THE PROXY-PARTNERSHIP GOVERNANCE CONTINUUM

Implications for Nonprofit Management

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During the 1980s and 1990s, cross-sector governance relationships between governmental and non-governmental actors became increasingly common. Powerful and overlapping policy trends toward devolution, privatization, and the new public management movement underpinned this phenomenon, which had been under way since the Great Society programs of the 1960s. Norms and expectations shared by policy actors and organizations involved in legally based, formalized contracting relationships were sufficiently institutionalized by the mid-1990s to justify use of the term *contracting regime* to describe cross-sector governance interactions and related sector-specific practices (Smith and Lipsky 1993). At the same time, substantial theoretical progress occurred in identifying and interpreting the implications of these immense, evolutionary shifts in institutional relationships within public governance.

This chapter builds on two foundational constructs in the early literature on cross-sector governance—government by proxy (Kettl 1988) and the partnership paradigm (Salamon 1987). Modified slightly to *governance by proxy* and *governance by partnership,*[1] the constructs are identified in this analysis as opposite poles along a proxy-partnership governance continuum. The continuum is an integrative framework that captures the range of dynamic, cross-sector institutional relationships in the contracting regime and adds value to theory building on public governance in important ways explored in this chapter.

The next section examines the core ideas of government by proxy and the partnership paradigm and introduces the proxy-partnership governance continuum. Then a brief description of the size and scope of the contracting regime is provided and the proxy-partnership governance continuum is explained in more detail. The following section proposes a set of factors, or locational determinants, identified in the literature, that could account for the place of a cross-sector relationship on the continuum at a particular point in time. In the next section, the consequences of various locational positions are explored, as well as the challenges for nonprofit managers and potentially useful strategies to address issues associated with different positions along the continuum. The conclusion suggests promising directions for future research and some thoughts about the implications of the analysis for contracting policy.

FOUNDATIONAL ELEMENTS OF THE CONTINUUM

Two major contributors to theory building during these pioneering years were political scientists Donald Kettl and Lester Salamon, both of whom substantially expanded the frontiers of contracting and governance scholarship.[2] In the first edition of *Government by Proxy* (1988), Kettl quantified

the extent of the federal government's reliance on outside parties for the production of goods and services, describing it as "one of the most complicated, difficult, and interesting phenomena of modern American Government" (5). He defined government by proxy as a kind of activity in which government relies on proxies or intermediaries to provide goods or services. Fourteen years later in *The Transformation of Governance: Public Administration for Twenty-first Century America,* Kettl expanded his analysis and embedded it in a broad theoretical treatment of the history of American public administration. He based the study on the underlying and organizing premise that "the way we think about and study public administration is out of sync with the way we practice it" (2002, xi).

Concurrently in the mid-1980s, Salamon directed the Nonprofit Sector Project at the Urban Institute. The project collected data from sixteen sites in the United States and documented for the first time the extensive flow of revenue from government at all levels to nonprofit organizations for the delivery of public programs. On the basis of these empirical studies, Salamon developed a new theory of government-nonprofit relations that placed the partnership construct at its core. His now classic analysis, "Partners in Public Service: The Scope and Theory of Government-Nonprofit Relations" (1987), was published in the first edition of the field-building Yale University Press volume, *The Nonprofit Sector: A Research Handbook.* Although the term *partnership* is not explicitly defined in the chapter, the implied definition is a relationship in which government revenues are exchanged for services delivered by nonprofit organizations.

Kettl's notion of nonprofits as proxies of government has not been widely adopted in the scholarly literature, and Salamon's partnership construct has not been operationalized very often by other researchers as a specific term for empirical testing. As argued in this chapter, both terms suffer connotation problems, perhaps because of their use in different contexts with different meanings. The term *proxy,* especially as applied to voting procedures, connotes an actor who carries out the will of the principal with no discretion exercised. According to common usage in American culture, the partnership idea implies a relationship of coequals characterized by shared goals and expectations. Both authors make clear in their extensive writings that these connotations do not capture the full scope of the phenomena they examine. Still, the terms hold these connotative implications.

Precisely because of these connotations, the terms *proxy* and *partnership* work well to anchor the opposite ends of a continuum of interdependent governance relationships that structure the contracting process. Collaborative public-private endeavors are not included in this construct, although important insights by scholars writing about collaborative governance inform the analysis. Following Gazley and Brudney, "Collaborations require voluntary, autonomous membership (partners retain their independent decision-making powers even when they agree to some common rules) [*sic*]" (2007, 390). At several points in the article, Gazley and Brudney explicitly exclude contractual relationships from the definition of collaboration. The authors cite Peters (1998), who observes that public-private partnerships, a term Gazley and Brudney use synonymously with collaboration, are based on principal-principal models, as differentiated from principal-agent relationships (2007, 391).

The proxy-partnership continuum is much needed as a theoretical basis to advance the understanding of the exceedingly complex government-nonprofit relationships that are a defining element of public administration today. In fact, underdeveloped theory related to these dynamic and interdependent institutional relationships constitutes a major challenge for both governance theory and the individuals and organizations that function as governance actors (Cho and Gillespie 2006).

In this chapter Kettl's phrase and Salamon's construct are modified slightly to *governance by proxy* and *governance by partnership,* respectively. The resulting array of interactions is labeled here as the *proxy-partnership governance continuum.*

VALUE ADDED AND LIMITATIONS OF THE
CONTINUUM CONSTRUCT

A definitional feature of the continuum is the interdependent, even if asymmetric, nature of the government-nonprofit governance relationships (Saidel 1991, 1994) located at various points between its poles. Because it is constructed on the basis of reciprocal relationships, the continuum is relevant to both public administration and nonprofit management theory and, by extension, to the world of practice in which public administrators and nonprofit managers perform inter-dependent functions.

Second, the continuum illustrates the fundamental character of government-nonprofit relation-ships as dynamic and changing over time. Because many studies are cross-sectional in research design, the sometimes dramatic changes in the nature of multisector relationships are often obscured in the research literature. Two notable exceptions to this observation are Cho and Gillespie (2006) and Alexander and Nank (2009). Addressing the necessity of moving beyond static conceptualiza-tions, Cho and Gillespie integrate systems dynamics and resource dependence theories into a model with multiple feedback loops that depicts changes over time in the quality of services delivered in a cross-sector system. Alexander and Rank utilize a ten-year longitudinal research design with three waves of qualitative data collection to study evolving relationships between a county department of children and family services and community-based nonprofit organizations.

A third and related benefit of the continuum is that it facilitates analysis of dramatically differ-ent management challenges that depend on where cross-sector relationships are located along its expanse at a particular point in history. Based on an understanding of the implications associated with various continuum locations, nonprofit managers will be better equipped to develop effec-tive strategic responses.

Several limitations of the proxy-partnership governance continuum are acknowledged at the outset. One limitation is what might be called the black box problem. By characterizing a government-nonprofit relationship as unitary and therefore capable of being pinpointed on the continuum, the multilevel nature of both government and larger nonprofit organizations is masked. It is possible that within one institution, cross-sector relationships could be described differently depending on the program or even the individuals involved. Another limitation is that for-profit entities are not included in the framework, despite their current substantial participa-tion in public governance.

THE CONTINUUM CONSTRUCT

In 2005, the most recent year for which data are available from *The Nonprofit Almanac* (Wing, Pollak, and Blackwood 2008), public charities reporting revenues and expenses to the Internal Revenue Service received about $103 million in government grants and just under $800 million in program service revenue, including government contracts and fees for service, such as Medicaid and Medicare fees.[3] These two sources of revenue constituted, on average, about 80 percent of all revenues raised by public charities (Wing, Pollak, and Blackwood 2008, 146). In some nonprofit subsectors, such as health, the average percentage of government-derived revenues is higher (90.8 percent) and in other subsectors, such as arts, culture, and humanities, the percentage is consider-ably lower (40.9 percent) (Wing, Pollak, and Blackwood 2008, 179, 167). For purposes of this chapter, however, the overwhelming phenomenon to note is the substantial dependence of public charities, or nonprofits classified as 501(c)(3) in the Internal Revenue Code, on government for revenues in one form or another.

Figure 10.1   **Proxy-Partnership Governance Continuum I**

Governance
by proxy

Governance
by partnership
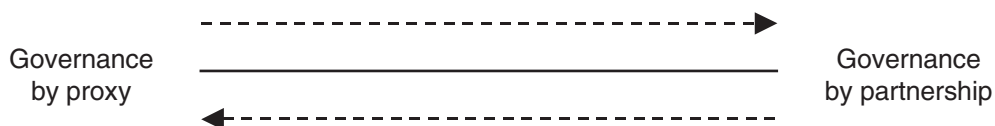
Between 1995 and 2005, the number of public benefit nonprofits increased 66 percent to about 311,000 entities (Wing, Pollak, and Blackwood 2008, 148). It is important to point out that not all of these nonprofits received revenues from government grants, contracts, or government-funded individual fees. Still, most of the larger entities across this continuously expanding array of non-profit firms are engaged in funding relationships with government and, as a result, the challenges in public administration today for governance theory and for both public and nonprofit managers are formidable. The proxy-partnership continuum is a conceptual framework that meets the challenge, at least in part, by focusing on bilateral contracting relationships between nonprofit organizations and government agencies. Significant theoretical breakthroughs in public governance involving cross-sector institutional relationships have been achieved in network theory (e.g., Kickert, Klijn, and Koppenjan 1997; O'Toole 1997; Provan and Milward 1991, 1995; Milward and Provan 2000; Provan, Isett, and Milward 2004; Provan et al. 2005) and in collaborative public management or governance theory (cf. O'Leary, Bingham, and Gerard 2006). Still, writing as a preeminent network theorist in the *Public Administration Review* special issue, Agranoff argues, "One must remember that many local governments, nonprofits, and for-profits are bilaterally linked with state and federal agencies through grants, contracts, or cooperative agreements" and that networks "are not the be-all and end-all of collaborative management. They share a place—in many cases, a small place—alongside literally thousands of interagency agreements, grants, contracts, and even informal contacts" (2006, 57).

The proxy-partnership continuum depicted in Figure 10.1 offers a way to conceptualize the broad range of bilateral linkages. The broken arrows pointing in each direction illustrate the dynamic nature of the relationships along its expanse.

Governance by Proxy

In many ways, the form of governance by proxy, with no mitigating conditions that would push the relationship toward partnership, corresponds to the tenets of principal-agent theory derived from the discipline of economics; governance by partnership in its purest form is similar to stewardship theory, with roots in psychology and sociology (Davis, Schoorman, and Donaldson 1997, 24). Van Slyke (2006) provides a useful review of the two theories applied to government contracting with nonprofits in the social services arena. The primary characteristics of a principal-agent relationship are asymmetric information and divergent goals between the principal (government agency) and agent (nonprofit organization) that result in the principal's need to provide incentives or establish significant monitoring procedures to curb opportunistic behavior by the agent.

Applying the theory to government-nonprofit contracting relationships necessitates changing the level of analysis as established in the original formulation from relationships between individuals (Jensen and Meckling 1976) or, as formulated later, to relationships within organizations (Caers et al. 2006) to relationships between organizations in different sectors (Van Slyke 2006). A principal-agent cross-sector relationship that is highly formalized by means of a legally binding contract replete with regulatory, monitoring, and reporting enforcement provisions captures the essence of the governance-by-proxy pole on the continuum.

Although some implementation authority is necessarily shared or delegated, the principal retains through the contract mechanism considerable authority over the structure, scope, and pace of program delivery in order to "minimize the potential abuse of the delegation" (Jensen and Meckling 1976, cited in Davis, Schoorman, and Donaldson 1997, 23). This is especially true if relationships operate under the condition of performance contracting, in which final payment may be withheld until outcomes designated in the contract have been achieved. Writing about collaborative capacity among multiple cross-sector actors, Weber, Lovrich, and Gaffney conceptualize this distribution of authority as a "vertical capacity dimension" (2007, 197). They highlight the hierarchical, compliance-focused nature of these relationships, anchored in goals set by government officials who rely on statutes and regulations as enforcement mechanisms.

Governance by Partnership

At the opposite end of the continuum, governance by partnership closely resembles principal-steward relationships in which the mission, values, and goals of both institutional parties are aligned and, therefore, governance structures are designed "to facilitate and empower rather than . . . monitor and control" (Davis, Schoorman, and Donaldson 1997, 26). Implementation authority is shared more broadly by government agencies with nonprofit partners because of an advanced level of trust that has developed between them (Davis, Schoorman, and Donaldson 1997; Van Slyke 2006). DeHoog and Salamon (2002) suggest that a more recent approach to contracting—the cooperative contracting process—is also aptly described as a partnership model in that government and contracting agency administrators engage jointly in developing contract terms, designing program design, and implementing changes over time.

A compelling example of governance by partnership is provided by Alexander and Nank (2009) in their longitudinal study of changing cross-sector relationships between a local department of children and family services and community-based neighborhood centers. Between 1998 and 2007, relationships evolved from predominantly adversarial in nature to remarkably collaborative. A primary, though not the only, driver of change was the development of trust between participants, facilitated by a combination of many influences. Evidence from the Alexander and Nank study of what is labeled here as governance by partnership includes authority sharing; work integration; and involvement of nonprofit leaders in government agency planning, hiring, and even promotional decisions (2009, 375).

Van Slyke (2006) also found that nonprofit organizations, perceived by government and self-defined as stewards, participate not only in implementation but at all points of the policy process, including problem definition, legitimation, implementation, and often assessment of program design outcomes in preparation for the next procurement cycle. This observation is considered further in the section on implications for nonprofit managers.

LOCATIONAL DETERMINANTS

What factors influence the location of bilateral government-nonprofit contracting relationships on the proxy-partnership continuum at a specific moment in history? Along with extensively cited scholars who have studied these relationships for many years (e.g. Gronbjerg 1993; Smith and Lipsky 1993; Salamon 1995; Smith 1994), this chapter argues that prevailing political and economic conditions explain more about the dynamics of cross-sector relationships than any other factor. Figure 10.2 illustrates the embeddedness of the proxy-partnership governance continuum in a political economy framework.

Figure 10.2 **Proxy-Partnership Governance Continuum II**

Political economy

Governance
by proxy

Governance
by partnership
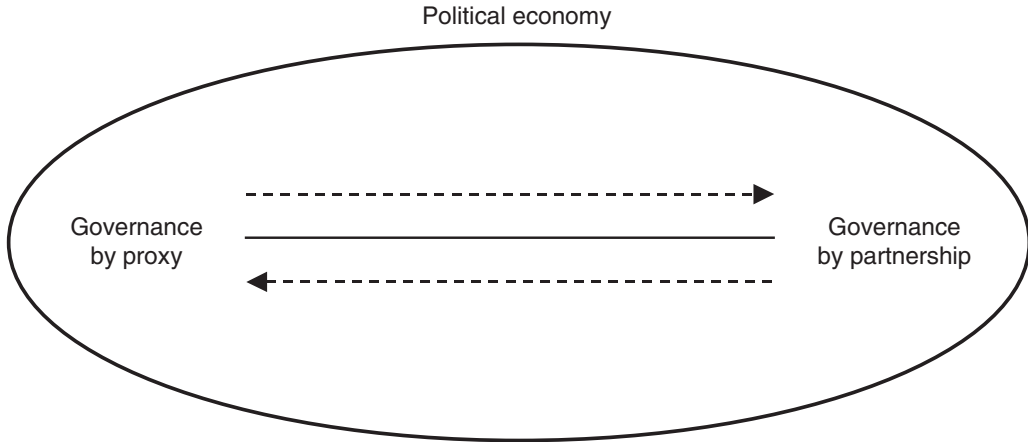
Based on observations before, during, and after the four most recent recessions, all occurring in periods of substantial nonprofit contracting activities by government and including the current "great recession" in the latter half of the twenty-first century's first decade, it seems clear that, during periods of highly constrained government revenues, most bilateral cross-sector contracting relationships are clustered at the governance-by-proxy end of the continuum. In a recent informal focus group with a handful of regional nonprofit CEOs, the response to a question about partnerships with government resulted in an emphatic consensus response: "Partnership? What partnership? The term is all rhetoric and no substance."[4] With almost all fifty states facing budget deficits in the 2010 fiscal year, state agency administrators focused on budget-cutting strategies that affect nonprofit contractors, often to the point of requiring givebacks of funds already allocated and distributed. Little or no official prior consultation with nonprofit managers occurred in these circumstances, in which public administrators felt severely constrained by fiscal realities and interacted with nonprofits as proxies.

On the other hand, during times of state budget surpluses and resources more widely available for nonprofit grants and contracts, many government-nonprofit relationships, especially those based on a long history and earned trust, will move toward the government-by-partnership end of the continuum. Van Slyke labels this dynamic an "evolved principal-agent relationship" (2006, 163).

In addition to economic circumstances, political and policy factors are important locational determinants. Alexander and Nank (2009) find that, when government dependence on community-based nonprofits is great because of their legitimacy in particular communities and government's need for legitimacy, cross-sector relationships characterized by shared decision making are located toward the governance-by-partnership end of the continuum.

Another example of a policy-related determinant occurs in periods when demands for accountability are reverberating loudly in the political atmosphere. Under this circumstance, public administrators are more likely to adhere to the strict regulatory, monitoring, and reporting requirements that characterize principal-agent relationships at the governance-by-proxy end of the continuum (Smith 2008). As Smith observed in an earlier piece, "Nonprofit management is now inextricably connected to the political process" (1994, 336). A major implication relevant to the proxy-partnership governance continuum construct is that nonprofit managers do not have the power entirely to control where their organization's relationship with a state agency

is located along its expanse at any particular time. It should be noted, however, that nonprofit mismanagement or noncompliance can quickly push the relationship to the governance-by-proxy end of the continuum.

As mentioned earlier, the duration of a specific cross-sector partnership is another important locational determinant. The longer a contracting relationship that has produced acceptable results has been in effect, the deeper the ties of trust between government and nonprofit actors and the more likely the relationship is to be positioned toward the partnership end of the continuum. A reciprocal relationship of trust is often strengthened when key individuals in both sectors have been in office for a number of years and have worked together through tough program issues. This is especially true with respect to relationships at higher levels in nonprofit and government hierarchies between nonprofit CEOs and executive program directors and public sector contract managers and higher-level administrators.

Bureaucratic politics is relevant as well in that nonprofit managers and their influential board members may have advocated at important junctures in the budget or larger policy process on behalf of the state agency with other state government officials, such as members of the governor's executive staff, legislators, or staff members in the division of the budget (Saidel 1989). The political interdependence of state agencies and many nonprofit organizations is, by now, well documented (e.g., Saidel 1991, 1994; Smith 1994; Marwell 2004). In analyses of the dynamics of contracting, political favors performed by nonprofits must be taken into account in assessing the probable location of a contracting relationship on the proxy-partnership continuum.

LOCATIONAL CONSEQUENCES

A number of important consequences for nonprofit executives and leaders flow from the conceptualization of government-nonprofit contracting relationships as nonstatic and moving between the poles of governance by proxy and governance by partnership. These include persistent locational, resource, and administrative uncertainty; shifts in information availability and exchange; changes in authority shared and discretion permitted; increases and decreases in the frequency and intensity of monitoring; and enhanced or reduced access to bureaucratic policy making.

Persistent Uncertainty

Perhaps the most significant consequence is the omnipresent general condition of uncertainty about when, how extensively, and how suddenly shifts in location along the proxy-partnership continuum will occur. Movement of cross-sector relationships along the continuum happens for a variety of reasons and with very different warning signals. For instance, a commissioner or contract manager with whom a nonprofit executive has forged strong ties of trust and respect may announce a career change with no prior notification and no indication of the orientation toward provider relationships of her or his successor. On the other hand, a looming state budget crisis has a much longer warning period, and nonprofit managers with prior experience in such circumstances can anticipate the shifts in contracting relationships that are likely to occur. Still, the migration via contracting of fiscal instability from government to nonprofit service providers presents substantial managerial challenges (Smith 2008).

Locational uncertainty is a variant of the more pervasive uncertainty associated with the entire contracting process identified by scholars such as Gronbjerg (1993), Smith and Lipsky (1993), and Smith (1994). Smith, for example, focused specifically on cash flow, contract renewal, and

negotiation issues as illustrative of the "profound uncertainties and management challenges for nonprofit agencies" related to contracting (2005, 375).

Shifts in Information Availability and Exchange

Variation in information exchange between governmental officials and nonprofit contractors is one of the specific consequences of different locational points on the proxy-partnership continuum. In an empirical study of social service contracting relationships in New York State, Van Slyke found that about two-thirds of public sector managers in a purposive sample utilized information sharing as a reward for nonprofit managers in whom they had a great deal of trust and information withholding as a sanction for those not so trusted (2006, 172). The information exchanged often had a "privileged" dimension in the sense that public administrators offered trusted providers suggestions about how to deal effectively with bureaucratic procedures and officials.

Several other consequences of location on the proxy-partnership continuum are closely related to information availability and exchange: the degree of authority shared and discretion permitted; the frequency and intensity of monitoring; and the extent of access to bureaucratic policy making. Each of these consequences is examined later in the chapter.

Changes in Authority Shared and Discretion Permitted

Early in his theory building, Salamon made the following critical observation: "The central characteristic of this pattern is the use of nongovernmental . . . entities to carry out governmental purposes, and the exercise by these entities of a substantial degree of discretion over the spending of public funds and the exercise of public authority" (1987, 110).

Specifying how much authority is shared and under what circumstances are questions unresolved in subsequent empirical studies. It is hypothesized here that cross-sector contracting relationships moving away from the proxy pole and toward the partnership end of the proxy-partnership continuum are associated with more authority sharing between government contract officials and nonprofit contractors. As a result, nonprofit managers are able to exercise more discretion in their interpretation of contract provisions and street-level programmatic decision making. This is consistent with Van Slyke's finding that trusted nonprofit providers were afforded more discretion in program innovation and implementation. The practice was specifically withdrawn by government officials when nonprofit contractors were no longer trusted (2006, 173). In the schema proposed here, a relationship in which trust has eroded and discretion exercised by the nonprofit contractor has been withdrawn could be understood as shifting toward the proxy end of the governance continuum.

In an in-depth analysis of accountability systems in government-nonprofit contracting, Whitaker, Altman-Sauer, and Henderson offer an alternative explanation for differences in discretion available to nonprofit contractors. Instead of trust as the determinant of discretion extended to nonprofit providers, the authors contend that variation in the "definition of expected performance" (2004, 120) by government contract writers results in more or less discretion and authority available to nonprofits. When government officials intend to change underlying conditions in the social economy, nonprofits will enjoy greater flexibility in programmatic decision making. In terms of the continuum construct proposed here, the contracting relationship will move toward the partnership pole. Conversely, according to Whitaker, Altman-Sauer, and Henderson (120), when the goals of government procurement officials are to have particular services or outputs provided, nonprofit discretion is more tightly circumscribed and the contracting relationship draws closer to the proxy end of the continuum.

Increases or Decreases in the Frequency and Intensity of Monitoring

Another consequence of location on the proxy-partnership continuum relates to monitoring practices and variation in the ways in which monitoring is implemented. In the context of the current public management norm of maintaining high levels of accountability in government practices, it can be conjectured that, in virtually all instances when the provisions of a legal contract are in place, a baseline level of formal monitoring such as an annual program audit and the review of periodic financial reports will occur. Confirming this likelihood, Van Slyke (2006) reports little variation in the level of oversight imposed through monitoring activities by public sector contract administrators, regardless of how much trust was invested in various nonprofit providers. He also found that agency and stewardship theories offer few clues about conditions under which the implementation and tone or style of monitoring will vary (181).

The proxy-partnership continuum construct provides a conceptual framework that can guide the formulation of some hypotheses about monitoring frequency and rigor. For instance, it is hypothesized that the location of a government-nonprofit contracting relationship on the proxy-partnership continuum will explain, to some extent, how formal and informal monitoring practices are actually experienced by nonprofit contractors. As an example, two CEOs of large and very large health and human service regional nonprofits recently commented that, in New York State's current condition of fiscal austerity, audits have taken on an entirely different character. Prior to the fiscal crisis, audits were conducted in a conciliatory way with the predominant communication mode of friendly negotiation based on the presumption of shared goals. By contrast, current audits are conducted in a highly formalized, "stick-to-every-minute-regulation" way with an adversarial communication mode and an implied sense of divergent goals.[5] These contrasting ways of carrying out monitoring functions correspond closely with a governance-by-partnership or principal-steward model in the first instance and a governance-by-proxy or principal-agent model in the latter example.

Enhanced or Reduced Access to Bureaucratic Policy Making

An additional consequence of location on the proxy-partnership continuum relates to policy access to bureaucratic decision making. In a recent empirical analysis of interest group influence on state agency policy making, Kelleher and Yackee find that contracting in general, regardless of whether the contractor is a for-profit or nonprofit entity, creates conditions under which contractors gain increased access to bureaucratic policy processes. "Yet, these exchanges also provide opportunities for contractors to convey their recommendations for policy change—be it shifts in programming, budgets, or policy priorities—to public managers" (2008, 2). The authors persuasively document through quantitative analysis of a large data set that contractors experience more access to agency decision processes than do other organized interests. The analysis is not extended to variations in access among contractors.

Some researchers have noted that government agency gatekeepers can at least partially open or close access on behalf of nonprofit contractors to bureaucratic policy making, especially to phases of the policy-making process other than implementation. In one study of resource interdependence between government agencies and nonprofits across four service areas (Saidel 1991) and another study of social service contracting relationships (Van Slyke 2006), evidence surfaced that, under certain conditions, nonprofit contractors were invited to participate in agency policy development and assessment of program outcomes. Van Slyke reports that, when contracting relationships are characterized by high trust, public managers are more likely to find ways for nonprofits to

engage in the bureaucratic policy process. As reported earlier, research by Alexander and Nank (2009) finds similar results. In terms of the proxy-partnership continuum, one would expect that relationships closer to the partnership pole would involve higher levels of nonprofit participation in agency policy deliberations.

IMPLICATIONS FOR NONPROFIT MANAGERS

One of the most important recent advances in public management theory is the understanding that governance now simultaneously incorporates traditional, vertical, command-and-control relationships carried out within hierarchically structured public agencies and horizontal, more collaborative relationships that occur across complex, interorganizational, cross-sector linkages and networks of all kinds (Kettl 2002; Cooper 2003; Heinrich, Hill, and Lynn 2004; Agranoff 2006). For instance, Agranoff maintains that "although it is certainly true that mutual dependency is leading to an increasing number of horizontal relationships crossing many boundaries, lateral connections seem to overlay the hierarchy rather than act as a replacement for them" (57).

Citing Salamon's (2002) contributions to tools theory, Heinrich, Hill, and Lynn argue persuasively that "to ignore the role of hierarchical structures and management in network performance would be a primary error; command and control remain central to governance within a constitutional framework, albeit with a much expanded (in many ways more problematic) [*sic*] set of tools or instruments of policy and administration" (2004, 11).

Understanding the Complex Dynamics of Contemporary Governance

The relevance of this contention to nonprofit managers operating in the contracting regime is the implied guidance it offers for navigating the turbulent currents that surround the proxy-partnership continuum. By understanding the realities of the often simultaneous multilevel governance dynamics under which their government contracting counterparts operate, nonprofit managers can more easily anticipate probable changes in location of their contracting relationships along the continuum and the related consequences.

As an example, when governments confront significant budgetary shortfalls and government-nonprofit relationships move toward the proxy end of the continuum, nonprofit managers will recognize that the public managers with whom they interact will more often make decisions that are consistent with the vertical administrative dynamics that characterize government bureaucracies. Public contract managers will have less discretionary authority to share with providers and less opportunity to negotiate on matters such as waivers or exceptions to regulatory requirements. They may also be less able to encourage innovative program development initiatives advanced by nonprofit providers. They may involve even trusted nongovernmental actors less frequently in agency decision-making processes. Under these circumstances, regularly scheduled information meetings with providers may continue; however, the flow of information becomes primarily one way from government officials to nonprofit contractors.

Building and Sustaining Strong Information Networks

The importance of timely and accurate information is significantly heightened by the uncertainties inherent in current governance dynamics. Analysis of management challenges associated with reducing persistent uncertainty has a long history in private and public sector management literatures. Consistent with a major theme in most studies is the necessity of building strong

information-gathering and environmental-scanning capacities that will yield signals about impending relationship changes, as well as suggestions about potential organizational repositioning strategies. Interestingly, the saliency of strong external information networks has a parallel in the heightened need for more sophisticated internal information systems that supply performance and outcome data to government and other contract overseers (Smith 2008).

Strengthening Political Acumen

The fundamental importance of highly honed political skills has long been recognized as a critical skill for nonprofit managers (Heimovics, Herman, and Jurkiewicz 1995). Skills such as bargaining, negotiation, and persuasion have been identified by a number of researchers as central to the contracting process, for both public and nonprofit actors (Kettl 1988, 2002; Salamon 2002; Smith 2008). In developing tools theory, Salamon (2002) makes the case for the necessity of public and other managers developing what he labels "enablement skills." He defines enablement skills as "the skills required to engage partners arranged horizontally in networks, to bring multiple stakeholders together for a common end in a situation of interdependence" (16). In addition to activation and orchestration competencies, Salamon adds modulation skills, which apply primarily to public contract managers inasmuch as they involve the distribution of "rewards and penalties" (16) to promote cooperation by third parties involved in governance relationships.

From the perspective of the proxy-partnership framework, it is suggested that modulation skills, defined differently, are also a key political skill that nonprofit managers should cultivate. These skills include the political savvy to modulate nonprofit strategies directed toward public sector counterparts. Under what circumstances is it appropriate to intensify or lessen advocacy pressures, a set of political skills that Smith (2008) finds are increasingly utilized? Under what circumstances should nonprofit managers lower expectations about the efficacy of bargaining and negotiation strategies and turn their strategic attention to alternative approaches? These choices may be fraught with peril, as different nonprofit stakeholder groups, including boards of directors, staff, service recipients, and large and small donors, interpret the exigencies of difficult governance dilemmas differently. At the same time, the importance of building and sustaining trust between contracting actors has been empirically demonstrated as critical to governance by partnership. The choice of modulation strategies by nonprofit managers that strengthen or diminish trust will likely have long-term ramifications.

Participating in Associations and Coalitions

A collective strategy that nonprofit contractors have increasingly adopted is participation in regional and statewide associations and coalitions (Gronbjerg 1993; Harlan and Saidel 1994; Smith 2005, 2008). Under conditions of environmental turbulence and uncertainty, nonprofit CEOs establish networks of information exchange to enhance their capacity to make sense of various fragments of environmental information. In addition, through the aggregation of voices, associations buffer individual nonprofit contractors from potential retribution when associations articulate positions that challenge prevailing agency policies. Describing a "changed political landscape," Smith (2008, S140) underscores the expanded presence and importance of associations and coalitions developed to influence state policy making. Alexander and Nank (2009, 380) note that, in an effort to limit the influence that a powerful county agency could exert over nonprofit contractors, social service nonprofits formed a collaborative to review and vote on all decisions related to the initiative they were implementing.

Developing Useful Interpretive Frameworks

Given the dramatic contrasts in these ways of carrying out governance functions, nonprofit executives are confronted with the "profound uncertainties and management challenges" noted by Smith (2005). How do they cope? How do they perform the central managerial function of interpreting environmental data and managing meaning for themselves and their organizations' internal and external stakeholders (Smircich and Stubbart 1985)?

One response to this question is a strategy derived from an empirical ethnographic study conducted more than twenty years ago that continues to ring true today. Based on eighteen in-depth interviews of nonprofit human services managers, Bernstein found that the dominant metaphor by which managers make sense of their experience in contracting is game playing. "Most managers make specific reference to game playing, and all use the language of games in their description of what they do and why" (1991, 21). Over and over, managers spoke of paradoxical circumstances in which part of the contracted agreement differed from the on-the-ground programs and services they operated. "In accepting these paradoxes, managers perceive their task as a game. This perception enables them to understand, get control of, and keep in perspective contracted services" (22).

Interestingly, when asked recently about how she experienced the contracting relationship with government, a human services nonprofit executive director immediately exclaimed, "Oh, it's a game that we all play!"[6] Apparently, the game metaphor is a powerful enabling strategy utilized by nonprofit managers to make sense of uncertain and occasionally unpredictable contracting relationships that vary between proxy and partnership dynamics.

Maintaining or Restoring Equilibrium

Another important strategy recently articulated by a nonprofit chief executive could be called an equilibrium approach. Interestingly, when introduced to the proxy-partnership continuum, this CEO of a more than $90 million health and human service nonprofit with almost total dependency on government contracts or third-party payments immediately defined the primary management implication for him as CEO as the search for leverage strategies that could counter the heavy hand of a powerful government funder and regulator. By doing so, the executive claimed, he could effectively push the government-nonprofit relationship away from the governance-by-proxy pole of the continuum and toward the partnership end.[7]

To accomplish this task, the nonprofit manager and his organization rely primarily on generating supplementary and alternative revenues through earned income in the market economy (cf. Hammack and Young 1993 for a comprehensive analysis of market-based strategies utilized by nonprofits). Finding alternative resources to reduce dependence on and, therefore, the power of one party over another in an exchange relationship is consistent with power-dependence theory formulated many years ago by sociologist Richard Emerson (1962) and utilized subsequently by researchers in many disciplines including the present author (Saidel 1991).

CONCLUSION

In this chapter, a new construct—the proxy-partnership governance continuum—is proposed to advance theory about the nonstatic character of government-nonprofit contracting relationships. Additionally, the conceptual framework is useful in enabling nonprofit managers to take into account the realities of the simultaneous multilevel governance dynamics under which their government contracting counterparts operate. As a result, they will be better positioned to

make sense of and more effectively respond to changes over time in the character of contracting relationships.

Understanding the proxy-partnership continuum construct, locational determinants, and locational consequences facilitates action by nonprofit managers and others to address the long-recognized tensions in contracting between maintaining nonprofit autonomy and slipping into what Ralph Kramer (1981) labeled "vendorism" more than twenty-five years ago. If nonprofit managers and leaders can identify their organizations' location on the continuum and, to some extent, predict the probability of future shifts along its expanse, they may be able to maximize governance-by-partnership dynamics and buffer the negative effects of sudden or even gradual shifts toward governance by proxy. An important element of this leadership capacity is the enhanced ability to maintain the kind of nonprofit organizational mission clarity that many researchers have seen as imperiled by the contracting regime (Smith and Lipsky 1993; Kramer 1994; Alexander, Nank, and Stivers 1999).

Considerable room exists for future research to build on the solid base of empirical research literature in the area of bilateral and network contracting relationships. Further examination of the determinants and consequences of various locations on the proxy-partnership governance continuum would be fruitful. In these studies researchers could examine consequences such as information availability, authority sharing, discretion permitted, frequency and intensity of monitoring, and extent of access to bureaucratic policy making, as well as others that might surface.

Finally, the implications of shifting contracting relationships for service recipients and the service delivery system as a whole should be examined. Questions highly salient for practice should be raised, such as, Should policy efforts be made to diminish uncertainties associated with the current dynamic character of contracting relationships? Following an initiative in the United Kingdom, should state-level executive-branch policy makers undertake a study of the value of relational contracting (Dowds 2004)?

In a pathbreaking comparative study, Kramer (1981) argued that insufficient attention had been paid by scholars and policy makers to the consequences for the entire service delivery system of the rapidly expanding policy arrangement in which voluntary agencies play increasingly important roles in the delivery of publicly funded services. When applied to the dynamic character of uncertain contracting relationships developed over the ensuing decades, Kramer's concerns seem equally well-founded today.

NOTES

1. Both scholars have also made major contributions to governance theory—Kettl in *The Transformation of Governance* (2002) and Salamon in *The Tools of Government: A Guide to the New Governance* (2002).

2. Kettl and Salamon worked together on a 1987 report for the National Academy of Public Administration titled "Third-Party Government and the Public Manager: The Changing Forms of Government Action."

3. The Internal Revenue Service Form 990, from which these data are derived, does not differentiate between levels of government in these two categories of revenues.

4. Focus group with five regional nonprofit chief executives, Nonprofit Executive Roundtable, Albany, NY, July 23, 2009.

5. Personal communication with the author, June 19, 2009.

6. Focus group with five regional nonprofit chief executives, Nonprofit Executive Roundtable, Albany, NY, July 23, 2009.

7. Personal communication with the author, June 19, 2009.

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