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Keywords

contract-for-services, social services contracting, relationships, trust, Trust Scales

Disciplines

Public Affairs, Public Policy and Public Administration | Social Work

Comments

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Running head: PERCEPTIONS OF THE CONTRACT-FOR-SERVICES

PERCEPTIONS OF THE CONTRACT-FOR-SERVICES RELATIONSHIP

The impact of trust

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This paper discusses contract-for-services, the dominant mechanism of social service delivery in the United States. The development of the use of contract-for-services mechanism in social service delivery in the 20th century is outlined as well as the increasingly interdependent relationship that exists between nonprofit social service organizations and the government. The contracting relationship itself is one that is inherently insecure, which is assumed to create competition and create an incentive for high performance. Evidence, however, indicates that competition is often less than vigorous in social service contracting. In addition, there is a growing consensus that trust is a central component to healthy and productive relationships. Individuals also each approach relationships with varied levels of trust. Based on Yamagishi and Yamagishi's Trust Scales, it is argued that the sense of trust or sense of caution exhibited by a nonprofit vendor impacts their perception of the contracting relationship. The vendor's trust orientation will likely push them to view their relationship in a way more likely to fit either with classic principal-agent theory or with stewardship theory, two theories often employed to explain aspects of the contracting relationship. This paper explores the interplay between trust and the realities of the contracting-for-services relationship; identifying key areas for future research efforts.

Perceptions of the contract-for-services relationship: the impact of trust

The response to meeting the needs of the poor and vulnerable people in the United States shifted in significant and fundamental ways during the twentieth century (Trattner, 1994; Van Slyke, 2003). From a relatively localized, piecemeal response to a vast hierarchical government bureaucracy, the expansion of the welfare state was a significant social and historical development. However, the last quarter of the century and into the 21st century, a new way to deliver social services developed reflecting political, social and practical sentiments of the time. The relationship between governmental agencies and nonprofit organizations has become increasingly intertwined in this new form of social welfare service provision. Indeed, “Few facets of the American welfare state have been so thoroughly overlooked or so commonly misunderstood as the role of the nonprofit sector and the relationships between nonprofit organizations and government” (Salamon, 1995, p. 33). The misunderstanding for most comes as a result of a complex and interdependent relationship most often called contract-for-services.

Contract-for-Services and the Relationships that Emerge

Contract-for-services has become the dominant mechanism of social service delivery (Milward and Provan, 2000; Salamon, 1995); within this relationship of contractor and vendor, the government’s role continues to shift in social services to that of contractor and supervisor, and away from direct service delivery. In the arena of social services contracting the government agency—federal, state or local—contracts with the vendor—most usually a nonprofit organization (Van Slyke 2003) to provide social services. There are also instances where other governmental or for-profit entities contract with a governmental agency to provide social

services, but the focus of this paper will study the relationship of the nonprofit vendor in the contracting relationship.

The supporters of contracting out for services believe the private agency or nonprofit more capable to provide quality services efficiently and cost effectively than the government. The emergence of contract-for-services as a service delivery mechanism happened in tandem with decreasing trust in the government and a greater push to incorporate business strategies into government (Kettl, 2002). “Whether the aim is to reduce government or just to make it work better, reformers from very different ideologies have settled on a competition description that substitutes market for government control, that replaces command-and-control authority with competition” (Kettl, 1993, p. 3). Nonprofit organizations, rightly or wrongly perceived to be more trustworthy than government bureaucracy, are seen as the worthiest recipients of government contracts in social services.

Scholars in public administration have raised numerous points of concern about the practical adequacy of the contract relationship in ensuring accountability and the provision of adequate and equitable services for all citizens. Scholars have also argued that existing theories do not adequately account for the interdependent relationships that occur in contract-for-services (Milward and Provan, 2000; Salamon, 1995; Cooper, 2004; DeHoog, 1984; Kettl, 1993; Smith and Lipsky, 1993). Others question the assumption that anything near true competition is achieved in most contract areas (Van Slyke, 2006; Kettl, 1993). Salamon (1995) argues that part of the reason for the failure of traditional welfare state theory and narrative is that the theory fails to differentiate between the government as a provider of services and the government as a deliverer of services.

A central aspect of the contractor-vendor relationship drawing the attention of both practitioners and scholars is that of the relationship between and among individuals (acting as organizational representatives) and/or agencies (acting as if they were individuals) in the contracting relationship. Questions about motivation, behavior and trust are inherent in all relationships and certainly appropriate to examine in the contracting relationship. Scholars test and question the adequacy of transactional explanations which center on an underlying assumption that relationships are based on a series of exchanges, all of which are decided upon in order to advance self-interest. The conclusion many have come to is that a theory based on self-interest and transactions alone does not sufficiently explain all aspects of the contracting relationship (Van Slyke, 2006; Lambright, 2008; De Hoog, 1984). Others maintain that the goals and interests of the contractor and vendor are not necessarily at odds. Stewardship theory in particular provides a construct for exploring shared goals and more robust expressions of partnership in the contracting relationship (Van Slyke, 2006; Lamothe and Lamothe, 2011). In addition, more recent literature discusses relational contracting which, similar to stewardship theory, focuses on aspects of the relationship that go beyond transaction. Lamothe and Lamothe (2011) highlight the contrasting approach of transaction-based and relation-based contracting:

“The contract between these two styles of governance is clear in that the former is founded on the assumption of an anonymous market and adversarial relationships among exchange partners, whereas the latter is built on the notion of the role of social institutions and willingness to cooperate among parties involved in economic transactions” (p. 868).

In all human relationships, whether personal, professional or interorganizational, some elements are universal. Most notably, in all relationships there must be an element of trust and stability or

security. Both of these very basic instincts are not accounted for in transaction-based theories of the contracting relationship. Stewardship theory and relational contracting theories help to account for such impulses which cannot be ignored if one is to fully understand the relationship between contractor and vendor.

The structure of the contract-for-service relationship has a measure of inherent insecurity because the relationship is contingent and impermanent. Outside of the general worries about funding cuts, there is always a possibility that the contract will not be renewed next time around. From a public choice or market perspective, the threat of the contract not being renewed will motivate the vendor organization to provide quality decisions and to perform well according to contractor expectations. From a contractor perspective, this insecurity and contract renewal process ideally provides the contractor with a choice of vendors, all able and willing to perform the services, once given the contract. The presupposition of adequate competition is not always present in all areas, especially more rural, less populated areas (Van Slyke, 2003; Van Slyke, 2006). Even in areas where there is a competitive presence, there are indications that both contractors and vendors seek to work to create stable and longer-term relationships (De Hoog, 1984; Smith and Lipsky, 1993), and that reputation and prior history are determining factors in contract renewal and building trust (Lamothe and Lamothe, 2011; Van Slyke, 2006).

The reasons for this behavior can be interpreted in various ways. One interpretation intimates that the contractor and vendor work for secure and long-term relationships because it is in their best interest to do so. The relationship that is created can be beneficial for both in terms of power, resources and other support (De Hoog, 1984). Lamothe and Lamothe (2011), in their study of trust in local government-vendor relationships distinguish between this more transaction-based relationship view and a more a relational view. A relational view of the

relationship centers on the impact that trust can play on the relationship between contract and vendor. This interpretation also views the formation of stable, long-term relationships as beneficial to both contractor and vendor, but also emphasizes other socioemotional or psychological benefits (Lamothe and Lamothe, p. 868). Whether viewing the contract-vendor relationship from a more transaction based or relational view, one can determine that there is a tension between the realities and tendencies inherent in the contracted relationship that do not match up with the theoretical market-based assumptions that undergird the contract-for-services mechanism (De Hoog, 1984).

Issues of Trust and the Contract Relationship

Yamagishi and Yamagishi, in their theory of trust, discuss a tendency of human nature to seek commitment formation. This activity seeks to increase security, but at the same time decreases opportunity costs (Yamagishi and Yamagishi, 1994; Yamagishi, Cook and Watabe, 1998). These basic needs for security and stability also need to be met in organizational life (Oskarsson, Svensson and Oberg, 2009), and there are instincts towards commitment formation within the contracting relationship. In relational contracting literature, the formation of long-term contract relationships is a part of what is needed for trust and cooperation to develop (Amirkhanyan, Kim and Lambright, 2010). The market mechanisms inherent in the contract-for-services relationship do not acknowledge or support a need for security or stability.

Leadership and organizational literature (Fairholm and Fairholm, 2000; Spath, Werrbach and Pine, 2008) stress the importance of trust in healthy and productive relationships. Relationships, no matter their institutional or organizational constraints, are still fundamentally relationships between people. The constraints that are a part of the relationship impact the nature

of the relationship and the levels of trust, but it must not be dismissed that there is something very human occurring in the contracting relationship among the people themselves managing the contract as either contractor or vendor.

In practice, nonprofit vendors and contractors engage in efforts to promote stability and build trust when the relationship is viewed positively. Lamothe and Lamothe contribute very usefully to the literature in studying what matters in trust-formation by contractors in the contract relationship. They suggest “The concept of trust (between contracting governments and their vendors) is rising in importance as one of the central tenets of this type of governance. What is largely understudied in the midst of this increasing attention to the topic is identifying how and under what conditions trust is formed and sustained” (Lamothe and Lamothe, 2011, p.867). They also identify the need for further research to be done that examines determinants of trust of vendors towards contractors (p. 886). Others have explored the perceptions of public managers contracting with nonprofits to perform social services (Van Slyke, 2006; Feeney and Smith, 2008).

However, the perspective and perception of nonprofit decision makers (vendors) engaged in contracting relationships with the government has not been a significant focus of current research. One such condition that determines levels of trust is the propensity of the nonprofit vendor to trust. This paper will summarize the current literature and will propose a conceptual model of the relationship between an individual’s propensity to trust and their perception of the contract-vendor relationship.

Literature Review

Development of contract-for-services in social welfare

The US social welfare safety net is “diffused through every layer of government; partly public, partly private, partly mixed; incomplete and still not universal; defeating its own objectives, American welfare practice is incoherent and irrational” (Katz, 1986, p. ix). As the ‘contract for services’ mechanism of public-private partnerships in the delivery and provision of social services becomes ever more prominent, the nature of the social welfare safety net is fundamentally changed. The safety net that, for a majority of the 20th century, was dominated by the government’s central involvement is now even more so a reflection of what Katz describes in the earlier quote: a mixed, multi-level system that is not really much of a system at all.

The relationship between the government and the contracted agencies is often misunderstood by the general public and even those who are a part of it and is fraught with complexity inherent in interdependent, decentralized relationships (Salamon, 1995). Old models of bureaucratic management no longer jive with this new form of service delivery. The tasks of the public administrator change markedly in situations where the government depends on various private organizations to deliver services and is responsible only for managing, monitoring and evaluating contract performance (Cooper, 2003). All this is to suggest that the *modus operandi* of the social welfare system or network in the United States is still being determined as actors within and outside of the government respond to the changes to social service delivery.

Traditional social welfare narratives focus mainly on the role of the government in meeting the needs of the vulnerable and hail the expansion and development of the 1930s to the 1970s as positive and steps in the right direction towards a more civilized and compassionate society (Trattner, 1994; Jansson, 2009; Carlson-Thies, 2003). Although the impulses for smaller and different forms of social welfare delivery have always been present, the 1980s and the Reagan Administration result in an emergence of these ideas to the forefront of the discussion.

Similar to the impact of the New Deal, the period beginning in the 1980s is a primary era of significant impact on the United States social welfare institution. The perception at that time was of a social welfare system increasingly seen as over-generous, ineffective and inefficient, and primarily run by an intrusive federal government. Some of the more progressive overtures characterized by New Public Administration which argued for active advocacy for minority and oppressed people groups (Frederickson, 1971) were not met with support by all segments of society. The government, once viewed as a problem solver during the Great Depression, was now viewed by many as an unnecessary and ineffective intrusion into the lives of many Americans often doing more harm than good in social welfare. Indeed, even the perceptions of state administrators of state agencies receiving federal grants matched those of the general public. By the 1970s, eighty percent of agency heads surveyed agreed with the intrusiveness of the federal government (Cho and Wright, 2007, p. 108). President Reagan helped to generate and capitalize on the general sentiment with his stories of the manipulative, undeserving “welfare queen.” The federal government and a hierarchical bureaucracy were seen as both ineffective and out of sync with the values of many of the American people.

Traditional, progressive narratives mourn the coming of the 1980s and the conservative counterrevolution, considering it a serious setback in the progression of the evolutionary welfare state. Critics question this narrative and the general perception held by many in the 1980s, arguing that the federal government was working alongside and through state and local governments and nonprofits well before the 1980s (Salamon, 1995; Cho and Wright, 2001). A social welfare system built of local nonprofit organizations responding to their neighbors’ need is part of the American story made famous by de Tocqueville and continued on as part of what it means to be American. This story of America conflicts with the modernist, progressive

paradigm which advocated for a responsive and equitable state solution to problems of poverty and inequality (Smith and Lipsky, 1993). The history and development of the United States welfare state in the 20th century highlights these competing stories of America's relationship to its vulnerable people.

Thus, when the Reagan administration set forth on a program that sought to significantly reduce welfare spending, it also altered the way in which funding was distributed. States were given greater control of spending and administering programs and were given block grants that allowed for greater flexibility and accountability in program administration and expenses (Schneider & Netting, 1999). This "new federalism" or "devolution" beginning in the 1980s continues to add nuance to the discussion about who is responsible for caring for the poor and vulnerable. This policy era took direct aim at federal government involvement with social welfare, and profoundly weakened its direct role and its legitimacy in the governance of the new, emerging social welfare system. Even prior to the 1980s, others point out that scant attention was paid to the coinciding growth of the nonprofit sector provision of social welfare along with and alongside the growth of the federal government's involvement (Salamon, 1995; Kettl, 1993; Smith and Lipsky, 1993).

Salamon (1995) delivers this assessment:

"Between 1950 and 1980, a massive increase took place in the size and scope of America's private nonprofit sector...By the late 1970s, in fact, the private nonprofit sector had become the principal vehicle for the delivery of government-financed human services, and government had, correspondingly, become the principal source of nonprofit human service agency finance" (p. 1).

What Salamon clearly marks in his assessment is not only a significant growth in the nonprofit sector, but an altering of the relationship between the government and private sector social welfare agencies. Kettl (1988) attributes the growth of both sectors to the expanded role of government in society during the 20th century. “Such a large role, quite simply, is too big for any organization to handle on its own. The growing use of proxies thus has been a natural reaction to the growth of government programs” (Kettl, 1988, p. 7). Others suggest that this new form of government reflects of growing diversity and societal change, which has led to a more horizontal distribution of power among varied organizations (McGuire, 2006).

Milward and Provan (2000) and others employ a certain metaphor for this newer form of government involvement--*the hollow state*. The new role of the government has also been characterized by scholars as “government by proxy,” “third-party government,” or “indirect administration” (as cited by Kettl, 1998). Kettl (1988) describes the phenomenon as “intermediaries responsible for actually producing the goods or services—in place of direct administration of programs by the government” (p. 4). The major form of government by proxy is through *contracting for services*. The state contracts with a nonprofit vendor to perform the social services that it often once had performed directly. It is clear to see why contracting for services would appeal to cost-conscious policymakers as well as to proponents of innovation or localized solutions. Kettle (1993) offers that “Whether the aim is to reduce government or just to make it work better, reformers from very different ideologies have settled on a competition description that substitutes market for government control, that replaces command-and-control authority with competition” (p. 3).

Contracting for services indicates an introduction of market principles into the social welfare system. Milward and Provan provide a succinct summary of the development of this new form of government involvement in social welfare:

“Command and control mechanisms associated with bureaucracy are being replaced by much more complicated relationships for the delivery of health and human services.

Nonprofits, firms, and governments all play a role in the new world of devolved public policy. This means that public services are jointly produced.” (Milward & Provan, 2000, p. 359)

These complicated relationships and jointly produced services result in implications for management and performance that must be considered. As part of this new reality regarding the nature and role of the government, new public management has attempted to redefine the definition of public administration to include not only the governmental bureaucracy but also a broad and varied group of institutions and organizations, with multiple and varied relationships, all of which have an impact on the work of public administration (Frederickson & Smith, 2003). The term “*governance* is a more inclusive term, concerned with creating the conditions for ordered rule and collective action, often including agents in the private and nonprofit sectors as well as within the public sector” (Milward & Provan, 2000, p. 360).

The underlying assumptions in New Public Management (NPM) is that government is wasteful and inefficient, and that government should model and adopt management practices from the private sector. The movement, emerging in the late 1970s throughout the 1990s was “a global phenomenon that emphasized deregulation, decentralization, downsizing, and outsourcing (as contracting came to be known) as key components” (Cooper, 2003, p. 45). Osborne and Gaebler’s (1993) book *Reinventing Government* was profoundly influential in popularizing NPM

ideas, promoting a view of serving the “customers” of government, managing for results and performance-based management. These reinvention models reflect the market-orientation of NPM (Osborne and Gaebler, 1993; Denhardt and Denhardt, 2011). The Clinton Administration, led by Vice President Al Gore, developed the National Performance Review to reinvent a government that “works better and costs less” (Cooper, 2003; Denhardt and Denhardt, 2011; Kettl, 2000). The core principles of NPM include: flexibility, decentralization, innovation and market-orientation, among other similarly-themed principals (Denhardt and Denhardt, 2011, p. 17-18).

The NPM principles clearly indicate desire for greater flexibility and closer-to-the-ground management to help accomplish goals of efficiency and cost effectiveness. The NPM movement, which was popular around the world, originating in New Zealand and Australia, also clearly reflects the general political sentiments of the 1980s and 1990s—government is the problem, not the solution. The solution, then, is to reinvent government to adopt more business-like practices. Another contributing factor at this time is the realization that the centralized bureaucratic model embraced and assumed by public administration literature was no longer an accurate description of the way that the government is structured. The change to the structure of the government required a change in understanding management and governance, and that change came first via bottom-up pragmatism. Academics and intellectual justification for the changes came later (Denhardt and Denhardt, 2011; Kettl, 2000).

The NPM movement, with its emphasis on management and effectiveness and efficiency, harkens back to early public administration days. As Kettl and others point out, NPM emerged mainly from practitioners and managerial entrepreneurs. Osborne and Gaebler were not academics, but a journalist and a city manager. The academics who have advocated some of the

notions of NPM are less willing to adopt the idea that government become exactly like the private sector. Some place NPM within a greater understanding of the changing nature of governance, a reflection of the increasing public-private partnerships that are part of the managerial landscape (Frederickson and Smith, 2000; Kettl, 2000). This changing landscape requires different skills for managers. Denhardt and Denhardt (2011) advocate for a slightly different variation that includes an organizing principle for NPM—they call it the New Public Service “A set of ideas about the role of public administration in the governance system that places public service, democratic governance, and civic engagement at the center” (p. 24). Overall, public administration scholars have been less likely to engage fully with all of the ideas promoted in NPM.

NPM shares some of the same values with early public administrators with its emphasis on efficiency and effectiveness, but pushes further for flexibility, innovation and a quicker response to the problems of the people. The ability of a manager to do these things requires empowerment in the position to be able to create new programs and initiatives. The enduring legacy of NPM principles is yet to be determined (Lynn, 1998), but the movement has forced further discussion and scholarship around the changing role of management and public administration as a field in a more decentralized and interdependent environment (Cooper, 2003; Denhardt and Denhardt, 2011; Kettl, 1988; Kettl, 1993; Kettl, 2000; Milward and Provan, 2000; Milward and Provan, 1998; Salamon, 1995; Sidel, 1991).

Unique challenges in social services and the nonprofit sector

The increasing decentralization within government has had a special impact on social services. “By the late 1970s, in fact, the private nonprofit sector had become the principal

vehicle for the delivery of government-financed human services, and government had, correspondingly, become the principal source of nonprofit human service agency finance” (Salamon, 1995, p. 1). The relationship between social service and the public sector includes NPM-favored mechanisms like contracting out, of course, and performance-based measurement.

The difficulty for social services in this context is in the nature of the work that it is tasked to perform. First, the marketplace for available service providers can be less than robust. The contracts, then, may be arrived at by negotiation rather than competitive bidding, weakening one of the fundamental market principles in contracting (Van Slyke, 2006; Cooper, 2003). This reality of market imperfections increase the following: interdependence among contractors and vendors, boundaries between public and private continue to blur, the problem of absorbing uncertainties increases, contractors and vendors become coupled, conflicts of interest are inherent in the relationships, internal organizational cultures become more important than market incentives (Kettle, 1993, p. 179-197). Clearly, the theoretical assumptions made in contract-for-services do not hold up well when true competition cannot be achieved.

There are also certainly ethical concerns related to the effects of contract continuation or disruption on already at-risk and vulnerable clients. The clients have complicated problems and need varying levels of expertise and care; the policies and programs that guide social services can be ambiguous and even inconsistent. Funding can be unstable (Van Slyke, 2006). The goals or outcomes for social services are not as measurable as other types of government contracts where the contract depends on something tangible like a road project (Cooper, 2003; Kettle, 1993). Finally, normative concerns have been raised that question the appropriateness of contracted agencies representing the interests and actions of the state in social welfare (Smith and Lipsky, 1993); part of the misunderstanding that many feel when it comes to understanding

the social welfare system in the United States is in part due to the blurring of lines between public and private. Not only is it a concern that nonprofits act as representatives of the state, but there is also concern that nonprofits, as a mediating force between state and community, no longer can adequately represent the interests of the community and individuals to the state (Guo, 2007). An organization heavily dependent on government funding may be less likely to engage in basic advocacy or to pursue new programs that are outside of the interests of their primary funder.

Accountability is more difficult to oversee in the contracting relationship and actions to sanction misbehavior or low performance comes in the way of not renewing contracts—a delayed action that only seeks to solve the problem for the future. (Milward and Provan, 2000; Smith and Lipsky, 1993). Accountability measures like contracts and legal sanctions are part of monitoring, but to assume these are the only forms of accountability available is too narrow a focus (Dicke and Ott, 1999). Such concerns about the structure of contracting social service provision and the increasing interplay between public and private entities in the past half century ensure that this area remains ripe for further development of theory and further study of the impacts of contracts-for-services specifically and NPM more generally.

Networking theory contributions

In the past decade or more, numerous scholars contributed useful insights into the implications of social service contracting. Some have successfully used networking theory to gain insight into the management implications and individual and organizational behaviors that occur in the contracting relationship (Milward et al., 2009; Milward and Provan, 1998; Lambright, Mischen, and Laramee, 2010, Johnston and Romzek, 2008). Indeed, much insight

can be gained from looking at the contracting relationship through the theoretical lens of network theory. The behaviors and actions that contractors and vendors engage in in part because of the nature of the relationship are helpfully explained using concepts of collaboration, communication and relationship building found in networking literature. The term network refers to interconnected relationships, where power and resources are distributed and shared among multiple actors (Ansell, 2006). Interdependence among organizations is a key function within a network and requires new tasks for managing the interdependent relationships (Agranoff & McGuire, 1999).

The structural aspects of the contracting relationship lend itself well to being studied through a network framework. The theory provides analysis of the structure and interdependence of the relationship. It does not, however, yield insights into the individual motivations and attitudes of persons within the contracting relationship. For that type of analysis scholars have turned to two key management theories: principal-agent theory and stewardship theory; both attempt to explain the behavior and actions of individuals within a relationship. It is important to note that principal-agent and stewardship theory are not to be seen necessarily as two opposing theories, but perhaps are more appropriately seen as behaviors and characteristics along a continuum (Van Slyke, 1999; Davis, Schoorman, and Donaldson, 1997). Davis, Schoorman and Donaldson's (1997) model of stewardship theory assumes that managers choose to behave as either a steward or an agent. However, this is an assumption, and the authors readily invite further research efforts to explore "the interactions among the psychological mechanisms and situational factors and the relationship between trust and risk that each party is willing to assume" (p. 43). Exploring the nonprofit vendors' perception of the relationship and the relationship to their propensity to trust will shed further light into relationship factors that

impact the contracting relationship. Practically, both contracting agents and nonprofit organizations could use information on the impact of trust in the contracting relationship.

Principal-agent theory

Principal-agent theory is a popular contemporary theory that is based on the assumption that individuals or firms are self-interested, self-seeking and will behave in a way that maximizes benefits for one's own interests. This theory is based in economic analysis and assumptions found in rational choice theories (Frederickson and Smith, 2003, p. 37-39). Two key assumptions in Principal-Agent Theory (sometimes called Agency Theory) is first, that there are conflicting goals between principal and agent (goal incongruence); secondly, "agents have more information than principals, which agents can exploit for self-gain rather than for the collective interests of the contracting parties leading to moral hazard problems" (Van Slyke, 2006, p. 162). In order to manage these assumed problems within the relationship, the principal-agent theory suggests employment of incentive or sanctions to monitor efforts of the agent. The monitoring and creation of incentives in order to encourage good performance supports the principles in New Public Management. The monitoring mechanisms attempt to solve accountability problems within the contracting relationship (Kettle, 1993, 2000; Van Slyke, 2003; Lambright, 2008). To summarize, two key tenets of principal-agent theory is goal incongruence, and the use of incentives and sanctions to motivate and monitor behaviors.

Principal-agent theory has been critiqued as not being able to account for all factors that influence managerial behaviors, especially in the contract-for-services relationships. Van Slyke (2006) summarizes these criticisms well. The first is a fundamental question about the orientation about what it means to be human in relationship with others. The theory

characterizes people negatively, as self-seeking and focused on issues of wealth and power. This focus ignores commitment to mission, pride and loyalty and other aspects of being human that have been shown to be important. Second main criticism is that the theory does not account for the possibility of evolving behavior in the relationship as time goes by and trust is established. Van Slyke's (2006) own work on this shows that the relationships evolve over time due to contextual factors. A final criticism of agency theory is that "is an inappropriate framework for contractual services that are not easily measured or observed" (Van Slyke, 2006, p. 163). The nature of social services contracts are more difficult to measure due to the nature of the tasks needing to be performed as discussed earlier. Principal-agent theory continues to be widely used in order to understand how principals and agents behave in relation to one another and how they respond to various incentives. The criticisms mentioned above have lead scholars, most notably David Van Slyke, to introduce the stewardship theory framework to help understand the contracting relationship.

Stewardship theory

Van Slyke, in his valuable work on the relationship between public and private organizations in social service contracting finds that there are elements of agency theory at play in contracting relationships but that over time the relationship evolves towards a principal-steward relationship (Van Slyke , 2006). The primary difference between principal-agent and stewardship theory is that the individual is not assumed to be self-interested, but rather is willing and able to identify with the interests of the organization. The steward works for organizational success, rather than individual success—although sometimes these can be the same thing. In

contracting relationships, goal alignment would be between the individual and the organization it represents and the goals of the contracting agency.

“Empowering governance structures and mechanisms are appropriate” in stewardship relationships because the steward can be trusted to work towards accomplishing goals shared by the contracting agency and the nonprofit vendor (Davis, Schoorman, and Donaldson, 1997, p. 27). Instead of incentives or sanctions, which are extrinsic forms of motivation, Stewardship Theory focuses on intrinsic forms of motivation such as self-efficacy, self-determinism, and feelings of purpose. “Trust relationships are central to instilling in followers a sense of personal capacity that is the essence of empowerment, and a part of a trust culture includes building ownership relationship” (Fairholm, 1994, p #). Individuals should be given personal power, which is given in relationship with one another, and the individual should be given control to manage and meet challenges. This involvement-oriented approach is seen to be especially beneficial in situations where there is instability (Davis, Schoorman, and Donaldson, 1997). The control given to the individuals also encourages flexible, more accurate responses and a flattened hierarchy, which are important tenets of New Public Management (Block, 1993; Osborne and Gaebler, 1992).

These aspects of empowerment, along with goal alignment, are two key tenets of stewardship theory. The comparisons between principal-agent and stewardship theory are inevitable, but scholars insist that these two theories do not necessarily stand in opposition to one another. The following table provides description about some of the differences between the two theories:

[FIGURE 1.1]

Comparison of Agency Theory and Stewardship Theory

	Agency Theory	Stewardship Theory
<i>Model of Man</i>	Economic man	Self-actualizing man
<i>Behavior</i>	Self-serving	Collective serving
Psychological Mechanisms		
<i>Motivation</i>	Lower order/economic needs (physiological, security, economic)	Higher order needs (growth, achievement, self-actualization)
<i>Social Comparison</i>	Extrinsic	Intrinsic
<i>Identification</i>	Other managers	Principal
<i>Power</i>	Low value commitment	High value commitment
	Institutional (legitimate, coercive, reward)	Personal (expert, referent)
Situational Mechanisms		
<i>Management Philosophy</i>	Control oriented	Involvement oriented
<i>Risk orientation</i>	Control mechanisms	Trust
<i>Time frame</i>	Short term	Long Term
<i>Objective</i>	Cost control	Performance Enhancement
<i>Cultural Differences</i>	Individualism	Collectivism
	High power distance	Low power distance

Source: Davis, Schoorman, and Donaldson's Comparison of Agency Theory and Stewardship Theory (1997).

Both theories attempt to explain managerial motivation and behavior, and stewardship provides insight into complex relationships, deriving insights from psychological and sociological theories. The psychological and sociological needs of the individual are foundational in the stewardship theory. In Davis, Schoorman, and Donaldson's advocacy for a stewardship theory of management, they identify their assumption that individual's *choose* to behave as either an agent or a steward. There is some support that speaks to a psychological predisposition to behave one way over the other, while also recognizing that the situational factors are influential as well (Davis, Schoorman, and Donaldson, 1997; Lambright, 2008).

Finally, trust is seen as central in both theories. In Principal-Agent theory, trust is placed in the integrity of the contract, while in Stewardship Theory trust is between people in relationship with one another. For the contracting relationship, then, building trust between the contracting agent and nonprofit manager would be expected to influence performance in a positive manner.

Centrality of trust

Trust is a central component in any relationship. “Trust is a risk relationship, but a necessary one. When we trust another person it places us at some risk of loss of control” (Fairholm, 1994, p. 96). High trust cultures in organizations involve individuals choosing to follow the leadership, whereas “low trust cultures reduce the willingness of members to follow. Therefore, these low trust cultures necessitate use of control mechanisms” (p. 96). High trust cultures are characteristic of Stewardship relationships and the low trust cultures are more characteristic of the principal-agent approach of the contracting relationship. Therefore, if an individual is more likely to trust, he or she is more likely to engage in stewardship behaviors and perceptions. Indeed, if the individual perceives power asymmetries, there is a negative impact on the level of trust in the relationship (Oskarsson, Svensson, and Oberg, 2009). Organizational and relationship constraints are also found to influence levels of trust (Oskarsson, Svensson, and Oberg, 2009; Lambright, Mischen, and Laramée, 2009). Indeed, trust is an essential part of relationship success and is especially important in relationships that function more as networks rather than hierarchically (Lambright, Mischen, and Laramée, 2009). Given the decentralized and interdependent nature of the contracting relationship, it is important to recognize the integral role that trust must play in the contract relationship.

Given the centrality of trust in relationships, more research is needed to understand where and in what conditions trust is built in the contracting relationship. Research findings show that the length of relationship and other factors like reputation factor into the levels of trust built and the type of managerial behaviors one employs (Van Slyke, 2006; Lambright, Mischen, and Laramee, 2009; Lamothe and Lamothe, 2011).

Yamagishi and Yamagishi (1994) and other related works on trust distinguish between the cognitive bias to trust or to be cautious, and separate this from the trust that is built over time due to interaction, information and reputation. It should not be assumed that all individuals exhibit the same propensity towards trust. With trust playing a central role in stewardship theory in particular, it is likely that a person more prone to trust would view the relationship through the stewardship lens, whereas a person more prone to a sense of caution (low trust) would be more likely to view the relationship to the more distrustful lens of the principal-agent theory. Although not all outside and contextual factors can be controlled for, it is worthwhile to explore how the propensity or bias to trust influences the relationship perception of the nonprofit manager.

Conceptual Model

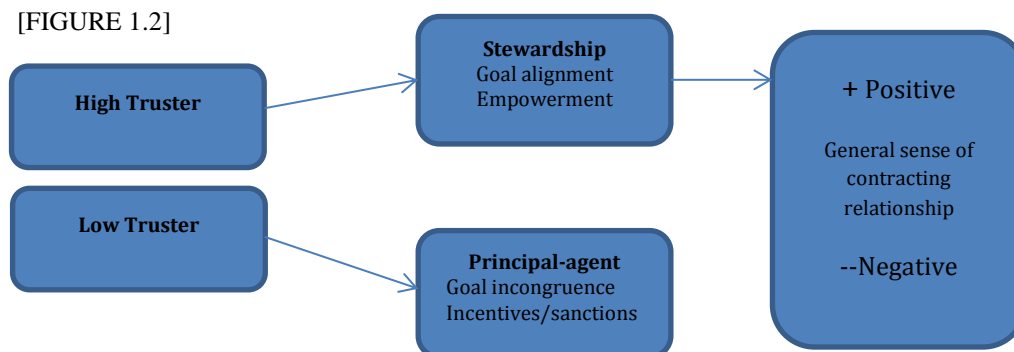
The following work will work to establish a conceptual model that can be tested in future research efforts. As mentioned earlier, very little research has been done in gaining insight into nonprofit managers that are engaged in the contracting relationship. Contracts-for-service relationships include many moving parts, one of which is the perception and approach that the nonprofit manager employs in the relationship. The view of the manager, which is influenced by their natural inclination to trust or be more cautious, provides insight into which type of manager might be best suited for contract administration. Especially in the contract-for-services

relationship which includes inherent insecurity the propensity of a nonprofit manager to trust or not could be impacting how the manager behaves within the organization and in dealings with the contracting agency.

Scholars have already undertaken the task of outlining elements of what a contracting relationship can and should include when approaching the relationship from Stewardship and Principal-Agent approaches to these relationships. Indeed, findings suggest that often there are elements of both depending on factors like length of relationship, reputation, etc. (Lamothe and Lamothe, 2011; Lambright, 2008; Van Slyke, 2006). Scant attention has been paid thus far on the impact of the individual nonprofit decision maker's approach and perception of the contract relationship. If the contract relationship is impacted by factors such as reputation and prior history, it stands to reason that the ability and willingness of the nonprofit manager to establish a positive and trusting relationship with the contracting agency would be of use to organizations seeking contracts. Indeed, the attention given to relational contracting also indicates a direction in the field to explore contracts that are based less on economic and transactional assumptions and focus more on elements of relationship building like trust and empowerment.

Given the importance of trust in relationships established by previous research, it is prudent to explore how and if the likeliness to trust impacts how a nonprofit decision maker views the relationship with the contractor. Figure 1.1 displays a concept map of the hypothetical relationship between the independent variable and dependent variables of interest:

[FIGURE 1.2]





The independent variable is the level of trust as determined by the Yamagishi and Yamigishi General Trust scale and the Trust scale (honesty and risk) by Yamigishi and Sato. The dependent variables are goal alignment, empowerment, goal incongruence, incentives/sanctions, and general sense of relationship.

Variable definitions

The conceptual model variables have been developed from unique theoretical tenets from both theories. The following table, from Van Slyke (1999), highlights how relationships are viewed from each theory.

[FIGURE 1.3]

	Agency Theory	Stewardship Theory
Main Theme	Goal Incongruence: Assumes goal divergence based on self-interested rational actors. Control-oriented management philosophy.	Goal Alignment: mutual goals and objectives. Emphasis in on organizational behavior. Involvement-oriented management philosophy.
Theoretical Tenets	use of incentives and sanctions to foster goal alignment: <ul style="list-style-type: none"> • assign risk to the agent to ensure • goal compliance • monitoring • reward systems • use of bonding threat to reputation 	empowers workers through: <ul style="list-style-type: none"> • responsibility • autonomy • shared culture & norms • personal power and trust • other governance mechanisms
Applications	<ul style="list-style-type: none"> • eliminate opportunistic behavior • provide the level of incentives and sanctions which reduces the threat of information asymmetry • correct, through specific contract requirements, for asset specificity and moral hazard • ensure goal alignment • uses reputation as an incentive and sanction 	<ul style="list-style-type: none"> • goal alignment based on shared goals and trust • reward workers through non-pecuniary mechanisms • reduces the threat of opportunistic behavior through responsibility and autonomy • reduces the threat to the organization of information asymmetries, moral hazard, and asset specificity • reduces dependence on legal contracts to enforce behavior • uses reputation as an incentive and sanction

Goal alignment is the extent to which the goals of the nonprofit and the contract match or are the same. This can also include a sense by the nonprofit manager that the goals of the

contract are the goals which they strive to achieve, which is in line with the literature on Stewardship Theory (Block, 1993; Davis, Schoorman, and Donaldson, 1997).

Empowerment is defined as “the mindset that tells us that we have within ourselves the authority to act and to speak and to serve clients and those around us...that we have the right to define purpose...that we commit ourselves” (Block, 1993, p. 36) to the work at hand. Davis, Schnoorman, and Donaldson (1997) discuss this also in terms of personal power. The individual is trusted to be an expert in their position, and is given power to operate in such a way, within appropriate bounds.

Goal incongruence refers to the conflict of the contracting agency and the contract and the goals of the nonprofit manager and the organization. This variable is foundational to the self-interest and self-seeking assumptions in Principal-Agent Theory; goal conflict is foundational to the theory that places the principal and agent at odds with one another.

Incentives and sanctions are extrinsic motivators that seek to control or monitor behavior and performance of the agent (nonprofit manager). The incentives and sanctions are viewed as a form of control and assumes that the manager’s behavior can be manipulated and controlled through various behavioral interventions.

The *general sense of relationship* refers to the overall sense, positive or negative of the relationship, and the sense of stability or security that one has in the relationship. The overall sense of the relationship is useful to know and understand when analyzing other variables as listed above.

Using this conceptual model as guide, two main hypotheses that can be tested in future research efforts: *H1: Nonprofit vendor managers who report higher levels of general trust in*

people will be more likely to interpret the contractor-vendor relationship through stewardship theory. Trust is a central component in stewardship theory; the participant identifies with the goals of the organization (or in this case the goals of the contract and contracting agency). The identification of shared goals along with feeling empowered and trusted to do one's job are essential elements of a trusting relationship. Those more likely to trust and view the world from a posture of trust will be likely to extend this view same outlook to the contracting relationship.

Likewise, the nonprofit decision maker who views the world from a posture of caution and distrustfulness will carry this view to the contracting relationship: *H2: Nonprofit vendor manager who report lower levels of trust/sense of caution will be more likely to interpret the contractor-vendor relationship through principal-agent theory.* The assumptions of traditional contracting theory with the emphasis on competition and performance more closely align with this second hypothesis. The focus is on opportunity taking, seeking ways to continue the relationship, and working to advance the goals of the nonprofit organization. These actions in and of themselves are not necessarily self-seeking behaviors but the role of the sense of partnership and trusting and being trusted is minimal in this theoretical approach. Nonprofit decision makers that approach the world with a sense of caution are more likely to be averse to taking risks in relationships would be more likely to approach the relationship that aligns more closely with principal-agent characteristics.

Certainly, there are factors like time and reputation that influence the level of trust in a relationship (Van Slyke, 2006; Lamothe and Lamothe, 2011; Davis, Schoorman, and Donaldson, 1997b). However, it still stands to predict that those who are more likely to trust will be more likely to report higher levels of trust towards the contractor and contract project of which they are a part. It is outside the purview of this research project to be able identify all factors that

influence trust. The focus here is on how a nonprofit manager's propensity to trust influences their perception of the contract-for-services relationship and also to explore the usefulness of stewardship and principal-agent theory explanations of the relationship.

Conclusion

Research efforts will be undertaken to examine the impact of trust on perceptions of the contracting relationship by nonprofit decision makers. The research findings will be shared in academic and practice settings. The results of this research will help Public Administration practice by contributing to a better understanding of the nature of contracting out relationships. The results may underscore the centrality of trust in relationships, and therefore will require the addition of trust variables into practical approach, application and understanding of the relationship as it exists between contractor and nonprofit decision maker.

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