

***Forward Together:  
Achieving Better Performance in Nonprofit – State Government Contracting  
for Human Services***

**By**

**Forward Together Research Team<sup>1</sup>**

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The practice of both government and nonprofit/nongovernmental organizations providing human services is a longstanding tradition for European and US governments. In recent decades, many governments made deliberate choices to rely more heavily on contracting (often with nonprofits) to provide services, and many nonprofits have become more reliant on those government contracts for the financial stability of their organizations. These high levels of interdependence place both sectors in the position of *needing* the other, and being vulnerable to shifts in the behaviors of the other. More importantly, it places recipients of services in a position of relying on a potentially vulnerable, and certainly complex, system of government – nonprofit service delivery.

It is the premise of our study that human services in the US are now being delivered by a “system” resulting from incremental choices of many different governmental and nonprofit agencies. This system emerged organically, and thus does not reflect a specific theory or plan that would explain the parameters of the system. It appears that we are operating within a service delivery system that we do not fully understand, leaving the system vulnerable to instability (or even collapse) as an unintended consequence of future shifts in the system. One potentially de-stabilizing development is a greater reliance on performance based contracts when government provides services through nonprofits. Such contracts have been emerging slowly on the scene for a number of years, but both nonprofits and government agencies perceive that performance based contracting will represent a much bigger wave of change in the near future. As researchers, we seek to improve understanding of the current status of the relationship and performance of the system we depend upon to deliver human services. It is also our goal to understand whether that system is prepared to withstand another wave of change as, among other things, service delivery is increasingly judged by the outcomes it achieves.

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There have been previous cycles of shifting service provision between the government and nongovernmental sectors. In his historical review of government - nonprofit sector relations in the US, UK, Japan, and Israel, Young (2000) identifies periods in all countries in which human services were provided predominantly by government or predominantly by nongovernmental organizations, as well as periods in which there was a blend. The shifts can occur for a variety of reasons – Young cites changes in political leadership and huge natural disasters, among others. Such shifts will continue to be part of natural cycles causing the balances to sway between the sectors, and this research is not concerned with determining which sector is better or best at service provision.

What is of concern, however, is how well today's version of the service provision system *performs*. In the US we find ourselves woefully short of even basic information about the system – such as what percentage of US human services are provided by government, what percentage by nonprofits, and what percentage by nonprofits delivering services paid for by government. Given our inability to even describe the system, it is hardly surprising that we cannot say with any certainty how well the system is performing.

As one step in describing the system, Young's work provides us with some ways of categorizing the types of relationships nonprofits and governments might have. Building on his earlier research (1999), Young describes three relationship models:

In the **supplementary model**, nonprofits are seen as fulfilling the demand for public goods left unsatisfied by government... In the **complementary [model]** nonprofits are seen as partners to government, helping to carry out the delivery of public goods largely financed by government... In the **adversarial [model]**, nonprofits prod government to make changes in public policy and to maintain accountability to the public. Reciprocally, government attempts to influence the behavior of nonprofit organizations by regulated its services and responding to its advocacy initiatives as well... (Young, 2000: 150-151).

Young goes on to explain that these three models of interaction often take place simultaneously, suggesting a very complex web of relationships between the sectors:

The three [models] are by no means mutually exclusive. Nonprofits may simultaneously finance and deliver services where government does not, deliver services that are financed or otherwise assisted by government, advocate for changes in government policies and practices and be affected by governmental pressure and oversight (Young, 2000: 151).

Our team of researchers set out to understand the current relationship between nonprofits and state government, guided not only by the types of models described above, but also by an understanding that how well this system performs has the greatest significance for those who are recipients of human services. In addition, we understand that those who devote their lives to service in either or both the nonprofit and government sectors have a major stake in the system working well. This research project seeks to gather enough information about a piece of the current system to allow a data driven dialogue about its nature, and determine how the system can realize its best performance.

### ***The Forward Together Project***

The research on which this paper is based seeks to understand the nuances of the relationship between nonprofit and governmental entities in the provision of human services. In order to achieve a deep understanding of an existing set of relationships, we focused exclusively on human services provided in the State of Delaware in the US<sup>2</sup>. Delaware is a small state with a population of approximately 850,000. Because of its size, human services are provided, by or through State agencies, with very little involvement of county or municipal governments. Within State government, we focused our attention on the Department of Health and Social Services (DHSS) and the Department of Services to Children, Youth and their Families (DSCYF). Among the nonprofits, we focused our attention on only those nonprofits that currently have contracts with DHSS and DSCYF to provide human services. We chose to exclude universities and hospitals from our analysis – both in terms of budget data and in terms of interview and focus group involvement.

Phase I of our research project is *Mapping the Landscape* by identifying administrative, fiscal, and performance issues that affect critical service relationships between government agencies and nonprofit organizations in the delivery of social services in Delaware. Within Phase I, we identified three goals:

- Goal 1: To explore the social service contracting landscape in the state of Delaware.
- Goal 2: To identify levels of satisfaction in the contracting arena.
- Goal 3: To provide an understanding of the contracting process and concerns to nonprofit organizations and state agencies.

Phase II of the project is *Building a Better Landscape* during which we plan to use the data gathered in Phase I to achieve the following goals:

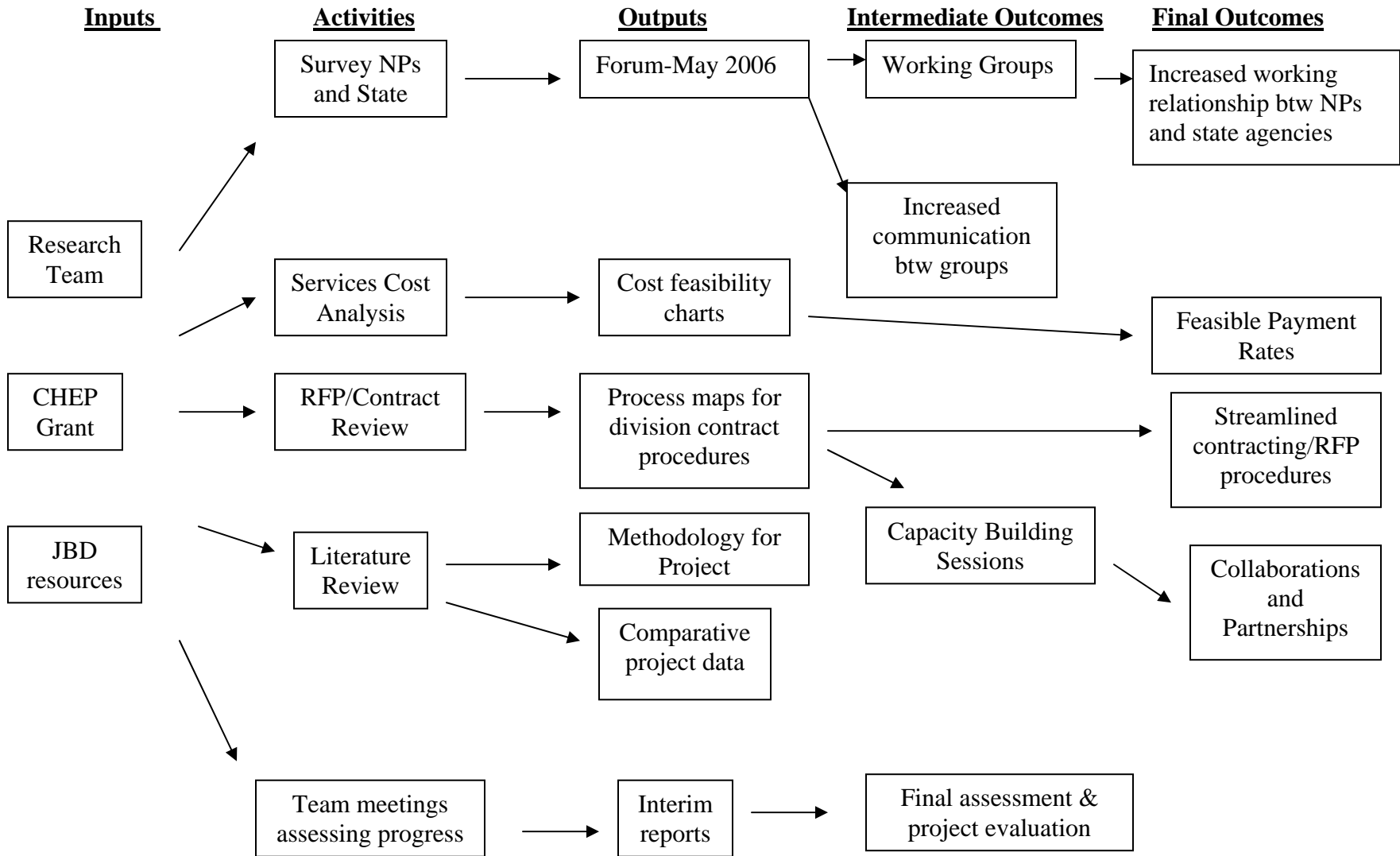
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<sup>2</sup> All researchers are affiliated with the University of Delaware. The principal investigators (Auger, Denhardt and Aristigueta) had established working relationships with both the nonprofits and state agencies who would be involved in this research. These relationships made it possible to gain access to data and people in both sectors. These relationships allowed us to gain the support of the Cabinet Secretaries of DHSS and DSCYF, as well as the support of the Delaware Association of Nonprofit Agencies (DANA). It should be understood, however, that the research was conducted in a completely independent fashion under the auspices of the University of Delaware's Center for Community Research and Service.

- Goal 1: To share findings of the study with nonprofit and state government executives so that they can use the information to shape future patterns of interaction between the nonprofit sector and state government.
- Goal 2: To identify priority issues needing to be addressed in nonprofit/state government relationships, and begin the process of generating collaborative solutions.

In Phase III of the project we will measure the impact of our project. The measures of success will be based on this logic model:

# Forward Together- Jessie Ball DuPont Project Phase 1



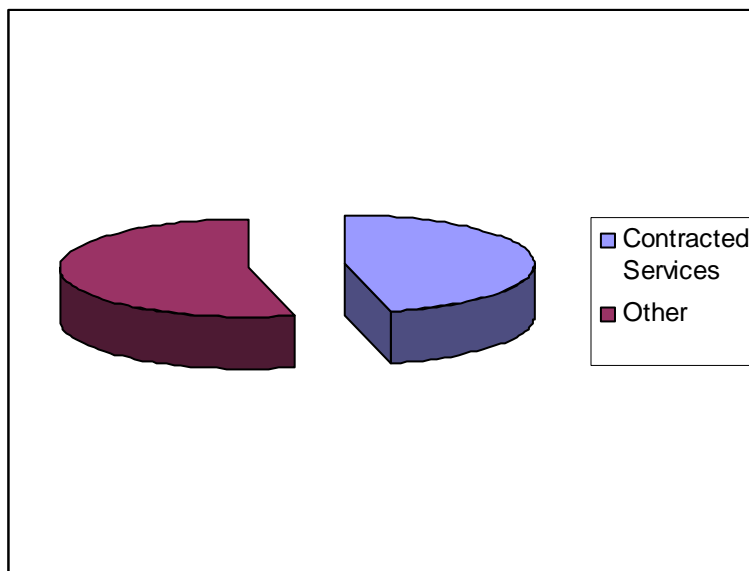
Between September 2005 and May 2006, we used a variety of strategies for gathering data on the current status of nonprofit - state government relationships in delivering human services in Delaware, including:

- Focus groups of
  - Nonprofit Leaders
  - State Government Leaders
  - Foundations and Funders (from whom nonprofits seek funding)
- Structured in-depth Interviews with nonprofit and government staff who deal with contracts between the state and nonprofits
- Web surveys of both nonprofit and state government personnel
- Document analysis (budgets, RFPs, websites, contracts)

### ***Findings***

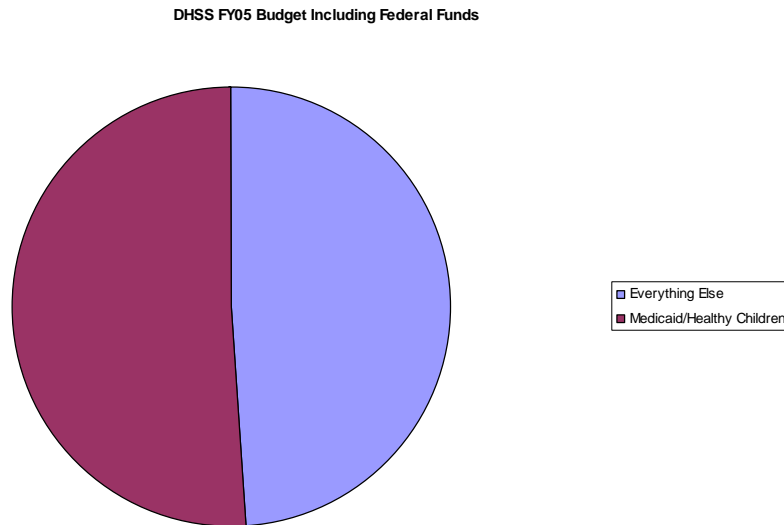
*Strong, Symmetrical Interdependence* In 1991, Judith Sidel analyzed the resource interdependence between nonprofit and state agency managers in New York State, and found that there was “strong and symmetrical interdependence across sectors” (Sidel, 1991: 543). Through responses to interview questions and through analysis of budgets, we similarly find that a strong, symmetrical interdependence exists between DHSS and DSCYF, and the nongovernmental organizations they contract with. Table 1 indicates that DSCYF expends 46% of its annual budget on contracting for services, the vast majority of which are direct services to clients.

**Table 1: DSCYF Budget FY 05**



For DHSS the budget picture is a bit more difficult to describe. More than half of all DHSS expenditures go to Medicaid related services<sup>3</sup> (see Table 2).

**Table 2: DHSS Budget FY 05  
(including Medicaid expenditures for medically indigent)**



Many nonprofits in Delaware provide services for which they are paid through Medicaid. Therefore, Medicaid is a very significant funding stream through which nonprofits are being paid for human services they provide. However, we have not yet been able to determine what percentage of the Medicaid payments went to nonprofit service providers, and what percentage went to hospitals and physicians. For that reason we chose to exclude all Medicaid expenditures from the budget analysis that follows.

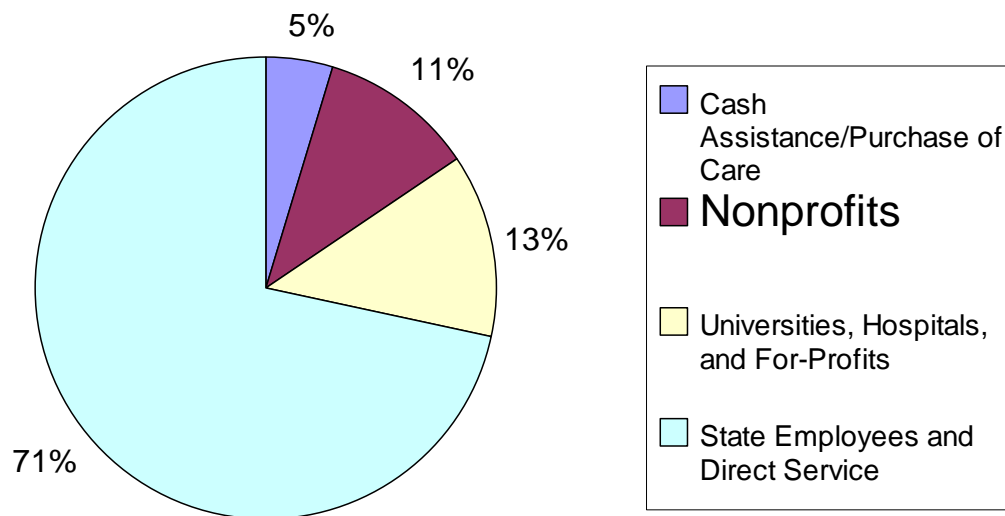
For all non-Medicaid DHSS expenditures in FY 05, we find that a minimum of 11% are utilized to provide human services through the types of nonprofit service providers we are analyzing (i.e. this does not include hospitals or universities). (See Table 3.) 13% of the non-Medicaid health and social service budget goes

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<sup>3</sup> Medicaid funds health services for indigent, uninsured individuals. Lacking a national health system, federal and state governments jointly fund these services. Within federal parameters, each state determines its own eligibility and service delivery systems. This portion of state and federal budgets has been growing dramatically in recent years even though eligibility and services have not been increasing.

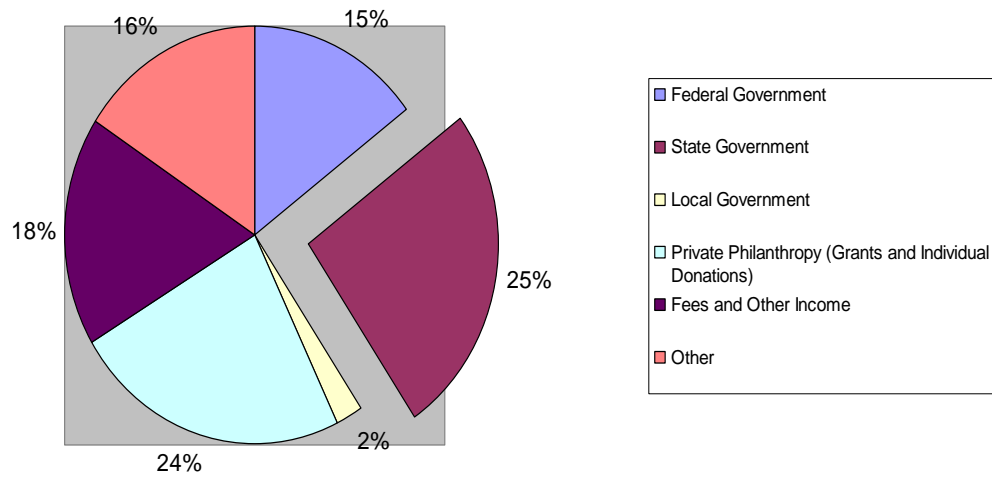
to contracts with universities, hospitals, and for-profit organizations. Five percent goes to cash assistance and the purchase of day care for low income clients. Much of the purchase of care expenditures go to nonprofit organizations providing subsidized day care to low income families.

**Table 3: DHSS Budget FY 05  
(excluding all Medicaid expenditures)**



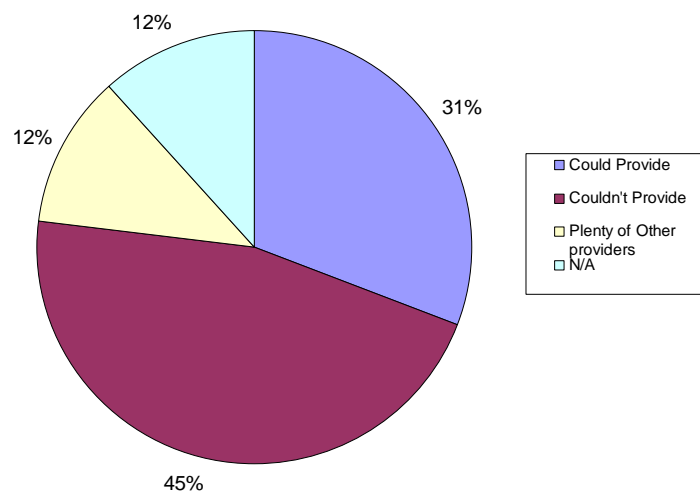
Across the sector border, human service nonprofits replying to our web-based survey indicated that 25% of their operating budgets came from state government sources, in addition to the 15% of those operating budgets that came from federal government sources, and 2% from local governments (see Table 4). Only 24% of these nonprofits' budgets came from private philanthropy. It is fair to say that nonprofits that contract with the State of Delaware to provide human services are dependent on governmental sources of revenue.

**Table 4: Nonprofit Operating Budgets by Source**



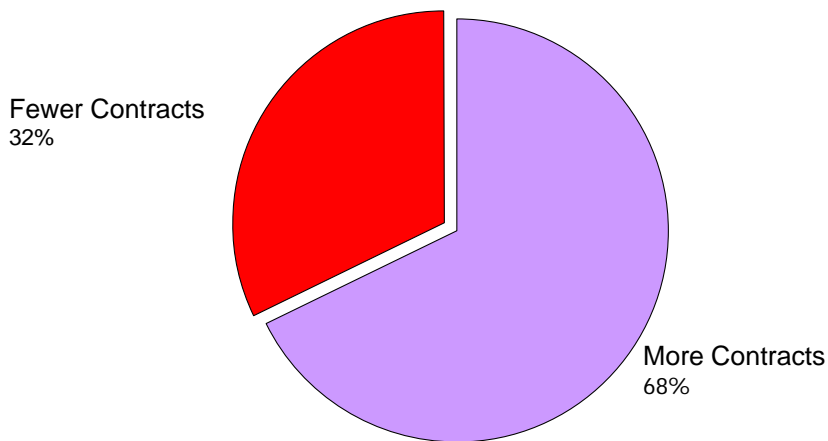
To further understand the level of interdependence, we asked state agencies what they believed the consequences would be if nonprofit organizations were no longer willing or able to contract with the state to provide services. Their responses indicate that in many cases there would be severe disruption in services if nonprofits chose to walk away from contracting with the state (see Table 5). Forty-five percent of state government managers said that they would not be able to provide the services if their current nonprofit providers were no longer able or willing to contract with the state. Twelve percent said there were other potential providers who would be able to fill the gap if current providers walked away, and 31% of state managers indicated the state would be able to provide the services if necessary.

**Table 5: State Responses if Nonprofits No Longer Willing or Able to Provide Services**



The nonprofits who responded to our web-based survey indicated that they are entering into more contracts with state government today than they were five years ago (see Table 6). This data suggests that the interdependence has increased on both sides of the sector border.

**Table 6: Responses to “Is your nonprofit holding more or fewer state contracts than five years ago?”**



*Good Synergies Achieved through Contracting* One cannot assume that an agency currently engaging in more contracting than in the past is necessarily doing so for positive reasons. In interviews with state program and contract managers we asked what their reasons were for contracting with nonprofits to provide services. The top responses of state interviewees were that nonprofits:

- Are better providers for some services (specialized)
- Have community connections the state does not have
- Have personnel flexibilities the state does not have
- Offer a cost effective choice for services
- Offer more providers and broader access than could be achieved by the state alone

In focus groups with nonprofit managers we asked what their reasons were for contracting with the state. The top responses of nonprofits were that state contracts allow for:

- Extending service reach to new clients

- Offering a wider service array
- Enhancing continuum of care
- Relatively stable flow of funds during economic swings

These responses indicate that both the state and nonprofits perceived the contracting relationship to offer benefits and synergies, and can be characterized as consistent with the *complementary model* as described earlier.

*Working relationships are perceived as more positive by state than by nonprofits*

From having worked for many years with both nonprofits and the state, we knew going into this research that there were stressors in the relationship between state government and the nonprofits with whom they contract. We wanted to get beyond the anecdotal accounts we had heard, and to develop more specific assessments of the relationship and stresses.

In previous research on federal contracting relationships, Denhardt (2003) had found evidence of new, more effective models of contracting out for services:

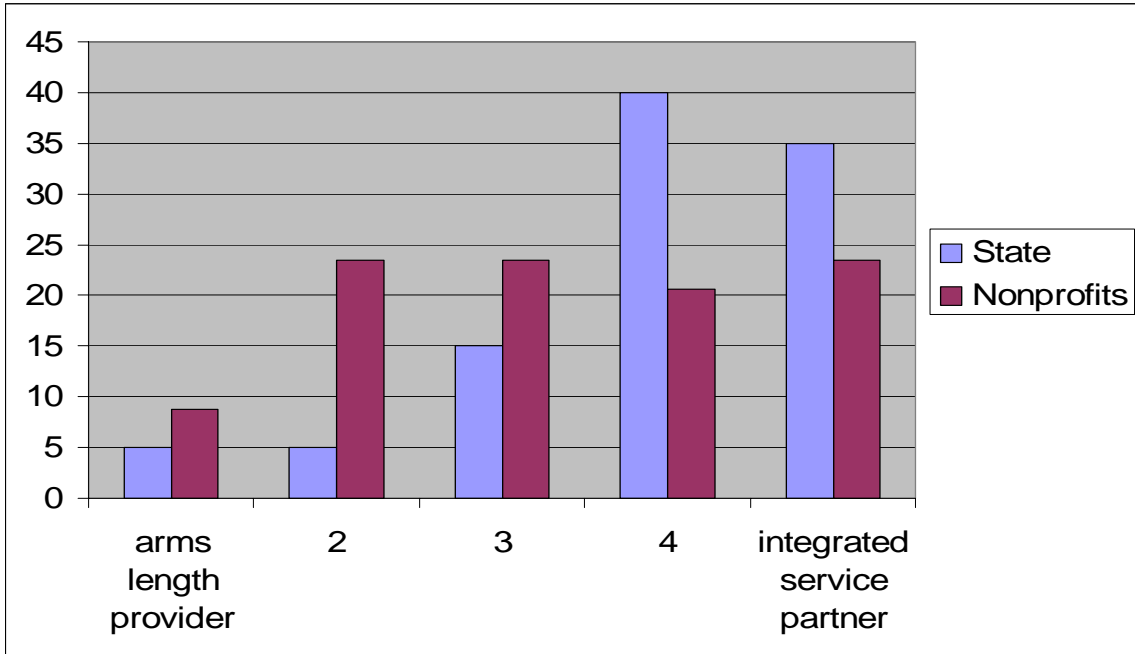
As government downsized the number of employees and began to rely more on contractors to accomplish work, it found that the old procurement model was not achieving the results it needed. The traditional model took too long, was not flexible enough, and discouraged the kind of communication needed to find solutions to problems. Accountability was more important than ever, but the old approaches that relied on accounting standards, audits, penalties, and arm’s-length relationships could ensure only that the rules were adhered to, not that the contract accomplished what was needed... The emerging partnership model of procurement is characterized by team-based approaches, new contracting vehicles, an outcomes orientation, and increased emphasis on open communication and due diligence (p. 4).

Using that research as a foundation, we asked respondents to rate the “current working relationship between state and nonprofits” on a continuum:

1	2	3	4	5
arms length				fully integrated
service provider				service partner

Table 7 indicates that state respondents had a greater sense of operating as fully integrated partners than did the nonprofit respondents. The differences in perceptions are significant, but by no means dichotomous.

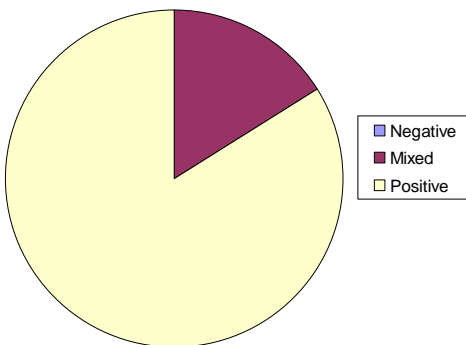
**Table 7: Nonprofit and State Perspectives on Current Working Relationship**



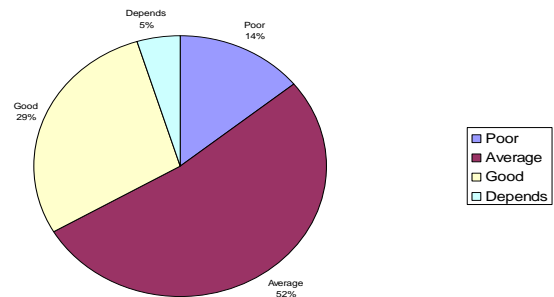
Beyond that, we asked an open ended question in the interviews about the current relationship, and our analysis shows that the state respondents perceive a more positive relationship than do the nonprofits as shown in Table 8. The state respondents view the current relationship in more positive terms than do the nonprofit respondents.

**Table 8: Current Relationships**

**State views on relationship with Nonprofits**



**Nonprofits views on relationships with State**



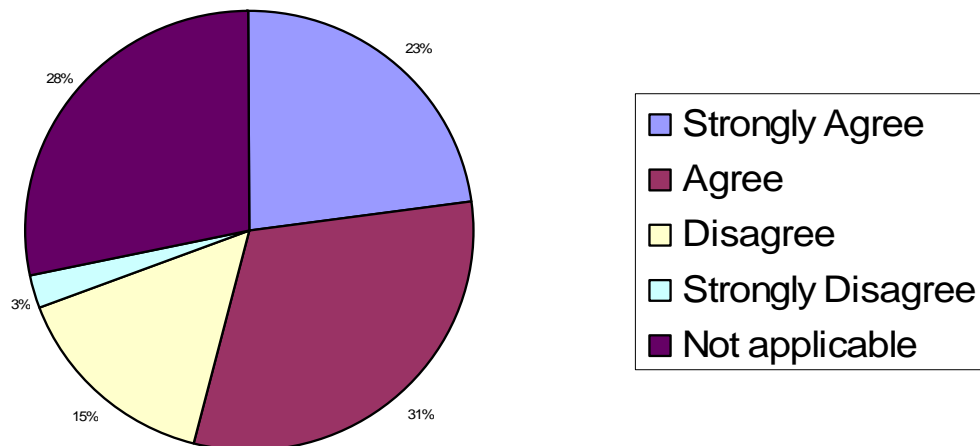
It would seem that the state views the current contracting relationships as more consistent with the *complementary model* than does the nonprofit.

*Administrative, Reporting, and Technology Challenges* We asked both nonprofit and state respondents about their satisfaction with the volume and format of reporting requirements when the state contracts with nonprofits. The responses showed no significant concern in these areas. Nonprofits recognized that accountability necessitated the reporting. However, they did wonder if the volumes of reports they are required to file are really utilized by the state agencies which require them. State agencies indicate that they use the reports to some extent (e.g. for assessing compliance and reconciling billing), but acknowledge that much more data mining could occur if they had resources to do so. The state expressed particular concern that they were not using the data to provide feedback to providers about how their service compares to others providing similar service.

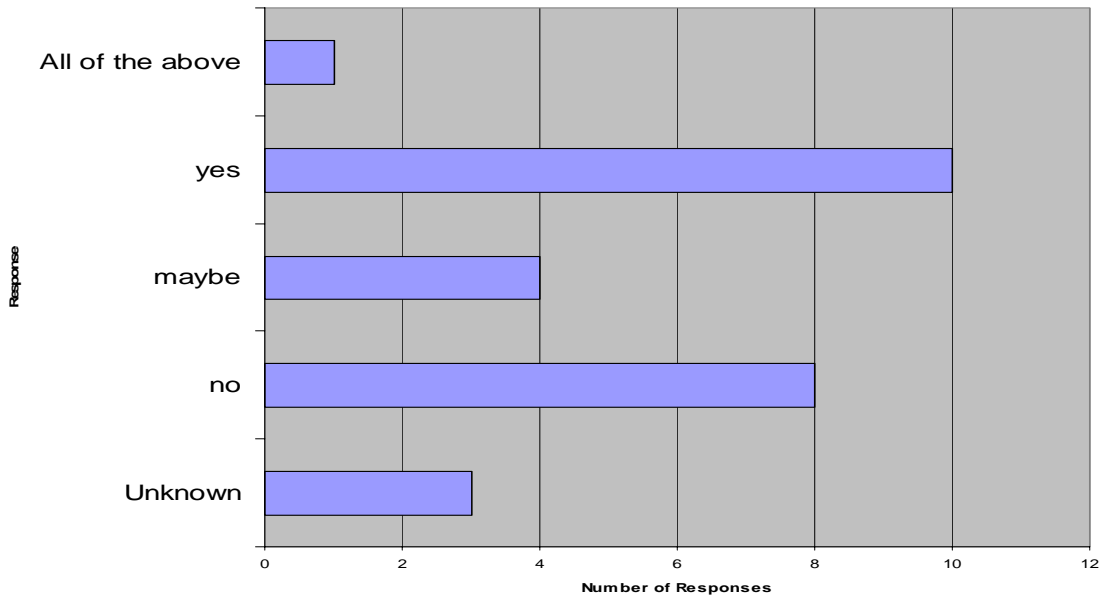
Concern was expressed by nonprofits about the volume of paperwork required to attain state contracts, as well as the lack of consistency among state agencies on the paperwork requirements for attaining state contracts. This could be described as a “barrier to entry” which might be a concern to state agencies desiring to increase the number of nonprofits with whom they might contract.

Most notable in this area is the shared recognition of technology and information systems problems related to contracting. Table 9 shows responses from the nonprofit web-based survey, and Table 10 shows responses to a similar question asked of state managers during face to face interviews.

**Table 9: Nonprofit Respondents: There are Hardware, Software, or Incompatibility Issues Related to Reporting/Recordkeeping**



**Table 10: State Respondents: There are Hardware, Software, or Incompatibility Issues Related to Reporting/Recordkeeping**

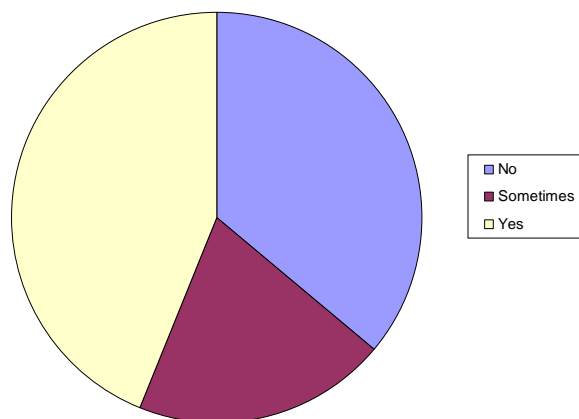


When reporting data is not used to provide frequent feedback and quality assessments, an opportunity is missed to improve performance of contracting arrangements and service delivery. Precious time is wasted when technology incompatibilities get in the way of smooth data collection and communication, thus inhibiting peak performance of the contracting relationship.

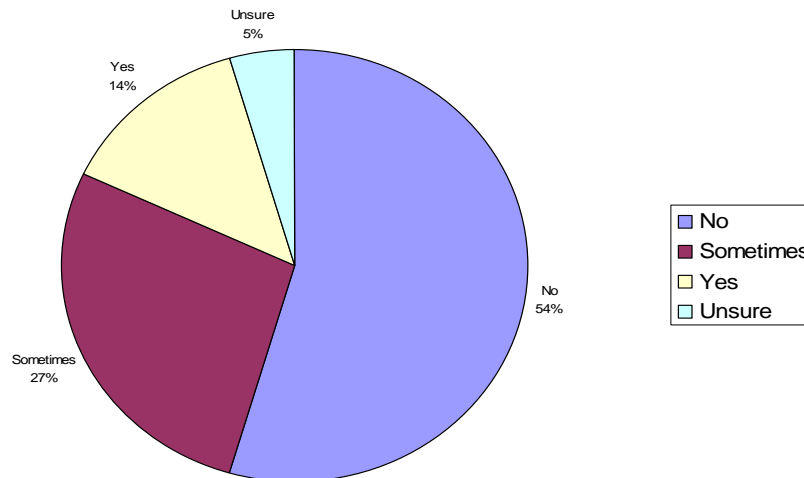
Questions about whether the state is paying the full cost of contracted services

Our research found that the state does not always pay for the full cost of the services they contract with nonprofits to provide. Table 11 shows that state respondents recognize that many times they are not paying for the full cost of services. Table 12 shows that nonprofits perceive the funding gap to be even more prominent than does the state.

**Table 11: State Respondents:  
Does the state pay for the full cost of services?**



**Table 12: Nonprofit Respondents:  
Does the state pay for the full cost of services?**



The administrative overhead costs were of particular concern to nonprofits. It was their perception that state agencies' various caps on overhead costs (ranging from 4% to 15%) and varying rules about what can/cannot be included in indirect costs, did not reflect the actual costs the nonprofits incurred in administering the state contracts. If the nonprofits are not able to find funds from other sources to cover those costs, it could well result in inadequate oversight of the services or placing demands on direct service providers to do the administrative work rather than spend that same time in providing services.

If such funding gaps occur, how does the state expect nonprofit organizations to fill the funding gap? While many state respondents said that no gap exists, others say that such gaps are covered through:

- Client fees, Insurance
- Fundraising (e.g. United Way)

Nonprofits say the state expects them to cover the funding gap through:

- Fundraising (e.g. individual donations)
- Foundation and Grant Maker Support

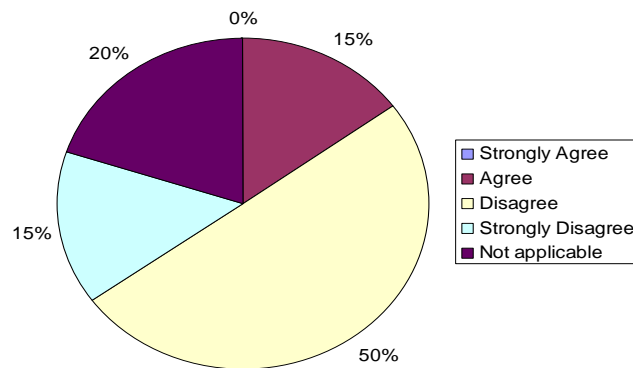
It is important to note here that the Foundation and Funders who were consulted in a focus group perceived that they were being approached more often in recent years by nonprofits asking for grants to cover the gap between revenues and expenditures in their operating budgets. Many of those nonprofits have contracts with the state. The Foundations do not perceive that it is their role to fill a funding gap when the state does not pay for the full cost of a service for which it is

contracting. Since the Foundations are resistant to filling such gaps, the financial strains on the nonprofits might be expected to impact performance negatively.

Performance measurement and performance based contracting are not well developed The development of effective performance measures for human services has evolved slowly over more than a decade of efforts by governments creating contracts for those services. Performance based contracting, which relies more on evidence of achieving performance outcomes than on evidence of inputs or processes, has evolved even more slowly. Among our respondents in both nonprofits and state government, it is a widely held perception that performance measurement will – and should – be expanded in the near future. It is expected that more contracts will be performance based. Neither sector appears to be well prepared for the transition.

Sixty-five percent of nonprofit respondents disagree or strongly disagree with the statement that nonprofit service providers currently have adequate capacity to effectively measure and report performance outcomes (see Table 13). State respondents share their concern about the capacity of nonprofits with whom they contract.

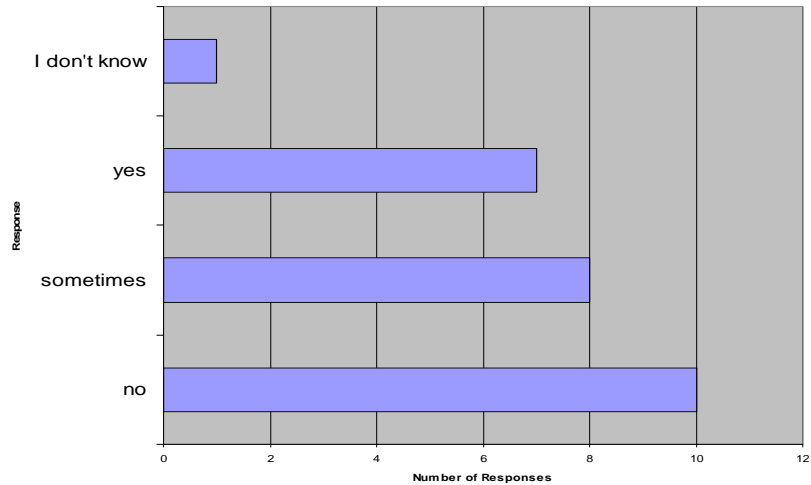
**Table 13: Nonprofit Respondents: Nonprofit Service Providers Currently Have Adequate Capacity to Effectively Measure and Report Outcomes**



State respondents are no more confident of their own abilities to develop and manage performance based contracts. We heard from many state respondents that they know this is necessary and valuable, but that they have not yet developed effective performance measures and do not have a staff of contract managers who are prepared to manage such contracts. In fact, the state respondents do not express strong confidence in the degree to which they train

contract managers to deal with the current contracting arrangements (see Table 14).

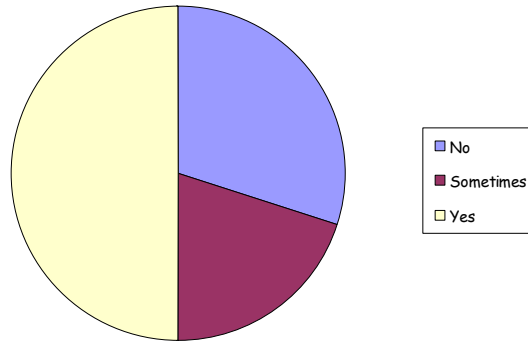
**Table 14: State Respondents: There is Adequate Training for State Contract Managers**



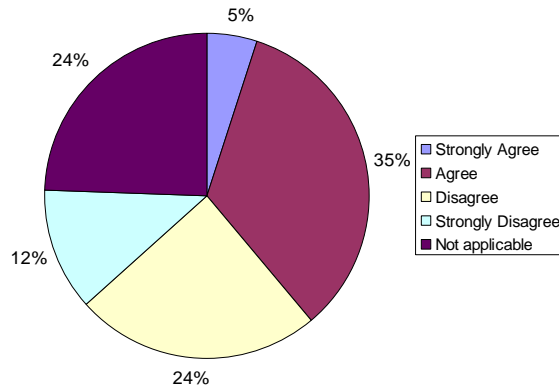
These findings are not particularly surprising. Much research has identified weaknesses in contract management, the development of performance measures, and the ability to focus on outcomes rather than inputs. In an effort to understand the possible reasons for slow progress in the performance management arena, we asked our respondents about the degree to which nonprofit service providers are involved in determining appropriate performance measures. It seems reasonable to try to learn from the experiences of direct service providers when developing these high stakes performance measures.

In interviews, half of the state respondents indicated that nonprofits are consulted when setting performance standards (see Table 15). In a related (but not identical) question on our nonprofit web survey, 40% of nonprofit respondents agreed or strongly agreed that their organization is involved in helping craft performance measures and outcomes applied to state contracts (see Table 16). It is the responsibility of the state to make final determinations about the performance and outcomes measures to include in state contracts, and to enforce those measures equitably in all similar contracts. However, when both the state and the nonprofits are struggling along a steep learning curve as they develop performance measures, there is a great deal to be said for collaborating on the development of appropriate measures.

**Table 15: State Respondents: Nonprofits are consulted when setting performance standards**



**Table 16: Nonprofit Respondents: My Organization is Involved in Helping to Craft Performance Measures and Outcomes State Applies to Contracts**



## Conclusions

What does this research tell us about “a performing public sector”? We have learned that the provision of human services in Delaware is achieved through a highly interdependent relationship between government and the nonprofits they contract with to provide many of the services offered. At this point, the public sector cannot – and does not wish to – provide many of the services directly. Nonprofits bring value to the provision of services because of their expertise and ability to reach into the community in ways the state is unable to duplicate.

Yet we also identified some problems with the current system. There are incompatibilities and deficiencies in the technology arena that lead to inefficiencies, frustrations, and failure to utilize information to improve performance. There are questions about whether the state is paying the full cost of providing the services for which they are contracting. If they are not paying the full cost, there is every reason to expect this will detract from achieving higher levels of performance because front line service providers will serve administrative functions or others will expend valuable resources in seeking funding elsewhere to fill the gap left by the state.

Performance measurement and performance based contracting are not well developed in Delaware’s human services contracting system. Thus, performance expectations are not well defined, and outcomes are not well articulated. As such, there cannot be adequate accountability for achieving outcomes. Both sectors are aware of the need to improve performance management, but there is no clear strategy for building capacity in either sector in order to achieve that improvement.

When asked to describe the ideal relationship between state government and nonprofits, respondents in both sectors stated a strong desire for integrated, collaborative partnerships. Using Young’s typology, they expressed a desire for the complementary model. Evidence indicates, however, that what exists today falls somewhat short of that ideal.

The question for us, however, is whether an integrated, collaborative partnership between the sectors would be likely to lead to higher levels of performance. It seems logical that collaboration in the development of appropriate performance measures could lead to better accountability and improved performance. Beyond that, there is evidence that a partnership approach to contracting has achieved much higher levels of performance in some federal contracting arenas (Denhardt, 2003). So attempting to bring into reality the expressed desire of both sectors to function through an integrated, collaborative partnership could result in significant performance improvements.

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