

The Potential for Government Privatization to the Nonprofit Sector

Ian Greene
School of Public Policy and Administration and
Department of Political Science
York University
Toronto, Ontario, Canada M3J 1P3
igreene@yorku.ca

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Abstract

The paper argues that public sector service delivery by nonprofit agencies can improve service delivery if five essential conditions are in place: the capacity to host a quality board of directors, executive director and staff; a quality training program for members of boards of directors; fair funding practices for the nonprofits; open lines of communication through effective liaison committees, and effective oversight by government funding authorities to prevent the malfunction of nonprofit agencies delivering government-mandated services.

Key Words:

alternative service delivery, nonprofit agencies, capacity, accountability, effectiveness

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The literature on public administration in North America has, during the period since 1990, featured numerous articles on alternative service delivery. (Lindquist and Sica, 1996) One form of alternative service delivery that is common in some jurisdictions, but is generally not well-served by the literature, is the transfer of services from government departments to the nonprofit sector. (Brock and Banting, 2001) This paper will explore some of the advantages and disadvantages of this type of “privatization” of government services, and will argue that the transfer of some types of government services to the nonprofit sector for implementation holds great potential for the improvement of service delivery – so long as several essential supports and conditions are in place.

I will begin by outlining my experience in the public service that has informed my views on the subject of the transfer of services to the nonprofit sector. Following this will be a discussion of the advantages and disadvantages associated with the provision of government services by the nonprofit sector. I will present a set of recommendations about the support services that need to be in place to encourage maximization of the advantages of the transfer of service delivery to the nonprofit sector, and to prevent potential problems in delivery and accountability. The paper will conclude with a brief discussion of a broader reform process.

This paper is intended to contribute to the sparse literature on the use of the nonprofit sector to deliver services that would otherwise be delivered by a government department, or by a for-profit organization that is on contract with a government department. As noted by Thériault and Salhani (2001), this is a potentially fruitful method of service delivery that deserves more attention. The paper argues that service delivery by nonprofits is a potentially more effective method of service delivery than service delivery directly by government departments or by the private sector – if certain essential conditions exist in the environment of the service delivery area in question.

Serendipity

At the June 2006 convocation ceremonies at York University, Professor Emeritus Peter Hogg was the recipient of an honorary doctorate. Prof. Hogg is one of Canada’s leading constitutional lawyers. However, rather than addressing a pressing issue of constitutional law in his speech, he spoke of the power of “serendipity” – the value to one’s career of taking advantage of unusual and unexpected opportunities. Prof. Hogg’s speech reminded me of my own serendipitous life experiences that have later contributed to my academic research in public administration. The first was my work with Alberta Social Services from 1982 to 1985. The early 1980s was a time of recession in much of Canada, and having just completed my Ph.D., there were very few academic jobs available. I was fortunate to secure a position as Assistant to the Regional Director of Social Services for Alberta’s South Region – a large area from south of Calgary to the U.S. border, and from the B.C. border to the Saskatchewan border, including the cities of Lethbridge and

Medicine Hat. I became the Acting Manager of the Consultation Services Unit – the office that supervised all of the contracts that Social Services had with a number of nonprofit agencies in the South Region, and one for-profit agency. The contracts were worth about \$15 million annually. My unit was also responsible for a number of services provided directly by the government, such as the inspection and licensing of day care facilities, and the provision of behaviour management services to individuals and agencies. I made it my business to learn as much as I could about the operations of the funded agencies providing government-mandated services, and to compare them with the operations of services operated directly by the government. While working for the government, I was also teaching an evening course in public administration at the University of Lethbridge, and so I had the opportunity to compare public administration theory with public administration practice in my working environment.

The nonprofit agencies funded by the unit I supervised included two sheltered workshops for the mentally and physically handicapped, seven preventive social services agencies that provided services such as family counseling, two women's shelters, and several community service projects for alternative sentencing programs operated by agencies such as the John Howard Society. All of these agencies received 80 per cent of their operating funds from government contracts. These agencies had to raise the other 20 per cent of their funding through their own fund-raising activities; if they failed to raise the required 20 per cent, their contract payments would be reduced accordingly. As well, my unit funded three associations for community living that provided accommodation for the mentally handicapped in home-like settings, and five group homes for young offenders and some apprehended children. These agencies received practically all of their funding from the government. As well, my unit administered the contract of one for-profit child welfare group home.

In the mid 1980s, Alberta Social Services continued to operate directly two secure residential facilities for young offenders in the South Region. These facilities were more institutional and less home-like than the nonprofit group homes. They were intended to house the more difficult-to-handle young offenders or apprehended children, although our departmental research showed that there was some significant overlap in the characteristics of young persons placed in group homes and those placed in the residential facilities.

A second serendipitous situation that I encountered was the process that my wife and I went through when adopting three children. To begin with, we worked with the Children's Aid Society of Toronto (CAST), an incorporated nonprofit organization funded by the Ontario government. The CAST is a large bureaucracy, with about 850 employees. Although the educational sessions established by the CAST were and are excellent, we, like a number of other adoptive parents, found that the administration of the agency was both exceptionally slow-moving and cold-hearted, and so we began to work with a small licensed nonprofit adoption agency. A few years earlier, the Ontario government had approved the establishment of licensed nonprofit adoption agencies. We found the small licensed nonprofit agencies more professionally competent, more compassionate, and much more efficient. Because of my interest in public

administration, I did some research to compare the small licensed nonprofit adoption agencies with the CAST, and discovered that a number of social workers from the CAST – often recognized by their peers as amongst the most competent – had left to work for a smaller licensed nonprofit adoption agency. Although the salaries of these social workers might have been a little lower and their job security somewhat less, they told me that they tended to enjoy their work a great deal more because they were outside of the cumbersome administrative structure of the CAST. They were able to expedite adoptions so as to minimize the harm done to adoptive children who might otherwise have been placed by CAST in temporary situations for agonizingly long periods of time while the administrative structure of CAST found them a permanent home. My impression, developed after numerous conversations that social workers in the adoption field, was that social workers in the small licensed nonprofit adoption agencies tended to have higher job satisfaction than those working for CAST. This experience taught me that nonprofit agencies that deliver government-mandated services of the same type can vary in their approach to service delivery according to variables such as size and organizational structure.

Advantages of Transferring the Delivery of Government Services to the Nonprofit Sector

There are four major possible advantages of transferring the delivery of public services to nonprofits: the possibility of greater responsiveness, the reduction of unnecessary “red tape,” the possibility of greater accountability to the community being served, and the possibility of encouraging higher morale amongst agency staff. (Brock and Banting, 2001, and Hall, Barr, Easwaramoorthy, Sokolowski and Salamon, 2005)

1. A nonprofit agency with an effective administrative structure can be more responsive to demands for service by the community it serves than a service operated directly by government. Typically, a nonprofit agency delivering public services is accountable to a board of directors, as well as to the government funding agency. The effectiveness of the agency depends primarily on three factors: the expertise and competence of the members of the board, the expertise and competence of the executive director, and the nature of the relationship between the board and the executive director. It is important that at least two members of the board have a good grasp of accounting and finance issues in order to ensure that the financial affairs of the agency are in order, and to protect against fraud. The financial statements of the agencies are subjected to a yearly professional audit, but it is up to the board to ensure that the recommendations of the auditors are understood and dealt with appropriately. (Juillet, Andrew, Aubry and Mrenica, 2001)

As well, the board requires members with expertise and experience in the services being provided by the agency, and it requires social leaders as well as task leaders (Goethals, Sorensen and Burns, 2004). The board requires a Chair who has the trust of the executive director, the government funding agency, and the local community. The board itself should be broadly representative of the community in the service area as a whole, as well as (where possible) the community being served. In addition to having a board of

directors with individually competent members, successful nonprofit agencies need boards whose new members are trained in effective board leadership. (De Vita and Fleming, 2001)

The executive director needs to be someone who not only possesses expertise in the services provided by the agency, but leadership qualities that promote a good relation with the board, and produce high morale and effective work from the agency's staff.

If all of the above prerequisites are in place, a nonprofit agency delivering government-mandated services can be more responsive to community needs and demands for services than a service delivered directly by the government. Effective boards hear the concerns of service recipients, and they do their best to ensure that these concerns are understood by and appropriately dealt with by the agency. Although staff reporting directly to a government agency also hear community concerns, it is sometimes more difficult for them to persuade their superiors – because of the greater vertical height of government departments – that a particular community problem is important and needs to be addressed. (Statistics Canada, 2005)

2. Nonprofit agencies that deliver government services are generally encumbered by less “red tape.” Nonprofit agencies are typically smaller and simpler organizations than government agencies, and therefore do not exhibit the tall hierarchical structure of a typical government bureaucracy with a seemingly endless chain of command. (There are exceptions, however, as indicated by the example of the CAST.) As well, small nonprofits are responsible for their own infrastructure services (personnel, facilities management, and information technology) and are therefore more self-reliant. In other words, there is typically less “red tape” and more “smart tape” in service delivery (Kaufman, 1997). The result can be greater employee satisfaction, and a greater ability to meet the immediate needs of service recipients more quickly and thoroughly. As well, a nonprofit agency is generally a more attractive reference group for employees than a government agency, thus generating greater desire amongst employees to enhance the reputation of the agency and to take pride in it. As a result, well-run nonprofit agency services are often more efficient than government-delivered services in the sense that employees spend more time delivering services and less time on collateral administrative duties. (Thériault and Salhani, 2001)

3. Agencies with good boards and good executive directors can tailor their service delivery strategies to the community being served more easily than a large government bureaucracy, which tends to favour a uniformity of service delivery across regions. This is because effective boards constantly monitor the pulse of the community they serve, and are more democratically accountable to that community than a provincial government agency can be, which is generally spread across a larger geographic area. Government agencies are accountable in the end to the Minister, and so employees tend to be focused on how they can impress their superiors in the bureaucracy with their work, rather than how they can impress the local community and the people actually receiving services. As well, when one examines the backgrounds of senior government officials, it becomes less and less likely that they will have expertise in all of the specific policy areas that they are

responsible for. The majority of board members, on the other hand, as well as executive directors, are generally chosen because of their expertise in particular policy areas. Because of this concentration of knowledge at the nonprofit agency level, and the flatter organizational structure, it is often easier to develop strategies that meet local conditions more effectively, as well as to implement these strategies successfully. (Julliet, Andrew, Aubry and Mrenica, 2001)

4. Because the working environment of a well-run nonprofit agency can be more hospitable than that of a government agency, the good nonprofit agencies can have greater success in attracting a competent and loyal staff than government agencies, despite the fact that they sometimes cannot offer salaries and benefits that are as high. (Statistics Canada, 2005) The quality and dedication of agency staff largely determine the degree of success of the agency – as the example of the small nonprofit adoption agencies illustrates.

Disadvantages of Transferring Services to Nonprofit Agencies

There are four disadvantages of delivering government mandated services through the nonprofits that are reflected in the literature, and that concerned me during my years of employment with Alberta Social Services: the difficulty in recruiting expert boards, the tendency of governments to use nonprofit delivery to cut costs, the lack of dispute-resolution mechanisms to help mediate disputes between the nonprofits or between the nonprofits and government, and the difficulties involved in terminating contracts.

1. It is not always possible to recruit a board of directors for a nonprofit agency that has the skills required to ensure success of the agency. In some cases, the community in which the service operates may be too small. In other cases, the agency may not be effective in attracting those with the talents required to volunteer for the board. Without expert boards, the nonprofits can become unreliable, and in the most extreme cases can become dysfunctional. (De Vita and Fleming, 2001) In Canada, it appears to be more difficult to attract volunteers to serve nonprofit agencies than in other developed countries. (Hall, Barr, Easwaramoorthy, Sokolowski and Salamon, 2005, p. 11)

Robert Putnam has argued that the rate of volunteerism has subsided substantially in recent decades in the developed world, in part because of the distraction of television and other communications technology, and in part because of changes in social values that have resulted in the demotion of community service (Putnam, 2000). This situation makes the task of recruiting expert boards for the nonprofits challenging in any developed country.

2. Those responsible for the government's purse strings are attracted to ideas that cut costs, and so the transfer of services to the nonprofits is too often seen as a cost-cutting opportunity. (Voluntary Sector Initiative, 2002) Some officials in the treasury board secretariat in the jurisdiction in which I worked saw no sense in transferring services to the nonprofits unless costs could be cut. The argument that service delivery could be

more effective through the nonprofits, even if the cost was kept the same, often fell on deaf ears.

Given the nature of the services provided by the nonprofits (Statistics Canada, 2005), it is likely that the nonprofits do not have as high a level of unionization as the public service. Not only are the smaller nonprofits often pressured by government contracts to pay wages that are below the wages of equivalent public sector employees, but they are often not funded to provide their staff with the same level of benefits. (Statistics Canada, 2005) It is a tribute to the generally higher morale amongst the nonprofit staff that the nonprofits are generally able to hire good staff in spite of lower wages and lesser benefits.

As a result of these factors, the transfer of government service delivery to the nonprofit sector could result in significant cost savings to government, particularly when the government requires that a percentage of the agency's income be generated by the agency itself. If a particular service is worthwhile, the dedicated staff and boards behind the service will normally find a way to survive. However, the use of the nonprofits as a cost-saving tool by governments is, from my perspective, not one of the more palatable reasons for transferring service delivery to the nonprofits. Principles need to be established to ensure that nonprofits are treated fairly when delivering services that would otherwise be delivered by a government department. (Voluntary Sector Initiative, 2002)

3. Friction between the nonprofits delivering services to the same citizens, or between the nonprofits and the government, can interfere with effective service delivery. (Statistics Canada, 2005, and Hall, Barr, Easwaramoorthy, Sokolowski and Salamon, 2005) In my experience, the nonprofits providing services in similar areas tend to become involved in conflicts with each other as often as they find ways of cooperating. For example, sheltered workshops need to cooperate with community housing agencies because they serve the same handicapped people. However, each agency hears complaints from their clients about the shortcomings of the other agency, and instead of trying to resolve these complaints, they sometimes take the easier route of boasting about their own competence, while denigrating the utility of the other agency. This kind of friction is counterproductive for the people receiving the services: they are disadvantaged and sometimes hurt by the inter-agency tug-of-wars.

When autonomous nonprofit agencies deliver various services to the same people, inter-agency friction is sometimes difficult to resolve unless there are established lines of communication through coordinating councils, and effective dispute resolution mechanisms.

4. Perhaps the most troublesome feature of delivering government-mandated services through the nonprofits – and the for-profit private agencies as well – is the difficulty in terminating contracts and transferring contracts to other agencies. Typically, government funding is provided to a nonprofit to provide services over a three-year period. Government inspectors constantly monitor these services, report on their effectiveness and recommend improvements where needed. During the first two years of the contract, agencies are encouraged to respond positively to criticisms and to make changes to meet

government expectations. However, if during the third year of the contract, an agency continues to provide substandard services, there is often little alternative left to the government but to renew the contract. This is because it would be nearly impossible for the government to prepare requests for proposals for a new contract, assign the contract to another agency that appears to be competent, and allow that agency sufficient time to prepare to take over the new contract. For example, with regard to group homes, the minimum lead time required by a new agency to take over the provision of services could well be two years. A new facility would need to be built or rented, staff would have to be hired and trained, and programming would need to be put into place. If the contract of the old agency was to be cancelled in time to give the new agency adequate lead time, the old agency could well renege on its service delivery obligations because it would have nothing to lose. (Voluntary Sector Initiative, 2002, and Hall, Barr, Easwaramoorthy, Sokolowski and Salamon, 2005)

A Way Forward

It is worthwhile for governments to investigate the transfer of the delivery of services to the nonprofit sector wherever feasible because of the possibility of more effective service delivery to citizens, and greater local accountability (Whorley, 2001 and Baar, 1999). However, the transfer of service delivery to nonprofits should not occur unless five essential conditions are in place. In cases where services have already been transferred to the nonprofit sector but the essential conditions are not in place, a cost-benefit analysis should be conducted regarding the possible transfer of the service delivery back to a government department.

First, it must be demonstrated that the community is likely to have the capacity to host a quality board of directors and to hire a talented executive director and staff for a proposed nonprofit service delivery agency. (De Vita and Fleming, 2001) An adequate investigation would need to be conducted into whether the community is likely to be able to sustain, over time, boards and executive directors of the caliber needed to ensure the smooth functioning of the agency. Small communities may not possess the requisite managerial talent, and they might not have the ability to attract talented executive directors. Somewhat larger communities may be saturated with nonprofit and charitable associations to the extent that it is unlikely that additional volunteer time can be generated to support additional quality boards.

Second, there should be a comprehensive training program for members of all boards of directors of the nonprofits delivering government-mandated services. (De Vita and Fleming, 2001, and Hall, Barr, Easwaramoorthy, Sokolowski and Salamon, 2005) Just as leaders of youth organizations are often required to take training in first aid and CPR, members of boards should be required to take appropriate training to meet minimum standards established by government, and to demonstrate their proficiency through testing. Similarly, executive directors should be required to meet minimum standards for good administrative practices. Ideally, training programs should be funded by governments to ensure that they actually occur.

Third, the nonprofits should be funded at the same level as government agencies providing similar services. Employees of nonprofit agencies delivering government-mandated services should be able to earn substantially the same wages as government employees doing the same kind of work, and nonprofit employees should be provided with the same level of benefits. It is important for governments to realize that the transfer of service delivery to the nonprofits is not likely to save money in the short run, but if properly executed is likely to improve substantially the quality of service delivery – which will surely save public funds in the long run.

Fourth, to promote good communication amongst agencies, as well as between agencies and governments, liaison committees should be set up (where they don't already exist) that cover particular service areas. These liaison committees should include representatives of all relevant agencies and stakeholder groups. For example, in 1984 a consultative process was initiated that brought together all stakeholders in the child welfare service area in Alberta's South Region, including a number of nonprofit group homes and preventive social services programs (Gabor and Greene, 2002). A great deal was accomplished through this process that led to significant improvements in service delivery.

Fifth, there should be provision for earlier intervention by government consultants in situations where a nonprofit agency is showing signs of faltering. In such situations, there should be built into the contract a provision that the government can take over the administration of the agency at any time in order to ensure the continued provision of quality service. If an agency has gone "into receivership" in this way, it would then be possible for the government to issue requests for proposals from other nonprofit agencies to take over the service. In this way, services could realistically be transferred to alternative nonprofit agencies. In situations where a nonprofit agency is providing a good service, negotiations should focus on renewal of the contract during the last year of the contract, rather than the sometimes hollow exercise of putting all contracts out to tender every three years. (Voluntary Sector Initiative, 2002)

The Broader Agenda for Reform

Although the transfer of government service delivery to nonprofit agencies can be an excellent administrative strategy if the right conditions are in place, it remains difficult in the early 21st century to generate the ethic of volunteerism required to ensure that nonprofit agencies can attract an adequate pool of talented people to serve on their boards and donate the required amount of time for the boards to fulfill their duties. Private and public employers need to do more to encourage their managers to donate some of their time to the nonprofit sector, and community service should be a prerequisite for internal promotion. Unfortunately, the trend in 2006 seems to be in the opposite direction. Businesses too often establish unrealistic performance goals for their employees that leave no time for community service. To reverse this trend, governments might consider providing a tax deduction for the market value of volunteer service.

In the early days of York University in the 1960s, many faculty members donated their time to organizations such as the University Settlement in west central downtown Toronto – an organization that provided opportunities for professors and university students to help underprivileged youth by providing tutoring, lessons in the arts and music, and other services. One of the founders of York University, Dr. George Tatham, directed the music school at the University Settlement for many years, and a number of his students went on to brilliant careers in music. This kind of external community service seems to have been supported and encouraged by the university to a greater extent years ago than it is today.

The broader agenda for reform could start right here in the academy. Academics should be encouraged to volunteer to serve on the boards of the nonprofits that could benefit from their particular competencies. The result could contribute significantly to more effective and community-based service delivery.

About the Author

Ian Greene has taught public policy and administration at York University since 1985. He earned a B.A. from the University of Alberta, and an M.A. and Ph.D. from the University of Toronto. He was assistant to the Alberta's Minister of Consumer Affairs in the early 1970s, and was Assistant to the Regional Director of Social Services in Lethbridge, Alberta from 1982-85. Greene is the Master of York University's McLaughlin College, and Director of the Masters program in Public Policy, Administration and Law. He is past Chair of the University Senate, and Coordinator of the Graduate Diplomas in Justice System Administration and Democratic Administration. He was an associate dean in the Faculty of Arts from 1997 to 2000. He is associate director of the MPA Programme in the Schulich School of Business, and co-director of the professional development LLM programme in administrative law in Osgoode Hall Law School. Greene is author of *The Courts* (2006), a volume of the Canadian Democratic Audit series. He was the principal author of *Final Appeal* (1998), and co-authored *Honest Politics* (1997) and *Judges and Judging* (1990). His first book, *The Charter of Rights*, was published in 1989. As well, he was a member of the research team which published *A Question of Ethics* in 1998. He has published thirty academic articles or book chapters. He has been a frequent commentator in the media on ethics in politics, and on judicial behaviour. Web site: <http://www.yorku.ca/igreene>.

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