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The Journal of Sociology & Social Welfare

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Volume 6  
Issue 3 May

Article 7

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May 1979

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### Recommended Citation

Jansson, Bruce S. (1979) "Public Monitoring of Contracts with Nonprofit Organizations: Organizational Mission in Two Sectors," *The Journal of Sociology & Social Welfare*: Vol. 6 : Iss. 3 , Article 7.

Available at: <https://scholarworks.wmich.edu/jssw/vol6/iss3/7>

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PUBLIC MONITORING OF CONTRACTS WITH NONPROFIT  
ORGANIZATIONS: ORGANIZATIONAL MISSION  
IN TWO SECTORS<sup>1</sup>

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ABSTRACT

Public officials in the human service delivery system must wrestle with complex decisions regarding utilization of agencies in the nonpublic sector to deliver publicly funded services. Data from a survey of 167 agencies in a major metropolitan area suggest that there are still substantial differences in priorities and service approaches of public and nonpublic agencies. These differences suggest that public officials may need to devote more resources to ascertaining whether and when public agencies should themselves deliver publicly funded services and to strengthening public monitoring of contracts in the private sector.

A crucial policy choice that must be made by public agencies and officials is whether and when to provide publicly funded services themselves or to utilize nonprofit or profit-oriented organizations in the private sector. There has been a plethora of speculation regarding the relative merits of public and private organizations, speculation that has led to competing ideological camps that support one or another sector (e.g., Friedman, 1962; Kramer, 1966; Titmuss, 1971).

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<sup>1</sup>This study was supported in part by a grant from the Faculty Research Fund of the University of Southern California. The author would like to acknowledge collaboration in data collection of Professor Samuel H. Taylor as well as assistance of students in the graduate research seminars of 1975 and 1976 at the School of Social Work.

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There may be a danger, however, that the "grand debate" has led to disinclination to gather empirical information about agencies in the public and private sectors. Public officials who must decide whether to utilize a specific non-profit or profit-oriented organization require specific and empirical methods for assessing whether that organization will provide services in a manner that is consistent with public intent. There are few guidelines in existing literature for development of criteria to assist in making these decisions. (Franklin and White, 1975; Wedel, 1974).

There are at least two approaches that may be used in assessing the capabilities of organizations in the private sector. The first or management capability approach is not discussed in this article and involves analysis of the technical or management capabilities of an organization.<sup>2</sup> Public officials clearly must know whether an organization possesses the capabilities to oversee, monitor, and properly account for expenditures under specific grants, contracts, or third party vendorship payments.

The second or organizational mission approach involves analysis of the distinctive niche of an organization within the human service delivery system in the context of its service priorities and decision-making patterns. (Perrow, 1961). An organization that has management capabilities to administer public funds in an efficient manner may nonetheless direct public resources toward goals that are not consistent with public intent. Public organizations often may wish, for example, to target resources to members of ethnic and minority groups; an agency in the private sector with public contracts that "creams" extensively or that does not aggressively seek to locate unmet needs in communities may be violating public intent. Similarly, organizations that do not utilize planning program, evaluation, or citizen inputs may not conform to public intent, if public

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<sup>2</sup>Rubenstein notes how some public agencies may err in scrutinizing only the efficiency of nonpublic agencies when monitoring contracts. See Rubenstein, 1975.

legislation mandates use of these contributions to decision making. It is more difficult to obtain information about organizational mission than about organizational management capabilities because organizational participants may not readily volunteer sensitive information regarding priorities and decision processes. (Perrow, 1961).

Do public agencies in fact differ from nonprofit agencies with respect to organizational mission? It has recently been speculated that demarcation between public and private sectors has become blurred in recent years because of the sheer volume of public contracting. (Boulding, 1973; Brilliant, 1973). If public agencies do in fact have distinctive priorities, service approaches, and decision-making processes that emanate from their source of funding and legislative mandate, a good case can be made that they should seek to discover whether nonprofit or profit-oriented organizations also utilize these approaches and priorities--otherwise, they would through contracting abandon their public mission. (If nothing is distinctive about public agencies, there is no apparent rationale for preserving them.)

Data gathered in a survey of top executives from 167 social agencies in Los Angeles County indicate that there are in fact important differences between public and nonprofit agencies, differences that suggest that public officials may need to scrutinize the organizational mission of nonprofit organizations that receive public funds. (No data unfortunately is available concerning profit-oriented organizations, since it was not feasible to include them in this sample.) Data was gathered in a two-year survey of the executives who were interviewed in each of two years. In order to guard against potential bias that might derive from over or under-representation of a field of practice, the sample included proportional representation of agencies from health services, child welfare, community mental health, residential treatment, and family counseling agencies.<sup>3</sup>

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<sup>3</sup>There are 108 nonpublic agencies and 59 public agencies in the sample. On some questions some executives did not know pertinent information; in those cases, percentages are computed on the basis of the numbers of executives who did respond.

While it is acknowledged that interviews with executives may produce information constrained by their desire to project a positive image, the interviewers were generally impressed by the candor of the administrators as reflected in willingness to participate in two lengthy interviews.

Public and Nonprofit Social Service  
Agencies: Are They Different?

Data was obtained about clientele, service approaches, and decision making of public and nonpublic organizations as well as the level and kind of dissatisfaction by executives with a range of organizational policies.

Who is Served. A much larger percentage of clientele of public agencies is likely to consist of persons from minority ( $X^2 = 18.55$ ;  $df\ 4$ ,  $p = .001$ ) and low income groups ( $X^2 = 20.49$ ;  $df\ 4$ ,  $p < .001$ ). Only 30% (17) of public agencies report that less than 40% of their clientele are members of minority groups in contrast to 59% (58) of nonprofit agencies; conversely, more than half of the public agencies (52% or 29) report that more than 60% of their clientele are members of minority groups compared with only 19% or 19 of nonprofit agencies. Similarly, only 16% (9) of public agencies report that less than 40% of their clientele come from families with less than \$6,000 annual income in contrast to 48% (49) of nonprofit agencies.

Consumers of public organizations are more likely to consist of self-referrals than referrals from other agencies or community sources ( $X^2 = 22.83$ ;  $df\ 2$ ,  $p < .001$ ); one-half of public agencies (29) report that more than 50% of their clientele consist of self-referrals compared with only 15% (16) of nonprofit agencies. Further, 95% (56) of public agencies report that they have geographic catchment areas that define service boundaries in contrast to only 60% (65) of nonprofit agencies ( $X^2 = 21.35$ ;  $df\ 1$ ,  $p < .001$ ). Clientele of public agencies, then, are far more likely to come from the immediate catchment or community area; more than 80% of consumers of most public agencies (85% or 50) reside in neighborhoods immediately surrounding the agency compared with only 46% (49) of nonprofit agencies ( $X^2 = 23.47$ ;  $df\ 2$ ,  $p < .001$ ). The community or catchment service orientation of public agencies may be further reflected in

their greater use of part- or full-time community organization staff. Eighty-six percent (51) of them report they employ such staff in contrast to only 57% (61) of nonprofit agencies ( $X^2 = 14.18$ ;  $df\ 1$ ,  $p < .001$ ). Public executives are also more likely to report that services are provided wholly or partly in the community rather than simply in the agency building ( $X^2 = 6.50$ ;  $df\ 2$ ,  $p < .05$ ); 40% (43) of nonprofit agencies provide services exclusively in the agency building in contrast to only 24% (14) of public agencies.

Public agencies, then, are more likely to serve consumers who come directly to the agency, who come from geographic areas proximate to the agency, and who derive from minority or low-income groups. Public agencies are expected to serve consumers who approach them and who qualify for their services in contrast to nonprofit agencies that rely heavily upon referrals and who appear able to a greater extent to select consumers who fall within their services priorities.

Nature of Service. Public agencies are more likely than voluntary agencies to extend organizational resources by providing relatively nonintensive services to a relatively large number of consumers. (Neugeboren, 1970). Executives were asked to rank agency services on a continuum extending from 1 ("agencies should attempt to provide intensive services to relatively few clients") to 6 ("agencies should serve as many clients as possible even if it is necessary to provide less intensive service to particular clients"). Sixty-one percent (35) of public executives ranked their agencies at points 5 and 6 on the continuum in contrast to only 18% (19) of nonprofit executives ( $X^2 = 34.73$ ;  $df\ 2$ ,  $p < .001$ ). When asked to indicate their personal preference, public executives were far more likely to choose extensive rather than intensive services ( $X^2 = 16.42$ ;  $df\ 2$ ,  $p < .001$ ); 42% (24) of public executives chose points 5 and 6 compared with only 23% (25) of nonprofit executives. Public officials clearly must stretch limited resources to meet existing needs more than nonprofit executives because they operate under a public mandate to serve all claimants who meet official eligibility requirements.

Decision Making. In public agencies decisions are more likely to be made in the context of multiple and contending interests in contrast to a simpler decision environment of nonprofit agencies in which personal preferences of executives are more likely to prevail. Public executives report that internal planning often has relatively little impact on final decisions. On a continuum extending from 1 (major planning processes during the past several years influenced final decisions "very much") to 6 (they influenced final decisions "not at all"), only 22% (13) of public executives chose point 1 compared with 57% (60) of executives from nonprofit agencies ( $X^2 = 23.97$ ;  $df\ 2, p < .001$ ).

Public executives also are more likely to report they are subject to external forces mandating that they utilize citizen participation, program evaluation, and planning projects in agency decision making. When executives who thought that agency planning would increase in the next three to five years were asked to indicate why, only 26% (15) of public executives chose "desire by the administrator to improve services" as the most important factor in contrast to 54% (57) of nonprofit executives; public executives were more likely instead to mention pressure from funders, staff, community, or other sources ( $X^2 = 10.60$ ;  $df\ 1, p = .001$ ).

Inputs to the Decision Process. Public and nonprofit agencies appear to utilize different sources of information to facilitate decision making. Public agencies are more likely to use program evaluation ( $X^2 = 6.49$ ;  $df\ 1, p = .01$ ), formal program planning projects ( $X^2 = 2.90$ ;  $df\ 1, p < .10$ ), and extensive data during program planning ( $X^2 = 5.21$ ;  $df\ 2, p < .10$ ). They are also more likely to allocate staff and budgetary resources to planning functions as indicated by comparing scores of public and nonprofit agencies on an index formed from questions probing the extent the agency assigns staff other than the executive to hold specialized planning functions, the technical training of planning staff, and whether funds are earmarked for planning in agency budgets ( $X^2 = 15.21$ ;  $df\ 2, p < .001$ ).

Nonprofit agencies, by contrast, are more likely to make use of administrative boards in the decision process in part because of legal incorporation requirements and because

nonprofit agencies use boards for legitimation and fund raising purposes. (Glaser and Sills, 1966). They are far more likely than public agencies to have administrative boards in the first instance; 97 (89%) report such boards in contrast to only 26 (44%) of public agencies ( $X^2 = 30.44$ ;  $df\ 1, p < .001$ ). It is important not to overemphasize the extent nonprofit agencies utilize boards in the decision process, however, because nonprofit executives are not more likely than public executives with boards to indicate that their boards influence agency policies. There is no difference between public and nonprofit agencies with respect to utilization of nonadministrative boards such as advisory boards, task forces, and boards composed of consumers. Further, executives of public agencies, when asked to describe composition of an ideal board, are more likely than nonprofit executives to advocate a "very important" role for consumers of service ( $X^2 = 3.77$ ;  $df\ 1, p = .05$ ), persons from poverty backgrounds ( $X^2 = 4.58$ ;  $df\ 1, p < .05$ ), racial minorities ( $X^2 = 2.89$ ;  $df\ 1, p < .10$ ), and professionals in areas related to agency services ( $X^2 = 5.38$ ;  $df\ 1, p < .05$ )-- and they are less likely to perceive businessmen as occupying very important roles ( $X^2 = 4.64$ ;  $df\ 1, p < .05$ ).

Personal Orientations of Executives. Executives were given a series of eight policy and decision-making dimensions that portray common and competing policy options. At one end of each continuum, a specific policy was placed that is supported by those who seek to make organizations more responsive to community need (e.g., outreach, focusing of services upon members of ethnic or poverty groups, decentralization of agencies, use of preventive services, use of innovation, use of citizen inputs to decision making) or to increase knowledge of "what works best, where, and with whom" (i.e., use of research and program evaluation). The extent administrators personally favor more use of each of the above policies was determined by examining their choices on the various continua. An administrator who chose "2" on a continuum extending from 1 ("agencies should attempt primarily to prevent the incidence of social problems") to 6 ("agencies should concentrate resources upon treating or helping persons who currently experience pressing problems") favors extensive use of prevention. Further, it is possible to determine the extent executives are dissatisfied with

existing policies by comparing personal and agency rankings; an executive who chose 2 on the prevention continuum but ranked as 5 existing policy favors greater use of prevention.

Nonprofit executives on seven of the eight dimensions exhibit less dissatisfaction than public executives with agency efforts to meet unmet needs or the adequacy of agency knowledge despite the fact that there is little evidence that they outperform public executives other than in use of boards. Indeed, it would appear that public executives are more inclined to promote program evaluation, planning, and focusing of services upon racial and ethnic minorities and yet, paradoxically, are as or more dissatisfied with agency achievement in these areas. These findings are important to decisions by public officials regarding contracting, for they suggest that nonpublic executives may often be resistant to greater use of many of the eight policies even when contracts with public agencies suggest or require greater use of them.

#### Policy Implications

There are important differences between public and nonprofit organizations, differences that indicate that distinctions between the two sectors remain despite dramatic increases in use of public funds by nonprofit agencies during the past 20 years. (In this sample 29% or 31 of nonprofit agencies receive more than 80% of revenues from grants, contracts, and vendorship payments and 24% or 26 obtain between 34% and 80% from these public sources.)

What stance to take toward differences between organizational missions of public and nonpublic agencies? It is not necessary to glamorize public agencies in order to argue that many of the characteristics of their mission should be preserved. Public agencies are charged with administration of public revenues; they must serve those who come for service, they often must focus upon specific catchment or community areas to assure coverage, they must provide non-intensive services in order to stretch scarce resources to meet existing demands, they often must target resources to persons with the most pressing problems or to persons who cannot afford alternative services in the private sector, and they often must use program evaluation and planning methodology in order to convince legislators that they are

using public resources efficiently and effectively. In this sense public mission is a natural response to strategic necessities imposed by source of funds, tasks, and community pressure. Further, a good case can be made, quite apart from the causes of differences between public and nonpublic agencies, that agencies in the human service delivery system should generally direct more resources toward members of ethnic and minority groups, that organizations should make greater use of outreach, prevention, and other techniques to locate and service unmet needs, and that planning, evaluation, and representative citizen inputs should be used in decision making. All nonpublic agencies, of course, do not have to utilize public approaches in their service delivery; few would argue that there is not room for pluralism in the field of social welfare. But a good case can be made that when nonpublic agencies use public resources that they should use these resources in a manner that is consistent with public intent.

There are two important tasks for public officials. First, it is necessary to attempt to predict in the case of new grants or contracts whether an organization is likely to conform to public intent; such predictions are possible only if public officials conduct a broadly based examination of priorities, service approaches, and decision making of specific organizations. Second, data gathered in this study strongly suggest the need to conduct aggressive monitoring of nonpublic organizations during the course of contract or grant implementation. Such monitoring must include analysis of organizational service patterns to ascertain whether members of poverty or minority groups are discouraged from using service whether inadvertently or through obvious patterns of exclusion. The extent and nature of agency efforts to provide service to persons not normally using agencies should be analyzed as well as decision-making approaches.

As important, public officials may increasingly need to ascertain whether and if nonprofit (or profit-oriented) agencies are willing to participate in interorganizational planning and evaluation efforts. Data from this study indicate that many executives in nonprofit agencies may not be accustomed to "external pressures" and so may resent intrusion of external planning bodies. (Gilbert and Specht, 1977: pp. 76-7). Similarly, nonprofit agencies make

relatively little use of program evaluation, are less likely to devote resources to planning or evaluation, and may lack requisite knowledge or familiarity with monitoring techniques.

The preceding discussion suggests the need to develop specific techniques for estimating the costs that are associated with use of particular nonpublic organizations. Goal deflection costs occur when organizations use public funds in a manner that contradicts public intention regarding service approaches and priorities. Accountability costs occur to the extent that organizations do not use a range of inputs to the decision process that are intended by public officials including representative citizen inputs. Coordination costs occur as organizations do not contribute to and participate in efforts to develop referral, joint programming, and other devices to develop agency linkages. Monitoring costs rise as there is resistance to or nonparticipation in data gathering and evaluation undertakings. Consumer utilization costs occur to the extent that specific kinds of consumers are excluded from service that are mandated to receive service by public authorities.

The basic problem with computation of these costs, of course, is in ascertaining which agency is associated with the least costs. In some cases it may be difficult to determine whether any agency reduces certain kinds of costs; if all agencies, public and nonpublic, are "creaming" when providing a service intended for the hard-core unemployed, for example, it is difficult to choose which agency should administer services. It is also difficult to decide how to weight the various costs (are coordination costs more or less important than certain goal deflection costs?) and to develop techniques for assessing the magnitude of costs. Data from this survey suggest nonetheless that agencies can be compared and that they do differ with respect to priorities and decision making. Effort to operationalize such computations may lead to needed improvements in the public sector because relative performance of public agencies can be compared with alternative nonpublic organizations. If public officials are serious about promoting public intentions, there is no recourse other than to operationalize assessment techniques that probe organizational mission.

Perhaps far more difficult than case-by-case analysis of specific actual or proposed contracts with nonpublic organizations, however, is identification of fragmentation costs that derive from the sheer complexity of American social welfare institutions. Is there a critical threshold of direct public delivery of services and public initiation of planning that should be exceeded in order to provide some central direction and coordination of services? Some authors maintain that contracting decisions depend upon local needs and capabilities; in one jurisdiction services may be entirely contracted with the private sector, while in others public organizations may directly provide most services. (Brilliant, 1973). Others argue that public authorities (or private agencies) should deliver virtually all services. (Friedman, 1962; Titmuss, 1971). Perhaps the strongest case can be made for a compromise position in which public authorities take responsibility for certain basic functions and services that are defined and funded nationally with remaining services delivered either by public or nonpublic organizations. (Kahn, 1972). American social programs already are fragmented by categorical definitions, by cleavages between different units of government, and by patterns of eligibility; such fragmentation frustrates efforts to provide some semblance of central thrust and direction in addressing basic social problems. It would seem unwise to augment this existing fragmentation by splitting responsibilities between public, nonpublic, and profit-oriented agencies so that none take the initiative in promoting central direction. (Roemer et al., 1975). At a minimum, public authorities should provide initial "gatekeeper" functions (i.e., information and referral service), should provide assistance to those who need support in navigating the system, should directly provide enough services to allow the public sector to be able to assume a leadership role, and should provide basic planning and resource development direction. (Kahn, 1972). For those services that are delivered by nonpublic agencies, data from this study suggest a need for ongoing monitoring that is attuned not only to "nuts and bolts" administration but to the basic goals and priorities of contracting agencies.

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