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Competing for What?

Linking Competition to Performance in Social Service Contracting

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This article explores the links between competition and contractor performance often assumed by market theory. Using data from Florida social service contracting, the authors test to see if competitively procured vendors outperform their noncompetitive peers regarding adherence to contract terms. It is found that, contrary to market theory, this is not the case. It is also found that district management capacity is positively related to performance and the performance of nonprofit vendors is indistinguishable from for-profits (whereas both appear to be outperformed by other government contractors). Finally, this study finds little evidence that performance or competition is related to the likelihood of maintaining contracts.

Keywords: *competition; contract performance; management capacity*

According to privatization supporters, the injection of market-like competition into public service production can serve as a remedy to government monopoly and improve efficiency because competition forces vendors to be responsive to buyers' preferences and bid close to their true production costs to win contracts (DeHoog, 1984; Kettl, 1993). Privatization advocates have also argued that improvements in quality can be garnered through competitive contracting (Osborne & Gaebler, 1992; Savas, 1987, 2000). This is because vendors, fearing the loss of their contracts, have incentives to produce the best possible product. Past research has tended to support the "efficiency" hypothesis, although the magnitude and universality of the savings are in dispute (Hodge, 1999; Jensen & Stonecash, 2005). Moreover, supportive findings are mostly confined to hard services, such as building maintenance, refuse collection, and janitorial services (Domberger, Hall, & Li, 1995; Domberger, Jensen, & Stonecash, 2002) as opposed to soft services, such as child protective services. Empirical evidence for the "quality" hypothesis is, to our knowledge, somewhat scant.

Although an emphasis on market advantages through competition is also a frequent rationale for privatizing human services (DeHoog, 1984; Kettl, 1993; Schlesinger, Dorward, & Pulice, 1986; Van Slyke, 2003), testing market theory–based efficiency and quality propositions is even rarer in the social service contracting literature. The majority of past studies have examined competition, not as an exogenous variable influencing the efficiency and effectiveness of service production but as an endogenous factor influenced by various

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market, organizational, and political conditions. The dominant findings from these studies are that competition is generally rare to nonexistent in human service contracting mainly because markets are weak, services are difficult to evaluate, public managers and vendors engage in relational contracting, government management capacities are insufficient, or nonprofit service providers discourage competition through their political influence (DeHoog, 1984; Donahue, 1989; Johnston & Romzek, 1999; Schlesinger et al., 1986; Smith & Lipsky, 1993; Van Slyke, 2003). On the other hand, previous studies seldom examined the direct linkages between competition and cost savings or service quality to see whether competition, if present, produces better results and competitive market forces enhance accountability in delivering public services. This type of investigation is important because it straightforwardly tests one of the main underlying assumptions of market theory—capitalizing on the competitive marketplace can improve government service delivery—which has been termed the *competition prescription* by Kettl (1993).

A recent study by Fernandez (2007) did examine the determinants of successful contract performance using data on 439 locally produced hard and soft services in a variety of jurisdictions throughout the United States. This scholar found that his measures of competition (the number of bidders and whether public employees were allowed to submit bids) were generally not associated with performance. Somewhat surprisingly, he also found evidence that greater numbers of bidders were negatively related to performance in the jurisdictions identified as having the most successful contracting relationships. But, because this analysis did not control for the types of services rendered, its applicability to social service contracting is in question.

However, there is some evidence that competition might actually be counterproductive with regards to quality in social service contracting. In a case study of mental health care in Massachusetts, Schlesinger et al. (1986) argue that competition can be disruptive in that "effective competition depends on the potential for switching programs and clients from one provider to another. This ideal conflicts, however, with the goal of maintaining continuity of care" (p. 250). A later study by Milward and Provan (2000; see also Provan & Milward, 1995), comes to a similar conclusion. These authors examine the impact of competition on the functioning of social service provider networks in four cities and find a negative relationship between competition and network performance. Their key discovery mirrors Schlesinger et al.'s—the very nature of competition can hinder, rather than promote, good performance, as the networks are frequently disrupted by vendor turnover resulting in the introduction of new learning curves.

Building on Milward and Provan (2000), but focusing on dyadic contractual relationships between government and vendors rather than networks, which is a more common form of contracting, this study examines whether competitively selected vendors outperform noncompetitive ones and whether competition is indeed an effective means to ensure accountability. Additionally, we explore other factors such as management capacity and vendor type that may play roles in determining contracting results.

The public management literature recognizes the management capacity of a contracting agency as a critical and necessary component for successful contracting (Brown & Potoski, 2003a, 2006; Gansler, 2002; Johnston & Romzek, 1999; Kelman, 2002; Van Slyke, 2003). Interestingly, there is evidence that privatization efforts tend to be accompanied by a weakening rather than an enhancing of management capacity (Van Slyke, 2003). We investigate

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how the contracting agency's internal capacity affects the quality of privatization and empirically test whether management capacity is more or less influential than market forces in securing better contract performance.

Additionally, certain vendor types are argued to be more or less positively associated with contract performance. For example, Savas (2002) argues that for-profit vendors are superior because their profit motives strongly incentivize good performance whereas other scholars emphasize the existence of goal congruence between the government and nonprofit providers and, thus, expect better performance from nonprofit vendors (see, e.g., Weisbrod, 1977). We test to see which theory better explains contract performance. We also include in our analytical models a variety of other circumstantial factors such as contract size, occurrence of recent contracting reform, sociodemographic characteristics reflecting regional market conditions, and variations in management structure among jurisdictions to mitigate potential confounding factors and ensure the rigor of our analyses. It should be noted that we focus on testing the quality hypothesis (in terms of contract compliance) to see whether competition leads to better contract performance, but not the efficiency hypothesis simply because, as will be expanded on below, price is seldom a deciding factor in vendor selection when the government of Florida purchases human services. Therefore, seeking an answer to whether cost savings are achieved through competitive markets is less appropriate in this context.

Unique contracting data obtained from Florida's largest human service agency running from fiscal year (FY) 2003 through 2005 are used for testing two models: the performance model and the vendor turnover model. The former examines what factors determine contract performance. As stated previously, the main research concern is to directly test the competition–performance connection. The latter, the turnover model, is supplemental to the first analysis. We want to see whether competitively procured vendors are more likely to lose their contracts and if this likelihood is conditioned on performance.

Our results indicate that competition is not a decisive force that drives vendor performance, but it does appear to be somewhat related to turnover. Whether vendors are nonprofits or for-profit firms also does not seem to matter much. Meanwhile, the important role for internal management capacity in ensuring effective contracting is confirmed. To a degree, our findings suggest there might be inherent limitations regarding the efficacy of market mechanisms, such as competitive tendering, in the area of human service contracting. Although competitive bidding may reveal valuable information regarding service packages and prices, in the ambiguous environment of social service contracting, these concerns may be trumped by more subtle concerns such as capacity and reliability. It is not clear that competitive bidding processes are likely to provide better information in this regard as these traits are often revealed through history and reputation, which may be just as available and used in noncompetitive procurements. Effectively managing contracts, as opposed to simply choosing good vendors through competitive processes, is necessary, as achieving good outcomes requires ongoing coordination and communication efforts on the part of contracting governments.

In the following sections, we first review the factors and circumstances affecting contract performance as identified in the literature. We then detail some aspects of Florida human service contracting processes to facilitate an understanding of the potential factors affecting contract performance. This is followed by two sections that provide discussions

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of the models, analyses, and findings. The last section offers the summary of findings and discussions of policy implications.

Theoretical Underpinnings

Market theory posits a simple, straightforward connection between competition and contract performance. It contends that competition should be associated with higher levels of contract performance as it forces good behavior by vendors to enhance their chances for survival and prosperity (Osborne & Gaebler, 1992; Savas, 1987, 2000). It is implicitly assumed that bad behavior will be identified and sanctioned and that superior performance will be recognized and rewarded. There have been two primary modes of attack on this line of reasoning regarding social service contracting.

Schlesinger et al. (1986) and Milward and Provan (2000, see also Provan & Milward 1995) challenge the alleged competition–performance connection directly. They argue that competition, rather than being a stimulant of efficiency and good performance, is actually a detriment. Milward and Provan (2000), in particular, posit this to be the case because the high vendor turnover associated with competitive markets disrupts the stability of provider networks. Costs generated from the loss of coordination among service providers and the introduction of new learning curves may exceed the marginal benefits obtained through competition. Van Slyke (2007) also reexamines the assumption of the traditional contracting model based on the market theory of competition. He points out that vendors might have very different mindsets than theory assumes—thinking of themselves as stewards of the public good rather than self-interested actors prone to opportunism. As such, noncompetitive, but cooperative, relationships might spur better performance than adversarial, market-based approaches. Poppo and Zenger (2002) further argue that the formal aspects commonly associated with typical market contracting can inhibit rather than strengthen performance because they signal distrust and work against the formation of cooperative relationships.

The second line of criticism does not so much attack the role of competition as point out that its ability to promote efficiency and performance might be overstated because social service contracting is inherently more ambiguous than contracting for hard services. Scholars in this arena explore what constitute ideal conditions for competition to work. To reap the benefit of competition, Kettl (1993) points out that governments should be smart buyers that know exactly what is wanted and what evaluation criteria should be used to select the best vendors. DeHoog (1984) further elaborates the conditions that are critical in making competition work. In addition to clearly knowing their own preferences and tools to evaluate vendors, she argues that governments must actively promote competitive procurement processes, make rational decisions to select the best vendors, and continually oversee contractor compliance and performance to get what is paid for (see also Donahue, 1986; Sclar, 2000). Although these are not sufficient conditions to guarantee better contractor performance, they are critical and necessary steps to make competitive contracting processes more effective and thus likely to improve contract results and performance.

Building on the idea that governments must be smart buyers, the literature on management capacity highlights the importance of organizational capacity and managerial competence in making outsourcing effective (Brudney, Fernandez, Ryu, & Wright, 2005; DeHoog,

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1984; Hefetz & Warner, 2004; Moe, 1996; Rainey, 2003; Sclar, 2000; Wise, 1997). However, scholarly attention to the importance of management in this regard is only a relatively recent phenomenon and, thus, there is no consensus on exactly what managerial components are critical for successful contracting. Additionally, management is often seen as a fluid concept that cannot be clearly and neatly defined. Nonetheless, substantial efforts have been made in terms of trying to identify the core components of management capacity. For example, Brown and Potoski (2003a) recognize three specific aspects they feel are related to a government's ability to effectively manage vendors. They are (a) feasibility assessment capacity to properly determine whether to make or buy, (b) implementation capacity to effectively execute and manage contracts, and (c) evaluation capacity to accurately and thoroughly evaluate contract performance to ensure accountability. A more nuanced, and more difficult to operationalize, set of criteria are forwarded by Ingraham, Joyce, and Donahue (2003), who identify four "levers" they argue determine the level of management capacity. First, the character of the government's management systems "is fundamentally dependent on the nature of its administrative infrastructure and technology" (p. 16). A key concern here is how the government gathers, organizes, and uses information. Second, Ingraham et al. focus on leadership, which they see as influencing the management system by setting priorities and coordinating activities. Third, these authors highlight the importance of integrating and aligning management systems into unified and cohesive wholes. The presumption is that good management depends "on the extent to which . . . management systems operate according to consistent objectives, are mutually supporting, and are well coordinated" (p. 20). Finally, Ingraham et al. posit that "(a)nother key factor that influences management effectiveness is the degree to which an explicit system of managing for results is present and in use by the government" (p. 22). Hence, the extents to which objectives and performance measures are clearly delineated and performance is monitored are crucial.

Related to the arguments regarding performance, is the concern of accountability—poorly performing contractors must be sanctioned in some way. The ultimate method of accountability is to strip vendors of their contracts when performance is inadequate. A corollary of market theory, therefore, would seem to be that vendor turnover should be higher when contracts are awarded through competitive means because competition allows government to replace providers more easily when expectations are not met. However, it is possible that the accountability gap between competitive and noncompetitive contracting could be far smaller than what market theory predicts. This is particularly true in social service contracting where measuring results and outcomes can be quite challenging (Ferris & Graddy, 1986; Smith & Lipsky, 1993). Thus, distinguishing between good, mediocre, and inferior performers may not be as simple as it sounds. Additionally, terminating contracts and reopening competitive bidding procedures necessarily entail increasing transaction costs, which might deter use of this form of accountability.

Human Service Contracting in Florida

Outsourcing human services has been both widespread and extensive in the state of Florida. As of October 1, 2006, the Florida Department of Children and Families (DCF)

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had 966 contracts with an annualized value of $1.3 billion and a total (including multiyear commitments) value of $3.8 billion (Florida Legislature, 2006, p. 2). The main programs and services provided by the agency include child protection and welfare, mental health and substance abuse treatment and prevention, developmental disabilities, adult services, economic self-sufficiency, and health services.

In our search for competition–performance connections, examining Florida cases has particular advantages. First, relatively sizable portions of the DCF human service contracts are competitively procured (13% in our sample). "Requests for proposal" (RFPs) and "invitations to negotiate" (ITNs) are the most commonly used methods to solicit potential vendors and usually contain fairly specific and sophisticated sets of criteria by which bidders are evaluated. Vendors are assessed and ranked by explicit scoring and weighting systems. In short, competitive solicitation methods used by the Florida agency seem to genuinely meet the "smart buyer" conditions suggested by Kettl (1993). Nevertheless, most contracts are noncompetitively procured although use of competitive procedures has increased recently (see Lamothe & Lamothe, 2009). This mixture of competitive and noncompetitive procurement practices provides a great opportunity to observe their differing effects on contract performance. Second, the DCF had fairly decentralized contract management structures at the time of the study. This allows us to examine the potential impacts of varying degrees of district management capacity levels on contract effectiveness. Third, during the 2003 and 2004 fiscal years, the DCF collected semiquantified contract monitoring data, which enable us to link procurement methods to contract performance and compliance. This provides us a rare chance to directly test whether competitively recruited vendors outperform noncompetitive contractors.

In the following sections, we elaborate on some of the details of the DCF procurement process, district management, and differing types of vendor utilization to provide substantive background information about Florida's human service contracting practices before moving onto the construction of the analytical models.

Competitive Versus Noncompetitive Vendor Selection Processes

The Florida legislature recognizes, at least in its statutory language, the merits of competitive procurement and encourages all state agencies to utilize competitive bidding process whenever purchasing goods and services.[1] Specifically, the law requires that procurements greater than $25,000 be acquired in a competitive manner. A commonly used competitive sourcing method is the "invitation to bid" (ITB) where the bidding price is the most important, and often the only, decision criterion to be used in vendor selection. The contents of services and how they should be delivered are specified in great detail and with such clarity by the service purchasing government that the price per service unit is generally regarded as the best indicator for choosing high-quality vendors. Competitive sourcing is likely quite beneficial in terms of cost savings under such circumstances.

In the area of human services, however, the benefits accompanying competitive procurement can be less distinctive. ITBs are seldom used in Florida for human services contracting. Rather, as mentioned above, RFPs and ITNs are the primary competitive solicitation methods for these types of services. For both RFPs and ITNs, price is not the most important factor in awarding contracts (Florida Department of Children and Families, 2007). In

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fact, price is often not a major concern, at least in the initial vendor selection process, because the department often predetermines service unit costs and thus leaves little room for vendors to negotiate.[2] Sometimes the agency reimburses service delivery costs incurred by vendors within allowable funding levels once contracts are awarded and executed. Common vendor evaluation criteria that are given serious consideration under competition, therefore, have little to do with bidding prices, but have a lot to do with vendors' organizational capacities and programmatic competences. More specifically, RFPs typically include program goals, types of service tasks to be performed, approximate amount and frequency of services to be rendered, the characteristics of clients to be served and eligibility criteria, and the level and qualification of staffing by which bidders are to be evaluated.

ITNs are used only when RFPs are not practical due to rapidly emerging technologies or complexities involved in the services. The department initially solicits bidders based only on broad and general descriptions about the services it seeks to purchase and program outcomes it hopes to achieve. In the first round of evaluation, bidders are broadly assessed based on their qualifications, with emphasis placed on organizational, financial, and staffing capabilities. Only then, the agency requests vendors who make the short list to submit detailed program and service implementation proposals. Specifics about deliverables, contract terms and conditions, cost allocation plans, and other program and administrative aspects are heavily negotiated during ITN bidding processes.

Meanwhile, the most commonly used noncompetitive sourcing methods are "regulated exemptions" specifically listed in the Florida Statutes.[3] Although DCF's policy is to still promote competitive procurement in these instances, statute acknowledges the difficulties that can be encountered and provides legal justifications for noncompetitive processes. The services most frequently purchased through exemptions include mental health and substance abuse prevention programs operated by nonprofit entities, Medicaid health services, nonprofit family and adoption placement programs, and legal services. In fact, the majority of human services provided by DCF are purchased under these exemption categories.[4] For noncompetitive procurement, the vendor selection process is not as objective and rigorous as when purchasing is done competitively. There is no established set of criteria to evaluate vendor qualifications. However, procurement officers are required to document and demonstrate why certain vendors are chosen for the job. One of the most commonly used justifications for noncompetition is the agency's long-term contractual relationship with incumbents. It is not uncommon for these contractors to maintain long running, mutually dependent relationships with the agency because they are well known, reputable, have capacity, maintain good connections with other related service providers, and demonstrate proven records of performance. Many of these traits considered for noncompetitive vendor selection are not fundamentally different from those used in competitive sourcing because, as discussed previously, the DCF managers consider programmatic competence and reliability as more important than price. Moreover, when evaluation criteria are highly qualitative in nature and broadly defined to capture the core traits of vendors, competitive standards might not sharply diverge from noncompetitive standards.

Contract Management Capacity

The Florida DCF had a highly decentralized organizational structure at the time of this study although a trend toward more centralized contract management had already begun.

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DCF consisted of 13 districts and one region where the heads of each district or region had considerable discretion over carrying out their contracting business. Frustrations over the fragmented and inconsistent contracting practices that grew among both public managers at the headquarters and vendors in the districts led to increasing demands for a more centralized and standardized contract management system.[5] In 1998, just prior to the advent of the Jeb Bush administration, which pushed privatization with great force, the Office of Contracted Client Services was created in the DCF headquarters to provide coordinated, statewide contract support functions. The office consists of two functional units: administration and operations. The administrative unit develops statewide operating procedures for contract procurement and management, writes standard contract documents and model attachments for major program contracts, issues policy directives that uniformly interpret contract related laws and regulations on behalf of the districts, informs the districts of major federal and state policy changes affecting contracts, develops statewide monitoring policies and procedures, and gathers quasi-quantified monitoring results. The operations unit provides technical assistance to the districts on an as-needed basis when district contracts are solicited, negotiated, processed, managed, and monitored.

Although the agency's desire and efforts to implement more uniform policies brought some consistency and predictability to the state contracting system, considerable variation existed at the district level in terms of organizational arrangement, leadership, staff expertise and experience, and the degree of integration and coordination among supporting units in managing contracts during the timeframe of our research. Some districts had better reputations and credibility in these regards than others. A number of districts had fully integrated contracting units where contract managers, monitors, auditing teams, and contract processing staff all reported to their contract administrators who oversaw overall contracting processes and then reported to district administrators. Such integrated systems have advantages over dispersed systems, which have no locus of contract management and control because they are able to administer and execute contracts more seamlessly and with fewer technical and administrative glitches.

Contract administrators' leadership is also an important factor affecting overall management effectiveness. Even under the scattered systems (e.g., contract managers belonging to program offices and contract administrators and monitoring staff directly reporting to district administrators), some districts managed better than others because they happened to have skillful and experienced contracting staff who knew how to navigate through fragmented systems to get things done. Given the complexity involved in administering, executing, managing, and overseeing social service contracts, contracting staff who have substantial knowledge and technical expertise in state and federal funding requirements, laws and regulations dictating program content, standard contract terms and conditions clauses, and so on, could be a critical factor in determining contract management proficiency.

Vendor Type

There are three main types of vendors available for contracting human services in Florida: for-profits, nonprofits, and other governments. DCF, and probably many other governments, vastly prefers to contract with nonprofits for health and human services. For example, approximately 85% of the DCF's human service contracts in our data were held

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by nonprofit organizations. Delving into why nonprofits dominate human service contracts is beyond the scope of our study and thus not discussed further, although many DCF policy makers acknowledge that Florida government has long relied on nonprofits for human service delivery simply because the government did not have the expertise to do so and many nonprofit organizations made themselves available as alternative sources for delivering government services.

There is no clear evidence, however, that nonprofit vendors are purposefully treated any differently from for-profits by DCF managers in terms of how contracts are executed, managed, and monitored. Our review of the internal DCF operating policies and procedures for contract management and oversight indicates no preferential or differential treatments among these types of vendor types.[6]

Vendor Performance and the Statewide Monitoring Reporting System (SMORES)

The DCF had a fairly sophisticated contract monitoring system at the time of this study.[7] The monitoring unit within the Office of Contracted Client Services in DCF is responsible for developing statewide monitoring policies, operating procedures, administrative and programmatic monitoring tools, and performance data collection validation tools. Monitoring units at the district level are in charge of conducting either desk reviews or on-site oversight visits depending on the levels of risks involved with vendors and their contracts. They also prepare monitoring reports that address contract deficiencies and noncompliance found during oversight visits. Monitoring reports are sent to vendors as well as district policy makers. The most frequent ramification for violating contract obligations is that vendors are required to develop corrective action plans to address the identified problems. The majority of contract noncompliance is resolved in this way. Depending on the severity, however, noncompliance and nonperformance could result in financial penalties ranging from 2% of contract value (for unacceptable administrative support services) to 10% (if noncompliance is determined to adversely impact client health or safety; Florida Department of Children and Families, 2007, section 11-7). The harshest punishment, however, is to terminate a contract or not renew it in the following contract cycle. Although this occurs relatively infrequently, it happens as an ultimate way of holding vendors accountable for poor performance.

During fiscal year 2003, DCF instituted a pilot project (the Statewide Monitoring Reporting System, or SMORES) in an effort to collect statewide contract compliance information by converting highly qualitative, district-based monitoring reports into quantitative measures using a three-point rating scale (i.e., major, moderate, and minor) of contract noncompliance. This pilot ran through the 2004 fiscal year. At that time a new secretary was selected to head the department, which led to a reorganization and the discontinuance of SMORES data collection. However, the pilot data are complete enough to use in our analysis—as will be expanded on below, they serve as our measure of vendor performance.

The monitoring data consist of six main noncompliance categories that include administrative, invoicing, service tasks, personnel and staffing, incidents reporting, and performance data collection. For the administrative and invoicing categories, monitors examine the broad financial aspects of vendor performance and review how well a vendor documents

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and manages its finances. Monitoring staff also look into the overall administrative duties of the vendor such as whether it has record retention policies and updates inventory checklists on a regular basis. Typical noncompliance findings include neglecting administrative duties as well as financial irregularities and instability, inaccuracies in financial records, and inappropriateness in revenue and expense reports. Regarding personnel and staffing, monitors verify that vendors achieve appropriate staffing ratios and that their workers are properly vetted and credentialed, as applicable. The service tasks category is concerned with ensuring that clients are receiving the appropriate services per the contract requirements. The goal is to make certain that providers are not cutting corners or deviating from accepted treatment practices. Incident reporting entails verifying that all adverse events (e.g., a child abused while under the care of a vendor) are reported properly and in a timely manner. Finally, monitoring staff confirm that all contractually required performance data collection is occurring and that the data are valid. This is an important component in that these data assist DCF in evaluating vendor performance.

Research Design

We develop two models to conduct our investigation. The first, which we term the "performance model," tests whether competitively procured vendors outperform their noncompetitive counterparts in terms of how effectively they comply with contract terms and conditions. The model also examines the effects of other factors, such as management capacity and vendor type, on performance. The second, which we call the "vendor turnover model," examines the determinants of contract continuation with a focus on the role vendor performance plays in competitive recruiting environments. The model also considers whether other factors, such as competition itself and management capacity, affect the likelihood of maintaining contracts.

The Performance Model

Dependent variable. The dependent variable for the first model is vendor performance (PERFORMANCE) and is measured as a simple count of contract violations and findings of noncompliance uncovered during oversight visits and reported in the DCF's SMORES database for the 2003 and 2004 fiscal years. The unit of analysis is the individual contract. We use 391 on-site monitoring reports to examine vendor performance. These reports are done at the vendor level and, because many vendors hold more than one contract in a district at any given time, we are able to gather performance data for 608 unique contracts. With this in mind, some adverse findings are contract-specific (e.g., using underqualified staff to provide a service) or vendor-wide (e.g., overall fiscal instability). To simplify the analyses, we sum the two types of findings for each contract.

As discussed above, SMORES uses a three-point scale (major, moderate, and minor) to rate the severity of adverse findings. Noncompliance is rated as "major" if failures could result in harm to clients, interruption of service, or there is evidence of fraud or severe fiscal instability in the provider; "minor" if mistakes are unintentional, nonsystematic, and easily correctable such as technical errors in reporting or accounting; and "moderate" if the

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findings are more serious than minor, but do not reach the level of a major concern (see Florida Department of Children and Families, 2006). We choose to focus on "majors" and "moderates" because, generally speaking, these types of violations should be less idiosyncratic in nature than "minors," which would be expected to be found even with the best performing vendors, as they originate in simple errors such as missing dates on forms or typos in invoices. On the other hand, majors, and to a lesser extent moderates, represent more serious concerns that cannot be written off as simple errors and should be less likely to accumulate simply because the vendor is expected to conform to exacting reporting and documentation requirements or perform complex undertakings. In effect, we argue that focusing on majors and moderates places all cases on a more "level playing field" and mitigates concerns that subjective monitoring outcomes might obscure the relationship between competition and performance. As for the validity of this measure as a proxy for vendor performance, although we acknowledge that compliance is not the same as outcomes, it captures a wide range of administrative and programmatic aspects of vendor performance and thus provides us with a relatively comprehensive picture of how contractors are doing.

Independent variables and hypotheses. To gather the bulk of our independent variables, we use another source of Florida administrative data—the Florida Accounting and Information Resource (FLAIR). FLAIR is a comprehensive database containing information regarding all health and human service contracts procured by DCF.[8]

The first independent variable of interest in the performance model is competitiveness in the contract procurement process (COMPETITION). This variable is dichotomous in nature and codes "one" when contracts are secured through either RFPs or ITNs, the two most commonly used competitive sourcing methods, and there were at least two bidders in the process. All noncompetitively procured contracts are coded "zero."

As pointed out in our review of the literature, theory is not unified regarding the expected relationship between competition and performance. Market proponents argue that competitive procurement should be associated with better contract performance owing to the fact that vendors fear replacement (see, e.g., Osborne & Gaebler, 1992; Savas, 1987) and thus posit a negative relationship between competitive procurement and the number of adverse findings (the dependent variable). However, critiques argue that competition can actually impair performance in social service delivery by disrupting continuity of care and existing network relationships (Milward & Provan, 2000; Schlesinger et al., 1986) and, hence, imply a positive relationship between COMPETITION and our dependent variable. Our model tests these competing theories.

Another independent variable of interest is the contract management capacity of the purchasing district (MANAGEMENT CAPACITY). This measure is also coded dichotomously. As discussed in the previous section, the DCF, at the time of this study, had 13 districts and one region that varied considerably in their administrative capacities to execute contracts. To account for differences that could explain variations in contract performance, we identify the districts known to have higher levels of management capacity and competence by coding them "one" on a dichotomous measure, whereas coding their lower capacity counterparts "zero." Using a dichotomous measure is less sophisticated than an ordinal or interval measure in capturing the potentially substantial variations that might exist in

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individual districts regarding management capacities. Nonetheless, we take a conservative approach and operationalize this variable in a bifurcated manner for two primary reasons. First, although the existing literature does identify many characteristics of management that are important, it sheds little light as to the exact mechanisms regarding how management affects performance and what managerial components are more or less effective in improving performance. The other, more practical, reason for using a restrictive measure is that we rely on historical, administrative data for the bulk of our analysis. As such, the capacity measure needs to be constructed retrospectively based on the known reputations of each district at the time of the study. The determination of such reputations was made by one of the authors who worked in DCF's Office of Contracted Client Services during the time frame of the study and is based on a well-established consensus among the DCF headquarters' managers who provide policy directives and technical assistance to district contracting offices.[9]

Although reputation can be a highly subjective as well as elusive concept, its measurement in this study is firmly grounded on explicit criteria rather than depending on mere impressions of district performance by the headquarter managers. Three broad managerial components are considered in this judgment: leadership, the degree of integration and coordination among contracting units, and the experience and expertise of the contracting staff.

Leadership is concerned with the reputation of district contract administrators and monitoring leaders in terms of how effectively they supervise their staff and operate their units. Effective supervisors establish clear contract management–related procedures to guide their staff, facilitate smooth processing and administration of contracts by frequently communicating with the DCF central office, and develop thorough administrative and programmatic oversight tools to help their staff effectively monitor contracts. Although these tools are certainly the products of team efforts, effective supervisors encourage their staff members to continuously refine and improve them. There are often significant disparities among districts in terms of the quality of monitoring tools used and oversight reports generated from on-site visits.

The degree of integration and coordination among contracting units captures the extent to which contracting offices and units communicate effectively to process, manage, and oversee contracts. Well-integrated and coordinated districts have fewer delays in their annual processing of contracts due to administrative problems; generate fewer errors in their contract data entries into the central information system; and have either written procedures or use best practices in coordinating on-site monitoring visits among related units and issuing unified directions in disciplining vendors who fail to perform.

The experience and expertise of the contracting staff measures the degree of professionalism that exists in the contracting staff. Districts are considered professional if their contracting units have a person who is a certified public accountant or knows how to read and monitor vendors' complicated financial records; a person who is a former program expert in specific service areas, such as child welfare or mental health, and broadly understands the legal and programmatic requirements; and/or a person who has worked in contracting for 5 or more years and is well versed in contract language, requirements, and regulations.

The above factors are not quantified or weighted, but are rather considered from a holistic point of view in that districts possessing many of these traits are considered more professional (and thus as having a higher level of management capacity) than districts known

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to exhibit fewer of these characteristics. Sorting DCF's 13 districts and one region into professional versus nonprofessional categories was not a serious challenge because the majority of the desirable traits mentioned above were clearly clustered around a few districts that held consistently positive reputations. Overall, four districts and the one region were considered to be more professional and to have a higher level of management capacity than the others.

Unlike neoclassical market theory that emphasizes the power of competition, public management scholars often argue that management of the contracting process, from procurement to renewal, is essential for governments to realize the gains of outsourcing (Brown & Potoski, 2003a; Brudney et al., 2005; DeHoog, 1984; Hefetz & Warner, 2004; Moe, 1996; Rainey, 2003; Sclar, 2000; Wise, 1997). A government that is knowledgeable about the services it contracts for and is able to adequately monitor vendor performance, should, on average, be more likely to realize greater gains from contracting than those who lack these competencies. Hence, any test of performance must account for disparities in contract management capacity across the contracting units. We posit that vendors in districts with higher management capacities should, ceteris paribus, have better performance as witnessed by fewer violations.

The literature also points out that vendor type might be related to performance. Savas (2000, 2002) makes the case that contracting should be with for-profits, as opposed to nonprofits, because he sees the profit motive as the key to encouraging innovation and improvements in overall performance. Economists generally agree that the nondistributive nature of nonprofits often results in inefficiency in internal operation and service production (Hansmann, 1980, 1987). Savas (2002) adds that the growing influence of nonprofits in social policy making coupled with ties to constituencies tend to lead to unresponsiveness to government demands.

Conversely, it has been argued that nonprofit vendors are likely to share goal congruence with the contracting government; hence, they have an inherent desire to produce the service well, because presumably, they would do so even in the absence of government contracts. This, coupled with their lack of a profit motive, should make them more responsible vendors, less prone to opportunism and, therefore, in need of reduced oversight (Frumkin, 2002; Smith & Lipsky, 1993; Weisbrod, 1977). Overall, this vein argues that nonprofit contracting should produce the better results. What is unclear in this argument is where other government vendors fall. Market advocates would likely see them as inferior to for-profits for the same reason they discount the value of nonprofit contracting—the lack of a profit motive (although we are unaware of any theorists directly making such a claim). On the other hand, because, like nonprofits, other governments are more likely to have goal congruence, it seems probable that nonprofit advocates would expect other government contractors to outperform for-profits as well (but possibly not nonprofits, because other governments generally have greater bureaucratic burdens than their nonprofit counterparts). It could also well be that, as has been posited, other government and nonprofit contracting are, from an empirical perspective, essentially interchangeable (Lamothe, Lamothe, & Feiock, 2007).

To test these competing assertions, we include two dummy variables (FOR-PROFIT VENDOR and NONPROFIT VENDOR) that categorize the contract holders as either for-profit or nonprofit entities with other governments as the reference group. If the for-profit

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advocates are correct, the joint hypothesis for these two estimates (i.e., $b_{\text{for-profit}} - b_{\text{nonprofit}}$) should be negative and significant. If the nonprofit advocates are correct, the joint hypothesis test should be positive and significant. As none of the authors explicitly address the distinction between for-profits, nonprofits, and other governments, we feel it is inappropriate to conjecture as to the expected direction of the for-profit and nonprofit coefficients, themselves.

Controls. We also control for a variety of factors that might be associated with the number of violations vendors commit. Above, we argue that by limiting ourselves to only major and moderate findings we mitigate, to some extent, the possibility that the number of violations is directly related to the size of the contract—that is, the more that is going on, the more that can go wrong. However, to more fully account for this possibility, we also include the total dollars spent on each contract (CONTRACT AMOUNT)[10] as an additional regressor in the model. Furthermore, we take into account market potential. As other studies have suggested (Brown & Potoski, 2003b; Ferris & Graddy, 1986; J. D. Greene, 1996), larger, wealthier areas might provide a greater pool of prospective vendors leading to a generally better contracting environment, which might spur better performance regardless of how contracts are procured. We account for this possibility by controlling for district per capita personal income (PER CAPITA PERSONAL INCOME) and district population density (POPULATION DENSITY). Finally, we also include temporal and spatial controls. As mentioned, SMORES was a pilot project that spanned the 2003 and 2004 fiscal years. As such, it is possible that there may be some systematic differences in the way the data were collected during the two years as the monitors and central office staff adjusted to and learned the new system. To protect against this possibility, we account for the year in which the data are collected, by dichotomously identifying cases from the first year of the study (FY 2002-2003). It is also possible that the behavior of the districts differs in ways not fully accounted for by our other independent variables. To protect against any bias that might be introduced due to this possibility, we include a series of dummy variables which uniquely identifying the districts.

Model specification. Because the dependent variable in the performance model is a tally of the numbers of major and moderate violations recorded during monitoring activities, a count model is appropriate. However, goodness-of-fit tests indicate that a Poisson model is inappropriate as our data are overdispersed. Hence, we fit our data using a negative binomial regression model.

The above discussion suggests the following model specifications for the determinants of contract performance:

$$\begin{aligned}\text{PERFORMANCE} = {} & b_1 + b_2(\text{COMPETITION}) + b_3(\text{MANAGEMENT CAPACITY}) \\ & + b_4(\text{FOR-PROFIT-VENDOR}) + b_5(\text{NONPROFIT VENDOR}) \\ & + b_6(\text{CONTRACT AMOUNT}) + b_7(\text{ PER CAPITA PERSONAL INCOME}) \\ & + b_8(\text{POPULATION DENSITY}) + b_9(\text{FY 2002-2003}) + \textstyle\sum_{i=10}^{j} b_i(\text{DISTRICT})\end{aligned}$$

The Vendor Turnover Model

Although there are many reasons a contract might not be continued, only some of which are related to accountability, this model is designed to shed light on two specific issues:

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(a) Provan and Milward (1995) argue that the turnover associated with competition is disruptive to provider networks and, therefore, adversely impacts performance. This model will allow us to examine if competition and turnover are, in fact, related. (b) If market accountability does exist, as privatization supporters argue, then poor performers should be more likely to be replaced when competition is present. As outlined below, we directly test these propositions.

Dependent variable. The dependent variable for the turnover model (CONTRACT RETENTION) is dichotomous and codes one if the vendor continued to hold the contract, or a renewal of it, in the year following monitoring and zero otherwise. This is done by linking SMORES FY 2003 and FY 2004 data with FLAIR FY 2004 and FY 2005 data (see Note 8 for an explanation of FLAIR data), respectively, to determine which vendors maintained their contracts in the subsequent year. The weakness of this measure is that we do not differentiate the vendors who regain contracts through rebidding from those who retain them through renewal. Nonetheless, renewals are not simply pro forma—activation of renewal clauses, in principle, is contingent on vendor performance during the previous cycle. In this sense, we argue that the underlying set of determinants discussed below hold true for both types of contract retention.

Independent variables and hypotheses. Not surprisingly, the independent variables used in the turnover model closely mirror those used in the performance analysis. Providers who win their contracts through competitive bidding processes should be less likely to maintain contracts, because replacement vendors should be easier to come by, assuming competitive markets continue to exist after the initial procurement. As for management capacity, it is expected that this variable is positively related to contract retention, since districts with higher capacity should, on average, manage the process better and mitigate the need to sanction vendors. We also account for vendor type without, once again, positing specific relationships.

Additionally, we include two other variables that we believe should be accounted for in attempting to understand vendor turnover. The first is vendor performance from previous contracts. Providers not meeting their obligations should face punishments up to and including loss of contracts when performance is particularly poor. To test this, we include the number of adverse findings (i.e., PERFORMANCE—the dependent variable from the first model) as a regressor in the turnover model. This variable is posited to have a negative relationship with the likelihood of retaining contracts. We also expect that performance should matter more for competitively procured contracts. Specifically, we posit that poorly performing, competitively procured vendors should be more likely to lose their contracts than their noncompetitively recruited counterparts. This prediction represents the core idea of market theory in that there should be a lower tolerance for poor performance when market forces are at work. This is tested by interacting the adverse findings and competition variables (PERFORMANCE × COMPETITION). This measure allows us to test if the consequence of poor performance (as measured by the number of adverse violations) is conditioned by the contracting method (i.e., competitive or noncompetitive).

Controls. We also control for other potential influences on the likelihood of retaining contracts. We control for the dollar values of contracts. The idea is that large, influential

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vendors might be more difficult to replace. Vendors that attract large amounts of contracting dollars tend to be more likely to retain them because they are more influential players in the contracting world and thus harder to change. In general terms, public managers would usually prefer the status quo, which minimizes administrative and monitoring-related transaction costs, over new contracts with new vendors that involve new learning curves (Milward & Provan, 2000). We would argue that this would particularly be the case when dealing with large contracts as, ceteris paribus, changing vendors in these circumstances would be more challenging than if smaller contracts and dollar amounts are at stake.

We also account for the possibility that vendors lose contracts simply because an overall movement favoring contract consolidation is found over the time frame of our study. In an earlier study (Lamothe & Lamothe, 2009), we point out that from 2000 to 2006 Florida underwent a transformation in the way it delivers its child protective services in the family safety program, one of DCF's largest program areas. Specifically, it moved from a traditional bilateral contracting model, in which the state served as the coordinating entity for a wide array of individually contracted services, to a community-based care (CBC) model in which the state transferred its coordination duties to lead agencies that manage local provider networks. In doing so, the state dramatically decreased the number of child protection contracts it managed—rather than dealing with a large number of small contracts, the state now has far fewer, but larger CBC contracts in this program area. CBC consolidation is systematic and needs to be accounted for in our analysis since vendors could lose contracts for no other reason than new or expanded CBC activity occurred in their district. Hence, we control for this phenomenon by including a dummy variable that identifies all family safety contracts (FAMILY SAFETY) because many of these contracts might disappear from our analysis for reasons not related to performance or accountability.

Once again, we also account for market conditions. As reviewed above, other studies (Brown & Potoski, 2003b; Ferris & Graddy, 1986; J. D. Greene, 1996) have suggested, larger, wealthier areas might provide a greater pool of prospective vendors leading to more competition and a better contracting environment. As previously, we account for this possibility by controlling for district population density and per capita personal income. Finally, we account for the years in which the data were collected and the individual districts.

Model specification. Because the dependent variable in the accountability model is dichotomous in nature, measuring if a contract is retained in the next round, a logit model is appropriate. The above discussion suggests the following model specification:

$$\begin{aligned}\text{CONTRACT RETENTION} = {} & b_1 + b_2(\text{PERFORMANCE}) + b_3(\text{COMPETITION}) \\ & + b_4(\text{PERFORMANCE} \times \text{COMPETITION}) + b_5(\text{MANAGEMENT} \\ & \text{CAPACITY}) + b_6(\text{FOR-PROFIT-VENDOR}) + b_7(\text{NONPROFIT} \\ & \text{VENDOR}) + b_8(\text{CONTRACT AMOUNT}) + b_9(\text{PER CAPITA} \\ & \text{PERSONAL INCOME}) + b_{10}(\text{ POPULATION DENSITY}) \\ & + b_{11}(\text{FAMILY SAFETY}) + b_{12}(\text{FY 2002-2003}) + \sum_{i=10}^{j} b_i(\text{DISTRICT})\end{aligned}$$

A summary of the descriptive statistics for all the base variables included in both models (except for the district dummies) can be found in Table 1.

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Table 1
Descriptive Statistics for All Base Variables

Variable	Mean	*SD*	Minimum	Maximum
Dependent variables				
Performance	3.76	5.64	0.00	45.00
Contract retention	0.62	0.49	0.00	1.00
Independent variables				
Competition	0.13	0.33	0.00	1.00
Management capacity	0.42	0.49	0.00	1.00
For-profit vendor	0.10	0.30	0.00	1.00
Nonprofit vendor	0.85	0.36	0.00	1.00
Controls				
Contract amount[a]	1.02	3.36	0.00	59.49
Per capita personal income[b]	29.92	6.10	22.08	44.05
Population density[c]	0.48	0.38	0.07	1.43
Family safety	0.29	0.46	0.00	1.00
FY 2002-2003	0.38	0.49	0.00	1.00
$N = 608$				

Note: The Statewide Monitoring Reporting System (SMORES) was the source for "performance." The Florida Accounting and Information Resource (FLAIR; see Note 8) was the source for whether the contract was competitively procured, vendor type, contract amount. The Florida Statistical Abstracts served as the source for the district per capita personal income and density measures: University of Florida, Bureau of Economic and Business Research, Warren College of Business (2005).
a. In millions of dollars.
b. In thousands of dollars.
c. In thousands of persons per square mile.

Findings

The results for the performance model are found in Table 2. The first thing that stands out in looking at this table is that competition does not seem to influence vendor performance in any meaningful way. The coefficient for this variable does not reach conventional levels of statistical significance ($b = 0.159$, $p = .440$). We do not find evidence that vendors in competitive environments improve their performance in efforts to ensure contract continuance more so than their noncompetitive peers, which is certainly not in line with the expectations of market advocates. However, we also find no evidence that competitively procured contracts have inferior performance; hence the assertions of market critiques are also not supported. As we will discuss in the following section, there are theoretical and observational explanations for this absence of a competition-performance connection.

On the other hand, the relationship between the dependent variable and contract management capacity is as posited. Contractors in districts with higher capacity tend to have fewer adverse findings than those in lower capacity districts. Specifically, the impact reported in Table 2 translates to a nearly 60% decrease in the number of major and moderate violations if contracts are held in districts with greater resources devoted to managing contracts (i.e., from 3.4 to 1.4). This highlights the view that management of contracts is essential to gaining the advantages of contracting (DeHoog, 1984; Sclar, 2000). This does raise an interesting

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Table 2
Negative Binomial Analysis of Determinants of Contractor Performance

Variable	*b*	*SE*	*p* Value	Impact
Variables of interest				
Competition	0.159	0.205	.440	
Management capacity	–0.880	0.259	.001	–2.007
For-profit vendor	0.812	0.281	.004	4.299
Nonprofit vendor	0.869	0.192	.000	4.750
$b_{\text{for-profit}} - b_{\text{nonprofit}}$	–0.057	0.226	.802	
Controls				
Contract amount	0.040	0.009	.000	0.496
Per capita personal income	0.035	0.016	.028	0.814
Population density	–0.038	0.301	.900	
FY 2002-2003	–0.080	0.182	.661	
Constant	–0.862	0.659	.191	
$N = 608$				
$\chi^2 = 2522.3$ ($p = .000$)				

Note: Impact is computed as follows. First, a baseline expected number of violations is calculated by setting each of the dummy variables at zero (indicating an "other government" vendor holding a noncompetitively procured contract in a district [District 15, specifically] with low management capacity in fiscal year 2003-2004) and the other variables set at their means. Such a case is expected to have 3.4 violations. The variable of interest is then changed as appropriate (i.e., dummies switched to one, others increased by one standard deviation), while all other variables are held at their previous values, and a new prediction is calculated. The impact score represents the difference between the new prediction and the baseline. This procedure is carried out only for variables that reached at least marginal levels of statistical significance (i.e., $p < .10$, two-tailed).
For the sake of parsimony, the estimates for the district dummies are excluded from the table.
Robust standard errors, clustered on vendor (W. H. Greene, 1997; White, 1980), are used in the analysis.
The standard error for the joint hypothesis tests was calculated using the following formula: $SE_{\text{fp-np}} = ([\text{var}(b_{\text{fp}}) + \text{var}(b_{\text{np}}) - 2\text{cov}(b_{\text{fp}}b_{\text{np}})])^{1/2}$.

dilemma, however, in that, as Van Slyke (2003) points out, governments that outsource often do not invest enough in management capacity.

Finally, the relationship found to exist between performance and vendor type is also of interest. As reviewed above, market advocates, such as Savas (2000, 2002), argue that for-profits should be the favored type of vendor because the profit motive will push them to improve efficiency and performance. Critics see things differently and believe nonprofits should outperform for-profits in social service contracting. However, our analysis supports neither argument. The joint hypothesis test for the for-profit and nonprofit coefficients produces a statistically insignificant estimate of –0.057 ($p = .802$). This indicates that, holding all else constant, switching from for-profit to nonprofit delivery has no appreciable impact on the number of expected violations. Perhaps even more interestingly, both for-profits and nonprofits perform notably more poorly than other government contractors. Each estimate is positive and significant and the magnitudes indicate substantive import. For example, ceteris paribus, switching vendor type from other government to for-profit leads to a greater than doubling in the expected number of violations (i.e., from 3.4 to 7.7). We will discuss the possible causes and implications of this finding in the conclusion, below.

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Table 3
Logit Analysis for Likelihood of Vendors Maintaining Contracts

Variable	*b*	*SE*	*p* Value	Impact
Variables of interest				
Performance	0.031	0.025	.219	
Competition	–1.081	0.334	.001	–0.261
Performance × Competition	–0.070	0.085	.410	
Management capacity	0.277	0.389	.475	
For-profit vendor	–0.958	0.572	.094	–0.231
Nonprofit vendor	–0.760	0.452	.093	–0.181
$b_{\text{for-profit}} - b_{\text{nonprofit}}$	–0.198	0.414	.632	
Controls				
Contract amount	0.086	0.039	.029	0.059
Per capita personal income	0.033	0.026	.191	
Population density	–0.013	0.458	.977	
Family safety	–1.972	0.281	.000	–0.452
FY 2002-2003	0.788	0.326	.016	0.143
Constant	0.165	1.069	.877	
$N = 608$				
$\chi^2 = 120.3$ ($p = .000$)				

Note: See the notes at the bottom of Table 1 for data information and at the bottom of Table 2 for an explanation of how impact was computed. The baseline expected probability of maintaining contracts is .682.
For the sake of parsimony, the estimates for the district dummies are excluded from the table.
Robust standard errors, clustered on vendor (W. H. Greene, 1997; White, 1980) are used in the analysis.
See note at bottom of Table 2 for formula for joint hypothesis test standard error.

Now, we direct the reader to Table 3, where we present the results for our vendor turnover model. Surprisingly, the variables of interest do not appear to play much of a role in determining if vendors retain their contracts in subsequent rounds—only one (COMPETITION) reaches conventional levels of significance whereas two others (FOR-PROFIT VENDOR and NONPROFIT VENDOR) reach marginal levels. Interestingly, provider performance seems unrelated to how likely vendors are to retain their contracts. It is also of note that there is no support for market forces driving out poor performance. The estimate for the interaction term is statistically insignificant indicating that vendors who secured their contracts through competitive means and have higher numbers of violations are no more or less likely to lose contracts than those who procured contracts via noncompetitive processes. The implication of this result is discussed in the conclusion section. On the other hand, competition, in and of itself, does appear to play a role in contract continuation. The estimate is statistically significant ($b = -1.081$, $p = .001$) and of substantive import. We see that vendors with competitive contracts, regardless of their performance, are less likely to maintain contracts. Specifically, such a provider sees its probability of retaining its contract drop by more than 26 percentage points (from 68.2% to 42.1%). This can be seen as support for the idea that competitive tendering leads to vendor turnover even when performance does not appear to be an issue. In the context of Milward and Provan's (2000) findings regarding disruptions, this makes for an interesting finding, worthy of future research.

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Turning to the rest of our results, contrary to expectations, management capacity does not appear to be related to the dependent variable. Knowing if contracts are located in districts with more or less professional contract management regimes does not assist one in predicting the likelihood that contracts will be terminated or not renewed. And finally, as in the performance model, for-profits and nonprofits appear distinguishable from other governments (albeit at only marginal levels of significance) and indistinguishable from one another regarding the likelihood of maintaining contracts. Both are more likely to lose their contracts in the next round. For example, under the current measure of impact, a for-profit vendor is approximately 23 percentage points less likely to retain its contract in the subsequent year than is its other government equivalent.[11]

Conclusion

In this article, we examine the impacts of competition, management capacity, and vendor type on contractor performance and turnover. Market theory indicates that competition should spur better performance because replacement is a real and constant threat. The theory also implies that competition should be associated with lower rates of retention as poor performers are weeded out by competitive procurement methods. Interestingly, our findings suggest that, although competition may trigger more frequent vendor turnover, it does not lead to better vendor performance. Competitively procured vendors do not outperform (or underperform) their noncompetitive counterparts—there simply does not appear to be a coherent relationship between competition and performance in social service contracting. Likewise, competitively procured vendors are not punished more harshly than their noncompetitive counterparts when performing poorly. We believe that this finding is a significant addition to the existing literature on social service contracting because it challenges market theory much more straightforwardly than what past studies have done by examining the direct link between the presence of competition and its supposed effects on performance. It, in concert with past studies, such as Schlesinger et al. (1986), Milward and Provan (2000), and Fernandez (2007), calls into question the efficacy of competition in promoting superior contracting outcomes and better accountability.

There are several potential explanations as to why competitively procured contracts are not distinguishable from noncompetitively purchased contracts in terms of performance. First, as we do find some support for the notion that competition is related to turnover, it is possible that any advantages associated with contracting are washed away by the introduction of instability into the contracting relationship. This may be the dyadic equivalent of the adverse impact found by Milward and Provan (2000) in the network context. Another possibility is inherent to the nature of human services, combined with the nature of organizational decision-making processes. Specifically, given the complexity (whether legal and regulatory or programmatic) involved in carrying out human service tasks, it may be very difficult for the DCF managers to accurately estimate the quality of the vendors in their initial selection process. Precisely because of the vague and unpredictable nature of human services, many evaluation criteria also tend to be abstract (such as governance or programmatic capacity). The more abstract and qualitative in nature the criteria are, the more ambiguity is invited into the selection process in terms of choosing the “best” vendor.

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After all, public managers, just as their counterparts in for-profit and nonprofit entities, tend to be "organizational" individuals rather than "rational" individuals in their decision making (Simon, 1965; see also DeHoog 1984 for her application of this perspective in the contracting process). Regardless of whether competitive or noncompetitive procurements are employed, and regardless of whether formal scoring systems or informal judgment criteria are used, it is possible that the DCF contracting staff ultimately use similar selection standards such as past performance and reputation in their cognitive processes of evaluating vendors.

This type of explanation is especially pertinent, given the characteristics and structure of human service markets in Florida. Human service providers in the state are predominantly secular, nonprofit organizations, some of which maintain large-scale operations spanning multiple jurisdictions. Considering this, it is not uncommon for the same pools of vendors to be recruited through sometimes competitive processes and other times noncompetitive ones, depending on the geographical areas and local market dynamics. When this happens, the impact of competitive procurement by the agency may be limited, at best, as vendors with good reputations across the jurisdictions may have advantages in selection processes, no matter what procurement method is used. Of course, it is also possible that what looks like competitive processes, really are not. That is, DCF maybe going through the motions of competitive procurement, but actual procurement decisions are political in nature (possibly to pay off political supporters or appease powerful interests, as has been posited as a general concern by Amirkhanyan, Kim, & Lambright, 2007, and other scholars). Although we have no evidence indicating this possibility, if this is the case, the lack of relationships between competition, performance, and accountability would not be surprising.[12]

We find evidence, in line with expectations, that contract management capacity is associated with better vendor performance, at least when measured in terms of violations to contract terms. This makes sense because effective contract management can prevent fraudulent and other noncompliant types of behaviors (Brown & Potoski, 2003a). Future research is needed to examine whether good management can also induce better program *outcomes* from third-party service deliverers. Coupled with previous findings, we believe this raises important concerns for public managers. When governments choose to outsource service delivery in efforts to improve the efficiency of service production, they often neglect to properly account for the need to manage and monitor the process, and therefore, fail to "beef up" their contract management capacity (Van Slyke, 2003). Although this might save money in the near term, our research indicates this view might be shortsighted. Although improper oversight of contractors has been associated with many examples of fraud and waste in the past, there are also more subtle concerns. All of the districts in our study have monitoring units, so some level of monitoring is occurring. However, those districts, known to have better leadership, more integrated and coordinated organizational structure, and staff with substantial contracting experience, appear to get more out of their vendors than their lower capacity peers, and therefore, potentially receive greater gains from contracting. Although this is not a new discovery, it confirms what many public management scholars have argued in the past regarding the critical role played by management.

Finally, although we do find evidence that vendor type is associated with performance, the relationships are not as posited. There are theoretical arguments as to why for-profits and nonprofits should outperform one another, but our models indicate there really are no

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differences. Being for-profit or nonprofit, by itself, is not associated with better performance. However, other government contractors do appear to outperform the other sectors. Theory does not directly address this, but we will conjecture as to some possible reasons for this finding.

It would not be surprising if public employees, working for vendor governments, are more familiar with governmental rules and procedures than their private sector competitors. This knowledge might allow them to maintain higher levels of compliance. Further, the argument that is forwarded as to why nonprofits should be good vendors—that they share goal congruence with the contracting government—might be applicable to "other government" contractors as well (Lamothe et al., 2007). If this is the case, one would expect a smaller number of problems as there are fewer self-interested reasons for providers to deviate from acceptable practices. Additionally, it could be the case that other governments are advantaged because their employees are generally better compensated than their for-profit and nonprofit peers. This might lead to more stability in the workforce, which would likely improve performance as there is not a constant need to hire and retrain personnel.[13]

However, it is also possible that other government contracting is associated with fewer adverse findings for other, less positive, reasons. It might be that deference is paid to other government units; and therefore, monitoring of these contractors is not as stringent as with vendors from the other sectors. DCF's contracting procedures hint at this possibility. In some cases, other government contractors may submit self-evaluations in lieu of departmental monitoring (Florida Department of Children and Families, 2006). Might this deference translate down to DCF monitoring activities? If this is the case, then our results pick up an artificial distinction not actually indicative of better public sector performance. We have no way of further examining the relationship in our data and, therefore, leave this question to future research.

In this article, we believe we have started to fill a void in the literature regarding the impact of competition on vendor performance in social service contracting. We hope that future scholarship will build on this work and explore some of the caveats that we have missed. In particular, we feel this article points to a need to more closely examine government-to-government contracting to see what dynamics are at play. Also, more research into the link between performance and accountability in the social services is warranted.

Notes

1. See 2007 Florida Statutes, Title XIX, Chapter 287.001 (http://www.leg.state.fl.us/statutes/index.cfm?App_mode=Display_Statute&Search_String=&URL=Ch0287/SEC001.HTM&Title=->2007->Ch0287->Section%20001#0287.001).

2. Florida is not unique in this regard. As Schlesinger et al. (1986) point out in discussing Massachusetts' efforts to contract for mental health services, "the state announces the total amount of money it intends to spend on the service before accepting bids."

3. See 2007 Florida Statutes, Title XIX, Chapter 287.057 (http://www.leg.state.fl.us/statutes/index.cfm?App_mode=Display_Statute&Search_String=&URL=Ch0287/SEC057.HTM&Title=->2007->Ch0287->Section%20057#0287.057 - accessed 7/10/08).

4. As reported in a previous study (Lamothe & Lamothe, 2009) approximately 80% of all DCF social service contracts fell under the exempted category over the timeframe of this study (i.e., FY 2003 through FY 2005)

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5. Since that time, DCF has reorganized into six regions with greater control over contracting shifting to the central office in Tallahassee.

6. As pointed out by an anonymous reviewer, it is possible that informal rules or norms favoring one type of vendor may exist which might impact monitoring procedures and outcomes. Unfortunately, we have no way of directly addressing this concern in the current analysis.

7. We feel it is important to mention a concern raised by an anonymous reviewer. It is possible that Florida is a bit of an outlier regarding the professionalism of its monitoring activities. As we state in the text, the DCF has fairly elaborate data gathering and monitoring requirements and devotes sizable resources to managing its contracts. Unfortunately, other than anecdotal accounts, we are aware of no systematic studies that compare and contrast jurisdictional variances in this regard; therefore, we are unable to evaluate the external validity of our case selection.

8. Specifically, the types of data we obtain from this information system include: contract managing district, vendor identity and type, contract amounts and periods, service types, method of procurement (competitive v. noncompetitive), reasons for exemption from competitive sourcing, and vendor type. There are limitations associated with reliance on administrative data, most notably a lack of control over variable availability. As noted by a reviewer, our models may suffer, to some extent, from omitted variable bias in that we do not control for things such as the vendor's administrative and production capacities, the length of the contractual relationship, and information regarding the nature of the relationship between the agency and the vendor. Simply put, the structure of the data did not allow for the gathering of such information. For example, we attempted to determine the lengths of relationships, but were thwarted by DCF's tendency to change contract numbers every year (even mid-contract, it seems) which made tracing contracts over time essentially impossible.

9. Some might be concerned that the variable was coded based on, what might seem, the subjective judgments of a single individual and argue that we should have gathered information from more DCF central office personnel to cross-check the categorizations. However, again, practical concerns make this less than straightforward. Since the time frame of this study (FYs 2003 and 2004), DCF contracting has undergone at least two major organizational restructurings which have changed the dynamics, not to mention the personnel, involved. Hence, we have two problems: (a) locating the appropriate personnel to interview could be tricky; (b) were we able to locate and contact them, it seems likely their judgments of the past might be clouded by the variety of changes that occurred over the ensuing years. For this reason, we felt it better to rely on a participant who left the office at the end of FY 2004, and hence, whose judgment is essentially "frozen in time" (specifically, the period of the study).

10. Contract amounts were annualized to obtain yearly expenditures, because the presence of multiyear contracts can greatly inflate the total contract amounts if not adjusted.

11. As discussed, our measure of performance is a count of the number of major and moderate findings. We also ran the two models with an alternative measure of performance. In this instance, we dropped the number of moderate findings and tallied only the major violations. The results were essentially identical. The only differences were (a) in the performance model, the nonprofit coefficient increased in magnitude, but not enough to distinguish it from the for-profit estimate, and the two controls, contract amount and per capita personal income, dropped from significance; (b) for the accountability model, both the for-profit and nonprofit estimates moved just outside of typical levels of marginal significance ($p = .102$ and $p = .104$, respectively) although the magnitudes were essentially unchanged (again, also still not distinguishable from one another). Interested readers can contact the authors for the full results.

12. The authors would like to thank Evelyn Brodkin for pointing out this possibility.

13. We would like to thank Barry Mitnick for identifying this as another possible reason why other government contractors outperformed for-profits and nonprofits.

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