

Introduction: Understanding the Relationships Between Nonprofit Organizations and Local Governments

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In the past two decades governments at all levels in the United States have increased their involvement with nonprofit organizations. As state and local governments deal with devolution of service responsibilities from state and federal governments, they confront the challenges of providing more and better service while operating within fiscal constraints. To address these challenges, local governments increasingly involve nonprofits in service delivery. Local governments can draw on nonprofit organizations' volunteers and private financial resources, as well as their greater flexibility of action. Nonprofits have also become increasingly skilled advocates for their clients, arguing persuasively for public resources to support their activities and seeking to influence governmental agendas and priorities. Increasingly, nonprofits and local governments have partnered to jointly develop and implement programs.^[1]

Nonprofit organizations play a prominent but little understood role in delivering public services. A nonprofit organization's form can range from neighborhood-based associations to nationally based charities and foundations. Their relationship to existing government units can range from cooperative to competitive and adversarial.

Despite the growing recognition of the role nonprofits have played in the delivery of public services in many communities, limited scholarly attention has been directed toward identifying the various ways that nonprofits fit into systems of local governance or how the characteristics of communities and their political institutions shape the role of nonprofits in

service delivery. The articles in this symposium therefore examine the roles of nonprofit organization in public service delivery through a range of organizational forms to enhance our understanding of the mechanisms.

THE ROLES OF NONPROFITS IN PUBLIC SERVICE DELIVERY

State and local governments work with nonprofit organizations in many different ways. In some cases, nonprofits may be seen as partners in the government's design or delivery of public services through joint planning and program development.

Dennis Young^[2] suggests the government nonprofit relationship can be supplementary, complementary or adversarial. In the supplementary mode nonprofits fulfill a demand for public goods left unsatisfied by government. In a complementary mode nonprofits collaborate as partners with government to deliver public goods. The adversarial mode is operative where nonprofits prod government into adjusting its policies to provide public goods. While this typology is informative, the three categories do not capture the full complexity and scope of relationships between government and nonprofits in service delivery.

We expand this framework by classifying service relationships in six categories. In relation to government, nonprofits can act as autonomous service provider, coordinated service ally, subsidized provider, contractor/agent, strategic competitor, partner, or advocate/lobbyist.

A nonprofit organization is a corporation whose charter prohibits the distribution of profits to officers or members. Like government agencies, nonprofit organizations exist to market failures that result in under provision or nonprovision of services by the private sector or seek to achieve distributive goals neglected in a private market. Governments and nonprofits rely on different mechanisms to address these objectives.

Democratic governments respond to majority preferences, while nonprofits respond to the collective needs of groups with particular interests.^[3] Thus, nonprofits may defer to government in many policy areas but collaborate with government in others, in order to address various market imperfections or distributional inequities.^[4]

According to theories of government failure,^[5] nonprofits provide public goods in areas where government fails to respond to the preferences of certain groups of citizens.^[6] One implication is that nonprofits provide services whose benefits cannot be fully captured in the private marketplace because of their positive externalities or positive redistributive consequences. The role that nonprofits play relative to government in delivering services takes into account economic considerations for the organization as well as the larger societal benefit and distribution-related factors.

Autonomous Service Provider

Nonprofits can provide services to the entire community or particular segments of the community. Even where service decisions of nonprofit organizations are made entirely independent of government actions in that area, nonprofits are constrained by the institutional rules of the public sector. Conflicts between nonprofit organizations and state and local government are not uncommon. City governments sometimes use land use and zoning to keep out nonprofits that might undermining the local tax base. For example, Clinger-mayer^[7] documents the frequency that cities impose zoning restrictions on social service nonprofits such as group homes. States have increasingly restricted nonprofit activities. For example, Colorado citizens recently voted on (and rejected) an initiative to tax the properties of nonprofit organizations.

Coordinated Service Allies

Cooperation and coordination in planning provision and implementation allows nonprofit services to complement the activities of government. Coordination of service delivery between public and nonprofit sectors is common. This occurs, for example, when a local government's dispatchers serve volunteer fire departments or when law enforcement officers refer clients to a mix of nonprofit and government services. Even where there are shared goals, the interests of the sectors are not identical. For example, nonprofit organizations often pursue greater autonomy in fostering programmatic innovation. This pursuit can come into conflict with public sector demands for accountability and oversight over the expenditure of public funds.

Subsidized Service Provision

Government contributions to the nonprofit sector can take many forms including direct grants, subsidies, and tax exemptions. Governments also subsidize nonprofit activities by supplying in-kind resources such as office space or other resources to support public services provided by nonprofit organizations. Government subsidy without direct control can be problematic for the public sector accountability. Nevertheless, this approach can provide flexibility to governments that seek to provide specialized services or services to a small subset of constituents.^[8,9]

Contractor/Agent

Government funding of nonprofit organizations through service contracts, particularly in the human services, is a very significant part of many agencies'

budgets. While outsourcing delivery of public services to take advantage of nonprofits' dedication, imagination, and private fund-raising skills, it can create potential principal-agent problems. While differences in value orientations across the sectors are partially consistent with the behavioral assumptions of agency theory, public managers generally do not believe nonprofit providers to be self interested to the exclusion of considering government's goals, nor do they perceive nonprofit providers as likely to pursue opportunistic gains by exploiting informational advantages. The incentive system in contracting with nonprofits is quite different than contracting with for-profit firms. This suggests the need for relational forms of contracting.^[10] Contractual relationships must balance the legitimate desire of nonprofits for programmatic autonomy and the equally legitimate need of government for some level of oversight and accountability.

Strategic Competitors

Nonprofits can also arise because of dissatisfaction with the quality of government provided public services. Homeowner associations, private schools, common interest developments and charter schools are popular examples. Helsley and Strange^[11] characterize these nonprofit organizations as private governments and view their formation as a kind of secession, since members withdraw from the civic whole and limit their interactions to other group members.

First, they are formed by firms or households which are dissatisfied with the services provided by the public sector. In this sense, they are voluntary. Second, they provide additional services only to those who join the private government. In this sense, they are exclusive. Third, members continue to pay for and receive the services provided by the traditional public sector. In this sense, they are governments within governments, inherently supplementary in nature. Fourth, they pay for the services they provide with taxes and fees imposed on members, rather than with broad-based taxes imposed on firms and households which may not benefit from the services. In this sense they are self-financing. Fifth, private governments operate in a mixed system, where they must compete with the traditional public sector. In this sense, they are strategic.^[12]

Nonprofit governments have been seen by some as a desirable solution to the fiscal dilemmas facing governments because firms and households which are willing to pay for services can get them, while low demanders are not compelled to pay for goods they do not want.^[13] Nevertheless, their relationship with government can be quite adversarial. Critics view these institutions as undemocratic and discriminatory, operating outside the constitutional

restrictions that public sector organizations face. According to critics, such institutions may potentially create rather than reduce inequity.

Partnership

Nonprofits often work in a supportive partnership with government. In many communities government directly collaborates with nonprofits to develop programs. Partnership arrangements are common in areas such as economic development and social services. In communities where there are fragmented systems of local governments, nonprofit organizations can provide glue to cement regional planning and service delivery initiatives in areas like public transportation. Nonprofits not only serve as implementers of policy and deliverers of services, but depending on how they are managed, they may also participate in the policy formulation and policy evaluation stages of the policy process. In many ways, nonprofit contractors are the new *de facto* street-level bureaucrats.^[14]

Advocate/Lobbyist

Policy advocacy is an important role of the nonprofit sector. Through advocacy and lobbying activities nonprofits provide a vehicle for civic engagement in the democratic process. These activities support the organization's missions and the constituencies and causes they serve. Diverse values and policy interests are aggregated through associations and represented to the political system through political advocacy and lobbying of the government by many nonprofit groups.^[15]

OVERVIEW OF THE SYMPOSIUM

Given the rising percentage of government functions that are now being carried out by nonprofit organizations in many societies, the challenge of improving public-nonprofit relations has generated increased attention in both sectors. Public-nonprofit relationship must be constantly renegotiated and reinvented based on local needs and experiences. The articles that follow explore some of the forms of government's service delivery relationships with nonprofits and how these relationships have evolved. While the empirical work is carried out in different settings and applies different methodological approaches, each draws at least to some extent on transaction cost and institutional choice theories to inform the inquiry.

In the first article Scott and Meeyoung Lamothé examine how contracting patterns changed from 1997 to 2002 and the ability of transaction cost

approaches to explain shifts in service production back to government as well as decisions to contract out. They found evidence to suggest that contract failure is relatively more prevalent than privatization in local service delivery arrangements. Although, for-profits were preferred to non-profits when privatization occurred, they found that local government contracts with non-profit are less likely to suffer contract failure than for-profit service delivery.

The second article by HeeSoun Jang, *Contracting Out Parks And Recreation Services: Correcting For Selection Bias Using A Heckman Selection Model*, provides preliminary empirical tests of theoretical arguments for efficiency gains from contracting out. In examining service provision costs across contractor sectors controlling for the choice to contract out a service or not using the International City and County Management Association (ICMA) and service expenditure data from the 1997 Census of Government Finances, the article makes corrections for the potential nonrandom bias of data truncation. The Heckman selection model estimation failed to detect such bias indicating that the regression results with truncated data are unbiased. One of the most important findings using this model is that the manager form of government has a strong positive impact on decisions to contract out park and recreation services, which is consistent with existing local institution literature. On the other hand, the direction of the impact of form of government on per capita expenditure is positively associated with both services: parks and recreation, and this result is somewhat unexpected.

The third article, Horne, Van Slyke, and Johnson's *Charitable Choice Implementation: What Public Managers Should Know About Public Opinion and the Potential Impact of Government Funding on Private Giving*, explores the policy debate over Charitable Choice and the appropriate role of Faith-Based Organizations (FBOs). Using public opinion survey data, the article examines two questions:

1. Who supports Charitable Choice?, and
2. What effect might government funding of FBOs have on individual charitable giving to FBOs?

They found that a majority of people surveyed are in favor of Charitable Choice, especially among those who are more religious, younger, and less educated. There is also a lack of significant difference in support of Charitable Choice by political party affiliation or between blacks and whites in Georgia. Because Charitable Choice support is most strongly related to religious service attendance and that most financial supporters of FBOs would not significantly alter their giving behavior despite an increase in government funding of FBOs, the article suggests that giving to FBOs is driven more by religious convictions than by market forces. The crowding-out effects of government funding of FBOs, especially by individual charitable giving are therefore minimal.

The fourth article, Barbara McCabe's *Privatizing Urban Services Through Homeowners Associations: The Potential and Practice in Phoenix*, explores the role and influence of Home Owner Associations (HOAs)—non-profit corporations created through the land-development process—as an alternative form of service-delivery mechanisms within the City of Phoenix, Arizona. Conceptualizing a range of service delivery mechanisms in a continuum, ranging from “heavy” to “light” governments, the article identifies parallel co-production as one of the main categories HOAs would fall into in urban service delivery. Parallel coproduction is a form of service delivery mode in which “independent, citizen efforts are similar to, but have no clear connection with, a government program.” This mode of delivering goods and services is increasing.

Although community strengthening as an outcome is evident through AmeriCorps, the literature on nonprofit evaluation programs offers limited additive measures to the importance of community building. This is true despite the apparent advantages of community building in contributing to community social capital created through linkages among individuals, as well as through organizations that otherwise might not occur. Assessing AmeriCorps's overall purpose against its national goal to promote community building through volunteer service, the fifth article by Ralph S. Brower and Frances S. Berry entitled *On the Success of AmeriCorps Programs in Strengthening Communities: Evidence from Florida* examines the challenges of strengthening communities at the local level through federal funding. The article reflects the roles of Volunteer Florida, as a nonprofit organization in administering federal programs and playing a leading role in developing extensive programs of technical assistance and support. Conceptualizing community building through the broad lens of community capacity literature, where volunteerism is regarded as a collective response to shared concerns of the local community, the authors argue that small nonprofits with limited financial and human resources tend to go for “direct service delivery” and do create linkages among people in the local community.

The sixth article by Jaehoon Kim, *Between Prescription and Practices in Seoul Metropolitan City: Institutional Constraints and Relational Contracting*, examines the mode of contracting of residential and commercial human waste collection and welfare facility management services in the 25 district governments of Seoul Metropolitan City. His research shows how attributes of services in determining modes of contracting in these seemingly contrasting service areas in the theoretical sense matter less than the relative importance of informal institutional constraints. The presence of informal institutional factors was captured through characteristics of relational contracting in delivering human waste collection service, that is, competition, district government officials' views of contractors, the formality of dispute resolution, price determination, and efficiency. Since formal institutions require local governments to contract out only management of welfare facilities owned by the

governments to nonprofit organizations, Kim argues that welfare services involve low physical asset specificity but high human asset specificity. Despite high transaction costs in the management of welfare facilities, district governments tend to adopt competitive contracting for the delivery of such services, thus subjecting themselves to the problems of principal-agent, moral hazard, or adverse selection. Such low levels of trust the district governments have in contractors for the provision of welfare facility management is contrary to transaction cost theory's prediction on mode of service provision. The importance of trust—as a form of informal institution—is consistent with the argument put forward by social capital theory, which, we believe, warrants further studies.

The articles in this symposium illustrate the variety of roles nonprofits play in the production and provision of local services. Examination of the range of organizational forms and activities of nonprofits enhances our understanding of the mechanisms by which nonprofits operate, their relationships with government, their impacts on public service provision, and implication for public policy and management and governance.

These articles provide a map of the territory scholars and practitioners must explore to build stronger understanding of the relationships between nonprofit organizations and local governments.

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