>65</sup>

*"Devoluntarization."*—Purchase of service contracting is believed to have also contributed to a process of "devoluntarization," that is, to the increased formalization, bureaucratization, and professionalization of

nonprofit organizations and to downplaying the role of volunteers in service giving and in governance. Purchase of service contracting thus promotes the loss of the distinctive identity of nonprofit organizations, blurring the differences between the sectors so that it can be claimed that “all organizations are public.”<sup>66</sup>

An underlying assumption of these beliefs is that nonprofit organizations have become more institutionalized because of the requirements of POSC, but, as Lester Salamon has said, “pressure for improved agency management, tighter financial control, and use of professionals in service delivery do not, after all, come solely from government.”<sup>67</sup> Most social scientists would agree that there are multiple internal and external sources of organizational change and that bureaucratization, as Max Weber observed, is part of the process of modernization in all societies. In a study of British nonprofit organizations, it was found that, regardless of their size, age, and income sources, they had, over a period of 15 years, all become more professionalized and bureaucratized.<sup>68</sup> It could be argued, moreover, that insufficient, rather than excessive, bureaucratization is more characteristic of many nonprofit organizations, particularly smaller ones, and that this may account for the frequent charge of amateurism or the ineffectiveness of many voluntary organizations.<sup>69</sup>

Underlying this pejorative view of the process of institutionalization (bureaucratization and professionalization) of nonprofit organizations is also what Alvin W. Gouldner once described as a “metaphysical pathos” in which pessimism and fatalism are associated with organizational models based on an Iron Law of structural determinism.<sup>70</sup> These models usually assume that there is only one type of bureaucracy and that it is unlikely that its endemic strains can be managed effectively.<sup>71</sup> Generally, there is an underestimation of the ways in which provider agencies work their way around governmental constraints, as Bernstein’s interviews reveal. Staffs of both government and nonprofit organizations learn how to play the games of compliance monitoring and accountability.

Frequently, it is forgotten that, as a system, bureaucracy is dialectical—that is, that which enables also disables, and for the same reason: greater goal specificity can lead to a more focused effort or make it more difficult to change direction; greater clarity of organizational lines can lead to enhanced effectiveness or greater inflexibility. In every instance, the outcome is not predetermined but is subject to the choices and actions of management and staff.<sup>72</sup> For example, studies have shown that bureaucratic rigidity can be reduced through an increase in professionalism, role specialization, decentralization, and greater reliance on informal rules regarding efficiency.<sup>73</sup>

Finally, there is an underlying assumption that there once was a golden age of voluntarism, before governmental funds were so readily

available, when small, informal community-based organizations were able to rely on contributions and volunteers to provide essential personal social services. Apart from being more myth than history, this belief ignores the developmental stages through which most nonprofit organizations move. Perhaps two-thirds of the nonprofit organizations today are less than 30 years old, and many community-based organizations were established in response to the growing availability of governmental funds beginning in the early 1960s when POSC expanded. In some states such as Massachusetts, government even established many nonprofit organizations for service provision with full funding, although it might be more correct to regard those organizations as quasi-nongovernmental or paragovernmental organizations.

Even without the strong incentive of public funding, it is characteristic of nonprofit organizations to begin their life cycle as voluntary associations and then become more complex and formalized if and when they seek to provide some social service in the community and to influence public policy. Outside resources must be obtained, and this inevitably requires the distribution of authority and responsibility among the participants by means of formalization and bureaucratization.<sup>74</sup> Robert Quinn and Kim Cameron have integrated nine life-cycle models into one with four stages that seems to fit the typical organizational career of most nonprofit organizations: (1) the entrepreneurial or formation stage, (2) the collectivity or development stage, (3) the formalization and control stage, and (4) the elaboration of structure change.<sup>75</sup>

Because of the fragmentary and mixed nature of the evidence, however, the specific impact of POSC on nonprofit organizations remains to be discovered. What is less in dispute, however, is the critical role that contracting will play in their future and that of the personal social services.

## Summary and Conclusions

The preceding overview of recent research on POSC suggests the following: there are strong incentives stemming both from legislative mandates and practical administrative and fiscal considerations for government to contract with nonprofit organizations. For voluntary agencies, government has become a primary source of funds, exceeding contributions and more traditional revenues. Although ideology does not seem to play a significant part—both the supporters and opponents of government favor contracting—decisions concerning the choice of POSC and the renewal of contracts are often part of a highly politicized process in the community.

A promising start has been made in the study of the dynamics of the contracting process, in identifying the tasks and production and

transaction costs to both parties, as well as the contingencies and strategies that have been used to cope with some of its problematic aspects. Although the POSC regime can occasionally function as a partnership, more often it operates as a quasi market that has a game-like character that is shaped by the power relationships between government and its service providers.

As for the consequences of POSC, relatively little is known about its effects on the service delivery system and the governmental agency. While much has been written about the impact of contracting on the structure and performance of nonprofit organizations, there are contrasting interpretations of the findings. What, then, are some of the implications for policy, management, and future research?

As a policy, POSC has become institutionalized in the personal social services; clearly, it is here to stay, and the question is less *whether* government should contract but *how* POSC can operate to optimize service delivery values such as access, accountability, choice, equity, and effectiveness. Framing the question in this manner presupposes continuation of the mixed economy of welfare, which, by separating financing from production and distribution, utilizes the distinctive organizational capabilities of government and nonprofit organizations as part of the evolving "contract state." At the same time, this policy environment poses a serious challenge to many nonprofit organizations: how can they avoid becoming just another public agent and a substitute for government? How can they preserve their traditional roles as alternatives, supplementing and complementing the public services?

Recent research does not suggest much besides the importance of nonprofit organizations clarifying their mission and identifying the ways in which they differ from government and commercial enterprises. To avoid dependency, they are urged to diversify their income sources and to consider carefully the potential constraints, risks, and opportunities of POSC as documented in the case studies.

Clearly, a New Age has emerged of blurred organizational boundaries in which public and nongovernmental organizations need and depend on each other more than ever. It is necessary, however, to get beyond the usual rhetoric of collaboration and to recognize not only the mutual dependency but also the significance of the unequal distribution of power in these public-private "partnerships." Coming to terms with the politics of contracting is particularly important in any attempt to institutionalize these interorganizational relationships with appropriate structures, incentives, norms, and rules for planning and coordination.

Out of the studies of POSC on both the state and local levels has come a recurrent series of recommendations to improve the process, such as the use of multiyear contracts, standardizing and coordinating

accountability requirements, payment of full cost of care on the basis of outcomes (including all indirect and transaction costs), streamlining and improving other procedures and financial practices, and providing staff training and technical assistance as part of "capacity building" for smaller, newer community-based organizations with their special vulnerabilities.

Under these circumstances a strong case could be made to give a higher priority to research on the contract culture and its interorganizational life, that is, how POSC actually operates and its consequences on the affected parties. This was recognized a century ago by Amos G. Warner, one of the early scholarly professionals in the field of social welfare, who proposed the founding of a new discipline, which he called "philanthropology," that would study the structure and behavior of voluntary organizations, whose Achilles' heel is their donor dependency, regardless of its public or private sources. Incidentally, it is instructive to note that the arguments pro and con contracting with voluntary agencies that Warner analyzed a century ago are quite similar to the current debate about POSC.

Because we have so little valid and reliable information about the differential impact of governmental, voluntary, or profit-making organizations on the quality, quantity, and effects on the clientele of social programs, a more pluralistic and experimental approach would be desirable. For example, social policies could be designed to ensure a desired level of personal social services for a particular population but implemented through different funding streams and service providers, each of which would be expected to optimize selected service delivery goals.

While beset with formidable methodological difficulties, additional comparative cost-effectiveness studies should be undertaken that, ideally, use control groups, multiple measures of desired outcomes, and more specific cost-benefit analyses. Only a beginning has been made with ethnographic and intensive case studies, and these should involve participants from both the governmental agency and the non-profit organization. Longitudinal studies of voluntary agencies in the same and in different fields of service, at various stages of their life cycle, could also be designed to learn how different types of agencies adapt to changing circumstances in their POSC environment and to answer the question why some organizations succeed better than others on various measures of effectiveness. On another level, studies could also be designed to determine the validity of the beliefs about the inherent conflict between equity and particularism and between autonomy and accountability as they might operate in POSC with nongovernmental providers.

In the future, the demand for greater efficiency and accountability in the expenditure of public funds could produce a nightmare of



overregulation or it could lead to new structures and realize the dream of more productive patterns of interorganizational relations between government and nonprofit organizations.

But perhaps the contract culture in the United States will be neither a dream nor a nightmare, but a little of each at the same time. Research should, in any case, reflect the daytime reality of experience as we know it.

## Appendix

**Table A1**

ADVANTAGES AND DISADVANTAGES OF PURCHASE OF SERVICE

Advantages	Disadvantages
Cost-effectiveness	Difficult to ensure standards and adequate coverage
Accurate cost determinations	Loss of public control and accountability
Administrative efficiency	Abrogates legislative intent
Greater response to immediate needs	Undermines role of public agency
Better service coordination	Increases costs
Avoidance of start-up costs required to provide services	Poorer service
Avoidance of cumbersome and dysfunctional civil service regulations	Loss of protection for the poor and most needy ("creaming")
Ease of altering or terminating programs	Unreliability of contractors
Enhanced quality of services	Loss of autonomy for private agencies
Ease in adjusting program size	Private agencies subject to shifts in public policy
More effective use of talent and human resources	Legal mandate to accept low bid
Desirable mix of public and private services	Displacement of employees
Avoidance of political patronage	Difficulty in monitoring contracts
Ease in measuring/monitoring contractor performance	Reduces experimental voluntary spirit
Increased professionalism	Directs private agencies to provide only publicly funded services
Flexible use of personnel	
Improved program and administrative control	
Program flexibility	
Promotion of innovation in policy and administration	
Helps retain volunteerism	
Allows for competition in level of wages	
Greater assurance of legal rights for clients	
Frees public resources to service other important needs	

SOURCE.—Harold W. Demone, Jr., and Margaret Gibelman, eds., *Services for Sale: Purchasing Health and Human Services* (New Brunswick, N.J.: Rutgers University Press, 1989), p. 32.

## Notes

An earlier version of this article was presented at the annual conference of the Association for Research on Nonprofit and Voluntary Organizations (ARNOVA) at Yale University, October 30, 1992. Among the readers of this draft, the comments of my

colleagues Neil Gilbert, Bart Grossman, and Paul Terrell in the School of Social Welfare, University of California, Berkeley, were particularly appreciated.

1. Both terms in the title of this article originate from the United Kingdom. After the publication of the Griffiths Report in 1989 on community care, there was widespread concern, and some apprehension, about the impact of the "contract culture," which would emerge as local authorities would be required to make increasing use of voluntary agencies to deliver the personal social services instead of providing the service themselves as part of what became the Community Care Act of 1992. From 1988 on, the Community Care Project of the National Council for Voluntary Organisations produced a stream of publications, including one on which the title of this article is based, as part of a planned approach to contracting, in contrast to the drift of the voluntary sector in the United States into a grants economy in the 1960s. As part of a process of learning from the U.S. experience, see Richard Gutch, *Contracting Lessons from the United States* (London: National Council for Voluntary Organisations, 1992); and Robin Currie, "Contracting: Facing Up to Difficulties—Report on US Study Tour, April/May 1993" (Liverpool: Personal Service Society, 1993).

2. The five recent books on POSC are Harold W. Demone, Jr., and Margaret Gibelman, eds., *Services for Sale: Purchasing Health and Human Services* (New Brunswick, N.J.: Rutgers University Press, 1989); Peter Kettner and Lawrence Martin, *Purchase of Service Contracting* (Beverly Hills, Calif.: Sage, 1987); Stephen R. Smith and Michael Lipsky, *Nonprofits for Hire: The Welfare State in an Age of Contracting* (Cambridge, Mass.: Harvard University Press, 1993); Susan Bernstein, *Managing Contracted Services in the Nonprofit Agency: Administrative, Ethical, and Political Issues* (Philadelphia: Temple University Press, 1991); and Kirsten A. Gronbjerg, *Understanding Nonprofit Funding: Managing Revenues in Social Services and Community Development Organizations* (San Francisco: Jossey-Bass, 1993). Two recent books that deal with POSC but in a broader context are Andrew Ware, *Between Profit and State: Intermediary Organizations in Britain and the United States* (Princeton, N.J.: Princeton University Press, 1990); and Jennifer Wolch, *The Shadow State: Government and the Voluntary Sector in Transition* (New York: Foundation Center, 1990). Other recent important research on POSC is cited below.

3. Neil Gilbert and Barbara Gilbert, *The Enabling State: Modern Welfare Capitalism in America* (New York: Oxford University Press, 1989).

4. Michael R. Sosin, "Decentralizing the Social Service System: A Reassessment," *Social Service Review* 64, no. 4 (December 1990): 617–36. See also Susan Ostrander, "Private Social Service: Obstacle to the Welfare State," *Nonprofit and Voluntary Sector Quarterly* 18, no. 1 (1989): 25–35.

5. Smith and Lipsky (n. 2 above), pp. 98–100. A somewhat different perspective is Judith Sidel, "Dimensions of Interdependence: The State and Voluntary Sector Relationships," *Nonprofit and Voluntary Sector Quarterly* 8, no. 4 (1989): 335–48.

6. Ralph M. Kramer, Hakon Lorentzen, Willem B. Melief, and Sergio Pasquinnelli, *Privatization in Four European Countries: Comparative Studies in Government–Third Sector Relationships* (Armonk, N.Y.: M. E. Sharpe, 1993), pp. 1–5; see also Michael K. Brown, "Remaking the Welfare State: A Comparative Perspective," in *Remaking the Welfare State: Retrenchment and Social Policy in America and Europe*, ed. Michael K. Brown (Philadelphia: Temple University Press, 1988), pp. 3–28.

7. Robert Wuthnow, ed., *Between States and Markets: The Voluntary Sector in Comparative Perspective* (Princeton, N.J.: Princeton University Press, 1991), p. 299.

8. Smith and Lipsky (n. 2 above), pp. 111–15.

9. Demone and Gibelman, eds. (n. 2 above), pp. 210–14, 310–24; Aileen Hart, "Contracting for Child Welfare Services in Massachusetts: Emerging Issues for Policy and Practice," *Social Work* 33, no. 6 (1988): 511–15.

10. The observation is attributed to James G. March.

11. Demone and Gibelman, eds. (n. 2 above), pp. 17–57.

12. An American counterpart of the "contract culture" in Britain is the concept of a contract "regime" as used by Smith and Lipsky (n. 2 above) to refer to "a set of principles, norms, rules, and decision-making procedures around which actor expectations converge in a given issue-area" (p. 43). It consists of a "regularized pattern of behavior, relying on long term relationships rather than episodic ones." Although the term originated in political science, it has much in common with the game metaphor used by Bernstein (n. 2 above) in her ethnographic study of POSC in New York City.

13. Walter W. Powell, Jr., and Paul DiMaggio, eds., *The New Institutionalism in Organizational Analysis* (Chicago: University of Chicago Press, 1991).
14. James Ferris and Elizabeth Graddy, "Contracting Out: For What? With Whom?" *Public Administration Review* 46, no. 4 (1986): 332-44.
15. Ruth H. DeHoog, "Competition, Negotiation, or Cooperation: Three Models for Service Contracting," *Administration and Society* 22, no. 3 (1990): 317-40. See also her earlier book, *Contracting Out for Human Services: Economic, Political and Organizational Perspectives* (Albany, N.Y.: SUNY Press, 1984).
16. Gutch (n. 1 above); Jane Lewis, "Developing the Mixed Economy of Care: Emerging Issues for Voluntary Organizations," *Journal of Social Policy* 22, no. 2 (1993): 173-92.
17. Ralph M. Kramer and Paul Terrell, *Social Services Contracting in the Bay Area* (Berkeley: University of California, Institute of Governmental Studies, 1984), pp. 17-25.
18. Ralph M. Kramer, "Voluntary Agencies and the Use of Public Funds: Some Policy Issues," *Social Service Review* 40, no. 1 (March 1966): 15-26.
19. Demone and Gibelman, eds. (n. 2 above), p. 34.
20. James Ferris and Elizabeth Graddy, "Production Costs, Transaction Costs, and Local Government Contractor Choice," *Economic Inquiry* 29 (July 1991): 541-54.
21. Kettner and Martin (n. 2 above). The classification of the factors to take into account in the decision to contract was based on responses to a survey of state agency executives in five states that were among the first to use POSC for human services during the 1970s.
22. Peter Pecora, Jill Kinney, Linda Mitchell, and Grant Tolley, "Selecting an Agency Auspice for Family Preservation Services," *Social Service Review* 64, no. 2 (June 1990): 288-307.
23. Peter Kettner and Lawrence Martin, "Purchase of Service Contracting: Two Models," *Administration in Social Work* 14, no. 1 (1990): 15-30.
24. Ralph M. Kramer and Bart Grossman, "Contracting for Social Services: Process Management and Resource Dependencies," *Social Service Review* 61, no. 1 (March 1987): 32-55.
25. Bernstein (n. 2 above).
26. Kirsten A. Gronbjerg, "Managing Grants and Contracts: The Case of Four Non-profit Organizations," *Nonprofit and Voluntary Sector Quarterly* 20, no. 1 (1991): 5-24.
27. See, e.g., Shalom Malka, "Contracting for Human Services: The Case of Pennsylvania's Subsidized Child Care Program—Policy Limitations and Prospects," *Administration in Social Work* 14, no. 1 (1990): 31-46; Mark Schlesinger, Robert Dorwart, and Richard Pulice, "Competitive Bidding and States' Purchase of Services: The Case of Mental Health Care in Massachusetts," *Journal of Policy Analysis and Management* 5, no. 2 (1986): 245-63.
28. Kramer and Grossman (n. 24 above).
29. *Ibid.*, pp. 48-51. A similar list of strategies is reported by Steven McMurty, F. Ellen Netting, and Peter Kettner, "How Nonprofits Adapt to a Stringent Environment," *Nonprofit Management and Leadership* 1, no. 3 (Spring 1991): 235-52.
30. Gronbjerg, *Understanding Nonprofit Funding* (n. 2 above).
31. Donna Hardina, "The Effect of Funding Sources on Client Access to Services," *Administration in Social Work* 14, no. 3 (1990): 33-46.
32. Burton A. Weisbrod, *The Nonprofit Economy* (Cambridge, Mass.: Harvard University Press, 1988), pp. 16-42, 142-59.
33. A good example of how researchers try to control the relevant variables for valid comparisons is Sharon Kagan and James Newton, "For-Profit and Nonprofit Child Care: Similarities and Differences," *Young Children* 45, no. 1 (1989): 4-10. Methodological problems are also discussed in Pecora et al. (n. 22 above).
34. Martin Knapp, "Intersectoral Differences in Cost-Effectiveness: Residential Child Care in England and Wales," in *The Nonprofit Sector in International Perspective*, ed. Estelle James (New York: Oxford University Press, 1988), pp. 193-216.
35. *Ibid.*, p. 7.
36. Gutch (n. 1 above).
37. Malcolm Bush, *Families in Distress: Public, Private and Civic Responses* (Berkeley and Los Angeles: University of California Press, 1988), p. 297.

38. David Austin, *The Political Economy of Human Service Programs* (Greenwich, Conn.: JAI Press, 1988).
39. Sosin (n. 4 above); DeHoog, *Contracting Out for Human Services* (n. 15 above); and Gronbjerg, *Understanding Nonprofit Funding* (n. 2 above).
40. Pecora et al. (n. 22 above).
41. Martin Knapp, Eileen Robertson, and Corinne Thomason, "Public Money, Voluntary Action: Whose Welfare?" in *The Third Sector: Comparative Studies of Nonprofit Organizations*, ed. Helmut Anheier and Wolfgang Seibel (New York: de Gruyter, 1990), pp. 213–14.
42. Curiously, there is much more concern evident in England than in the United States about the necessity of integrating nonprofit provider organizations into a planning process with governmental agencies. Some of the attempts to establish suitable structures under governmental auspices are noted in Demone and Gibelman, eds. (n. 2 above), pp. 408–9. A critical view of such efforts at coordination is Janet Weiss, "Substance versus Symbol in Administrative Reform: The Case of Human Services Coordination," in *Community Organizations: Studies in Resource Mobilization and Exchange*, ed. Carl Milofsky (New York: Oxford University Press, 1988), pp. 103–22.
43. See n. 39 above.
44. Schlesinger, Dorwart, and Pulice (n. 27 above).
45. David Osborne and Ted Gaebler, *Reinventing Government: How the Entrepreneurial Spirit Is Transforming the Public Sector* (New York: Penguin, 1992), pp. 34–37, 87–89.
46. Representative of these views are Harold L. Nixon II, "Organizational Subversion in Voluntary Rehabilitation Associations," *American Behavioral Scientist* 28, no. 1 (1985): 347–66; Smith and Lipsky (n. 2 above); Michael B. Fabricant and Steven Burghardt, *The Welfare State Crisis and the Transformation of Social Service Work* (Armonk, N.Y.: M. E. Sharpe, 1992); and Wolch (n. 2 above).
47. See Ralph M. Kramer, *Voluntary Agencies in the Welfare State* (Berkeley and Los Angeles: University of California Press, 1981), and "Voluntary Agencies and the Personal Social Services, in *The Nonprofit Sector: A Research Handbook*, ed. W. W. Powell (New Haven, Conn.: Yale University Press, 1987), pp. 240–57; Lester M. Salamon, "Partners in Public Service: The Scope and Theory of Government-Nonprofit Relations," in Powell, ed., pp. 99–117; Michael Krashinsky, "Management Implications of Government Funding of Nonprofit Organizations: Views from the United States and Canada," *Nonprofit Management and Leadership* 1, no. 1. (1990): 39–53.
48. Geoffrey Vickers, *The Art of Judgement: A Study of Policy Making* (New York: Basic, 1965).
49. Gronbjerg, *Understanding Nonprofit Funding* (n. 2 above), p. 260.
50. Kramer and Grossman (n. 24 above); Fabricant and Burghardt (n. 46 above).
51. Smith and Lipsky (n. 2 above), p. 266; Carl Milofsky, "Neighborhood Based Organizations: A Market Analogy," in Powell, ed. (n. 47 above), pp. 77–95.
52. Melissa Stone, "Governance and Control under Purchase-of-Service: A Framework for Research," in *1991 Spring Research Forum Working Papers* (Washington, D.C.: Independent Sector, 1991), pp. 235–43. The diminution in the role of volunteer board members in social agencies dependent on POSC is also discussed in Fabricant and Burghardt (n. 46 above).
53. Fabricant and Burghardt (n. 46 above), pp. 116–94.
54. Carolyn Adams and Felice Perlmutter, "Commercial Venturing and the Transformation of American Voluntary Social Welfare Agencies," *Nonprofit and Voluntary Sector Quarterly* 20, no. 1 (1991): 25–38. A comprehensive perspective on these trends is Lester M. Salamon, "The Marketization of Welfare: Changing Nonprofit and For-Profit Roles in the American Welfare State," *Social Service Review* 67, no. 1 (March 1993): 16–39.
55. James Drew, "The Dynamics of Human Services Sub-contracting: Service Delivery in Chicago, Detroit and Philadelphia," *Policy Science Journal* 13 (1984): 67–89.
56. Bernstein (n. 2 above).
57. Sarah Liebshutz, "Coping by Nonprofit Organizations during the Reagan Years," *Nonprofit Management and Leadership* 2, no. 4 (1992): 363–80.
58. Gronbjerg, *Understanding Nonprofit Funding* (n. 2 above), p. 49.
59. John W. Meyer and W. Richard Scott, *Organizational Environments: Ritual and Rationality* (Beverly Hills, Calif.: Sage, 1983).

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60. Salamon, "Partners in Public Service" (n. 47 above), p. 116.
61. Kramer et al. (n. 6 above); Heinz-Dieter Horsch, "Does Government Financing Have a Detrimental Effect on the Autonomy of Voluntary Associations?" (paper presented at the Third International Conference of Research on Voluntary and Nonprofit Organizations, University of Indiana, Center on Philanthropy, Indianapolis, March 18, 1992).
62. Powell and DiMaggio, eds. (n. 13 above), p. 196.
63. Bernstein (n. 2 above), p. 101.
64. Diana Leat, *Voluntary Organisations and Accountability* (London: National Council for Voluntary Organisations, 1988). See also James Ferris, "The Double-edged Sword of Social Service Contracting: Public Accountability versus Nonprofit Autonomy," *Non-profit Management and Leadership* 3, no. 4 (Summer 1993): 363–96.
65. This is essentially the meaning of Salamon's concept of "third-party government," which can be described as a form of compensatory complementarity, in which the strengths of one type of organization compensate for the failings of the other type. For example, the particularism of voluntary organizations is balanced by the universalism of public agencies, the paternalism of the former by the democratic policy-making of the latter, and the uncertain fund-raising ability of nonprofit organizations is complemented by the more reliable funding of government. Others, such as Smith and Lipsky, view these differences as more problematic.
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67. Salamon, "Partners in Public Service" (n. 47 above).
68. Ralph M. Kramer, "Change and Continuity in British Voluntary Organizations, 1976–1988," *Voluntas* 1, no. 2 (November 1991): 33–60.
69. Charles Perrow, *Complex Organizations: A Critical Essay*, 3d ed. (New York: Random House, 1986).
70. Alvin W. Gouldner, "Metaphysical Pathos and the Theory of Bureaucracy," *American Political Science Review* 59, no. 2 (1955): 496–508.
71. John Mordock, "Organizational Adaptation to Policy and Funding Shifts: The Road to Survival," *Child Welfare* 68, no. 6 (1989): 589–603.
72. David Billis, *Organising Public and Voluntary Organisations* (London: Routledge, 1993).
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74. Yeheskel Hasenfeld and Hillel Schmid, "The Life-Cycle of Human Service Organizations: An Administrative Perspective," *Administration in Social Work* 13 (1989): 243–69.
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