

Surviving and thriving in a contracting environment

Frank Ainsworth

How do children's service organisations survive and thrive in a contracting environment? This article lists some issues that have to be addressed and strategies that organisations employ to ensure that this takes place. The information in this article was acquired whilst undertaking research into contracting arrangements in children's services in Pennsylvania and Massachusetts in 1992. The research was the subject of an earlier article.

This article looks at how children's services organisations survive and thrive in a well-developed contracting environment like Pennsylvania and Massachusetts. These organisations function in a context where social values are in some instances different from those of the Australian community. Nevertheless there are lessons to be learnt from this experience for human service organisations in Australia.

BEING ORGANISED

It is clear that any human service organisation that intends to compete for service contracts has to be very well organised before engaging in this activity. Provider organisations need to have well established expertise in regard to the costing of services. It is also important that children's service organisations have information collection systems capable of generating data that relates to performance indicators or programme outcome measures. Prior to tendering for contracts organisations need to be certain about these systems as they will be required for contract monitoring and accountability purposes.

The costing expertise is critical, because a provider who wins a contract and then finds the contract price is too low is in an unhappy situation. What can a provider do in such a situation? There are some

options, but each option carries with it a cost. A provider can approach the government authority who is the contractor to see if they will increase the contract price. Given that contracts are awarded through a competitive process they may well receive an unsympathetic response. Unfortunately by making this approach they will also convey to the contractor an image of a less than competent provider organisation. Should the provider want to contract for other services in the future this negative image may have an effect on their chances of being awarded a further contract. If, on the other hand, they just drop out of providing the required services assuming that the contract contains a clause which permits the provider to terminate the contract, they create an image of unreliability. This is also likely to have a negative impact on any future contract bids. In circumstances where a provider organisation has undercosted a contract, they are in a no-win situation.

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which collect data that measures quality and the outcome of services against a given range of criteria are valuable. They create a positive image of the provider organisation which helps them gain contracts.

It is also worth noting that contract opportunities often come up at short notice. This means that provider organisations do not have the time to begin each contract bid preparation process from the most basic starting point on every occasion. Provider organisations need to be well-organised and have packages of material 'on the shelf' that can be adapted quickly with minimal effort, otherwise they lose out on new opportunities. This is certainly true when it comes to the costing of services. It is possible to establish fixed costings for various components of children's services that can be both adapted and linked together. In this way, provider organisations can submit well-prepared-and-targeted contract bids against short time-lines with confidence.

In a contracting environment it is worth remembering that contracts generally attract either programme funding or unit of service funding. It is useful if provider organisations are clear about which funding format they prefer. Whilst they may not have free choice in this matter, the provider's preference may influence which contracts they seek. Some provider organisations prefer unit of service arrangements as they think that these arrangements give them maximum control. Others view unit of service contracts as risky because of the unpredictability of the volume of service

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In addition, a provider who is able to support a contract bid with clear statements about an existing data collection system, has an advantage over other contract bidders who are not so well-organised. As has been stated, systems

that may accrue from a contract remunerated in this way.

By contrast, programme funding is considered by some to reduce the provider's autonomy, and this they view negatively. On the other hand, those who view it positively do so because they see it as providing more secure funding, at least for the duration of the contract. A caveat here has to be that government contract prices can be varied through legislative action. Therefore, it is useful for provider organisations to have a stance on these funding approaches, although there is no reason why an organisation cannot tender for services that are offered using either funding approach. It is important for a provider organisation to consider the balance of these contracts. How many, and what volume of contracts do they wish to hold which are programme funded, and how many and what volume that are unit of service funded?

Provider organisations in Pennsylvania and Massachusetts that have dealt with these matters continue to survive and thrive, by considering these issues in advance, in a highly competitive contracting environment.

SORTING OUT VALUE POSITIONS

Non-government human service organisations that decide to enter the contracting arena, and they may have no option but to do so, need to sort out various value positions. These are in relation to contracting itself, attitudes to business and the notion of for-profit services. The organisation's board of management and staff are forced to face the fact that successful contracting demands that the organisation functions more like a business enterprise. Service costings have to be accurate, contract conditions and remuneration packages must be adequate, budgets must be managed efficiently and cost overflows disallowed.

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For some children's services organisations these matters may have already been sorted out as part of management practice. In other instances, addressing these issues may result in a change in the culture of the organisation. This is certainly true for some long-standing

organisations that are very committed to a philosophy of charity and service. This kind of commitment is often accompanied by the idea that everything is subservient to the needs of children and that children always come first.

This is not to imply that contracting leads to children being placed second or a reduction in the quality of services. But rather, that contracting sets clear limits as to what an organisation is committed to providing. Clearly there are limits already on what services organisations can provide for children, but contracting seems to highlight these limitations in an unusually provocative manner. Some organisations and individuals find these limits irksome and objectionable from a values perspective. An organisation entering the contracting arena, that has not debated and found an acceptable way of dealing with these matters, runs the risk of being riven by internal conflicts during the course of a contract. When this occurs, experience indicates that this invariably has a negative impact on the services being provided under the contract. The need for provider organisations to sort out these issues before acting as a service provider is paramount. It is only when there is internal agreement on these matters by all parties, including board and staff, that an organisation can act as an efficient service provider.

Put in the crudest way, contracting pushes human service organisations to embrace the fact that they are in business, even if it is children's service business. Just like any other business, the first task is survival. It is self evident fact that if an organisation does not survive then it can no longer provide services for children. Whilst notions of charity and service — the core values that underscore many children's services organisations — remain important, in a contracting environment they have to be reshaped to address the need for organisational survival.

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FINDING A MARKET

Non-government children's services organisations that raise funds from public appeals and private endowments have a responsibility to use those funds for purposes which those who provide the funds endorse. These sources of funding will disappear if the perception is that this is not occurring. Maintaining contact with these stakeholders in order to ensure

continuing support for the organisation's efforts is important. Auditing these and other community perceptions of the organisation's purpose and effectiveness is also important, as such audits can help an organisation shape a contracting strategy.

In addition, contracting brings with it the need for children's services organisations to build and maintain a positive community image as they will be bidding for service contracts in a competitive environment. This is not new, but in a contracting environment it assumes greater importance. Now the organisation must market services and the presentation of a positive image is part of that process.

In a contracting environment, each human service organisation has to find a market for those services it can best provide. Various approaches to this task are possible. Provider organisations can, for example, make a bid for any and all contracts that are advertised. This may result in an organisation accumulating a number of contracts, and this may be regarded as a successful way of doing business. The limitation of this approach is that the contracts may be unrelated and cover a very diverse range of services. This may mean that the organisation is unable to build expertise in the field or establish a reservoir of staff expertise. Furthermore, the contracts may only marginally reflect the purposes that the major stakeholders consider to be the reason for the organisation's existence. This in turn may become a source of conflict and reduce the stakeholders support for the organisation. Nevertheless, some organisations in Pennsylvania and Massachusetts survive using this approach.

An alternative approach is for an organisation to deliberately identify a market segment and to find within that segment a market niche. This strategy firstly involves the organisation identifying the segment of the market in which it has the most positive image. Then the next step is to decide which services in that segment the organisation is best able to provide. Once this is established, then the organisation uses the positive image and the organisation's strength and expertise, and tenders for all contracts that require these types of service. In essence, the organisation seeks to create a market niche where subject to price it is most likely to be viewed by contractors as the favoured provider. Indeed, some organisations in Pennsylvania and Massachusetts survive and thrive using this approach.

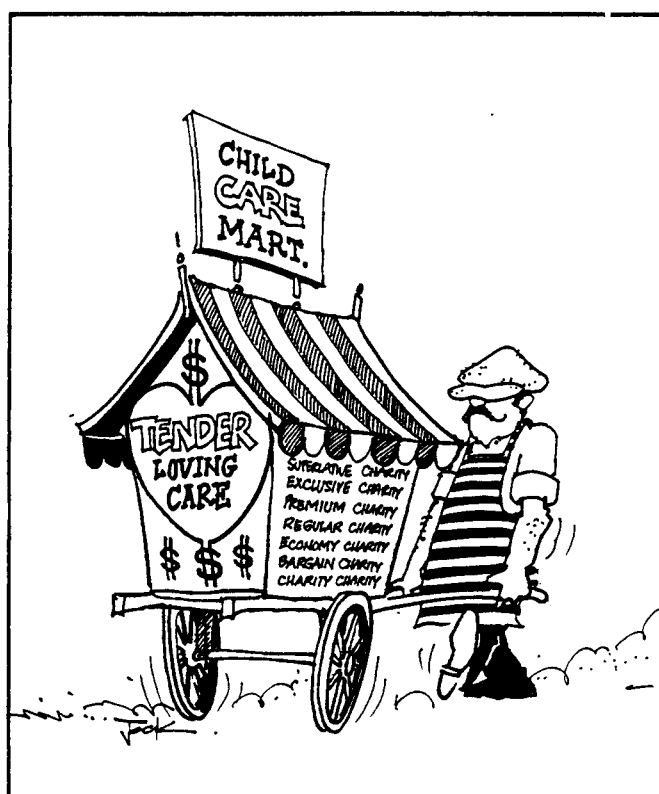
Yet another approach that can be adopted is to avoid tough competition by means of researching the market, to find out

which services most other human service organisations are least interested in providing. The reluctance of human service organisations to tender for certain services, whilst understandable, creates a window of opportunity for the adventurous. Information acquired about the type of services that provider organisations are reluctant to consider can be matched to the contractor's need for these services. Once this is done, a provider will have identified an under-supplied area of service. The contractor is likely to view favourably any organisation that is willing to provide such services. The contractor in such a situation is certainly likely to quibble, but quibble less about the cost of the service. This strategy allows a provider organisation to identify a market where there is least competition and where it has a reasonable chance of obtaining a contract at a favourable price. Some prestige organisations in Pennsylvania and Massachusetts have not only survived but positively thrived using this approach.

STAYING SHARP

In a contracting environment provider organisations have to plan for a situation in which there is a down-turn in the volume of contracting business. The loss of a contract can have a significant impact on an organisation. Staff may have to be made redundant, property leases surrendered and services closed. At the same time the organisation may have to pursue vigorously new opportunities and they may need the continuing services of key personnel to execute this. As a consequence, a human service organisation needs to husband assets so that it can survive such a shortfall in contract revenue until new initiatives result in the successful acquisition of other contracts. Without the husbanded resources, the loss of a contract can mean that an organisation goes out of business. Human service organisations in a contracting environment have ceased to exist because of a failure to plan in times of plenty for periods of contract scarcity.

Provider organisations also need to guard against becoming overly dependent on a single type or source of contracts. A particularly successful contract can easily lead to others of the same type being offered and the organisation can expand



quickly to meet this demand. There can then be an over emphasis on one sort of service provision. Should this type of service provision become unpopular, so also may the provider, with obvious consequences in terms of a reduced capacity to survive. This type of situation can also occur if an organisation becomes the constantly requested provider for one particular government authority, and then goes out of favour with the only body from which it is receiving contract revenues.

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An important strategy for dealing with these types of situations is to spread the risk. Risk spreading involves making certain that the provider organisation acquires contracts from more than one source. These contracts can also be spread across time so that they do not all start and end on the same date. The ideal situation is for an organisation to hold contracts from various levels of government as well as from government

authorities that are responsible for very different geographical areas. Contracts can also be sought from the different service systems such as health care, community services, education and criminal justice. This approach spreads the risk for the provider organisation and increases the autonomy of the organisation. The provider organisation is then better placed to be independent of a particular contractor should this become necessary. Some organisations in Pennsylvania and Massachusetts have thrived using this approach.

WHEN THE GOING GETS TOUGH

Provider organisations always need to remember that contracts do not have to be accepted if the conditions and remuneration offered are unrealistic. Accepting a contract that is seen to be unfair can only lead to an unhappy situation and all round dissatisfaction. In the world of

human service contracting, loss leaders do not work.

Sometimes provider organisations find themselves with satisfactory contracts, but with a contractor who pays for the services provided very slowly. This is an added expense for the provider who still has to pay salaries to employees and for goods that are consumed whilst providing the services. Making sure that services that have been provided are paid for on an agreed schedule that is written into the contract is important. If this is not going to happen, providers need to be certain that they will receive interest payments on the outstanding debt, at least at the level of interest they may have to pay for borrowing bank funds to maintain their organisation.

Finally, provider organisations in a contracting environment have to be willing to use the law to enforce contract agreements when disputes arise. After all, a contract is a contract! A contract says this is what the contractor is entitled to expect and this is what they will give the provider in return. The provider has rights and may need to enforce these in a court of law.

Provider organisations in Pennsylvania and Massachusetts have had to address these issues in order to survive.

DEFENDING THE TERRITORY

In the earlier article, 'Contracting arrangements in children's services' (Ainsworth, 1993), one of the issues that was highlighted was the way in which contracting removes any notion of consensus of interest between contractors and providers. Once these different interests are identified, the importance of a peak body to solely represent service providers becomes apparent. Contrary to first expectations, providers in Pennsylvania and Massachusetts did not see co-operation with their competitors by being members of such a body as inconsistent with the competitive ethos of contracting. On the contrary, contractors in both of these states saw the establishment of a proactive peak organisation to act as an advocacy group, to lobby legislators and if necessary to run legal test cases to protect their interests as vital. Indeed, in one of the states in question, the director of such a peak body is a qualified psychologist and lawyer.

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In a contracting environment, governments may have to fully fund services which have previously been subsidised by the non-government sector. Under these circumstances they begin to ask questions. They want to know about the use of funds which human service organisations have raised or are raising by public appeals or through private endowments. Their argument is that the non-government children's services sector has raised these funds to support their voluntary endeavours, and that the first call when it comes to meeting the cost of service provision for children should be on these funds. This position is adopted in an attempt to limit the cost to the contractor of providing essential services.

Not surprisingly, non-government providers take a different view and regard these assets as vital to their capacity to maintain an element of independence. They perceive a need for independence as important in an aggressive contracting environment. Accordingly, an increasing number of children's service organisations have re-organised or are re-organising themselves

into two separate legal entities. The first entity is a Foundation, that is, The Lodge Foundation for Children, which seeks funds through public appeals and private endowments. This is a holding body for all capital assets. On the other hand, the actual services that are provided to contractors are made available by an operating company, that is, The Lodge Children's Service Centre Incorporated. The operating company has no capital assets and does not seek to raise revenues from sources other than successful tendering for contracts. In this way, the non-government sector maintains control of all its capital to maintain independence. Of course, the foundation can make a grant to the operating company to start a new service or for a specific item of equipment and also rent premises or purchase other services from the foundation. The operating company can also ensure that any contract surplus goes to meet debts owed to the foundation and thus transfer and hide profit.

In an aggressive and well-developed contracting environment like Pennsylvania and Massachusetts, that is just business. It is how children's services providers survive and how some thrive!

No doubt other strategies can be expected to emerge that will allow human service organisations in Australia to continue to function in an era of contracting. The challenge is to find a way of adapting to the forthcoming changes in service funding so that the result is not just a more efficient use of resources but the delivery of more effective services to children and their families. ⚙

REFERENCES

Ainsworth F. 1994, 'Contracting arrangements in children's services' in *Children Australia* 19(2) pp. 11-14

A NOTE OF THANKS:

Frank Ainsworth was Scholar in Residence at the University of Pittsburgh School of Social Works Program in Child Development and Child Care for the duration of this study. Thanks are due to the Program Director, Professor Martha Mattingley, and a valued colleague, Professor Karen VanderVen, for their generous support during this time. The state, city, and county officials as well as personnel from service provider organisations who were interviewed are also thanked for their assistance with this research.

CAFWAA

The Child and Family Welfare Association of Australia (CAFWAA) is a new national peak body representing the non-government sector working with children and young people and their families, where abuse and neglect is a major factor in determining the types of services provided. Some agencies may be offering a range of out-of-home care and home-based service strategies, and others may be concerned with policy development, professional practice and information in relation to this specific area of the broader community services sector.

CAFWAA'S AIM:

To promote the welfare of children and young people in out-of-home care and those at risk of placement, together with their families.

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