

**A Study of the Use of Market Mechanisms for the Delivery of Publicly Funded  
Employment Services in Alberta**

by

Geoffrey Mark Braun

B.A., University of Winnipeg, 1991

A Thesis Submitted in Partial Fulfillment of the  
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### **Abstract**

This thesis employs a multiple case study design to examine the challenges, benefits, and limitations associated with the contracting and procurement frameworks used by three Alberta ministries for the purchase of employment services, including services for people with disabilities. Each framework reflects a market emphasis to varying degrees, and one is seemingly at odds with a shared governance legacy and transformational vision.

A literature review inventories a host of issues related to new public management era contracting and the more recent trend toward collaborative or horizontal governance. Semi-structured interviews were used to explore the impact of market mechanisms on inter-organizational dynamics and organizational mandate and autonomy, the use of performance contracting for services for disabled populations, and a governance framework that serves as a backdrop for contracting reforms.

It is suggested that the market model begins to strain where services are designed for people with more complex needs and where the overarching goals are intended to bring about societal transformation. The province may be reaching the limits of where a market-inspired model can be expected to produce meaningful results.

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**Dedication**

To Evan and Reese

## Chapter 1. Introduction and Problem Setting

This study was born out of an interest in the challenges and impacts associated with an increased reliance on market mechanisms in Alberta's delivery of employment services, and the issues unique to contracting for employment services for people with disabilities. The writer also wanted to understand how the apparent continued movement into a market paradigm 'fits' with the contemporary thrust toward horizontal or collaborative government and the network<sup>1</sup> organizational model. The study explores contracting and procurement related issues from both nonprofit<sup>2</sup> and public management perspectives. It is suggested that the market organizational model begins to strain where services are designed for people with more complex needs, where the overarching goals are intended to bring about societal transformation, and when it is made to co-exist with a network model.

As in other jurisdictions, Alberta's human service delivery is characterized by a new public management era emphasis on third party contracting, and to varying degrees the use of market mechanisms such as competitive tendering and performance

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<sup>1</sup> Walter Powell, in 1990, distinguished among three forms of economic organization, namely hierarchy, market, and network. At the time the simple distinction between the hierarchy and market models was no longer sufficient. Scholars were observing a growing number of organizational relationships that were characterized by interdependencies, reciprocity, trust, and longevity. These 'network' forms were contrasted to the market relationships, which were viewed to be time-bound, price-focused, and low-commitment. It is generally along these lines that public administration scholars distinguish the 'market' model associated with the new public management and the network emphasis of horizontal government. However, also contained within public administration and nonprofit management literature are loose references to contracting networks which may or may not be characterized by the reciprocity and interdependence that Powell and others associate with the 'network' form of organization.

<sup>2</sup> Various terminologies are applied to nonprofit organizations and the sector as a whole. These include the 'third', 'voluntary', and 'charitable' sectors, and 'public benefit' organizations (See Panel on Accountability and Governance in the Voluntary Sector, 1999, pp. 7-8; Scott, 2003, p. 4). There is evidence in government initiatives, reports, and the branding of umbrella groups, of consensus forming around the use of 'voluntary sector', recognizing that for many organizations, the use of volunteers may be limited to governance. For the purpose of this research, the terms 'nonprofit' and 'voluntary' are used interchangeably, and generally (as it is impossible to ascertain the specific meaning intended by each author cited), to the exclusion of community associations, unions, religious institutions, hospitals and educational institutions.

contracting. An examination of Calgary-area employment service contracting provides an opportunity to consider the challenges, benefits and limitations arising from three separate contracting frameworks; those of Alberta Employment and Immigration, the Calgary Health Region's Mental Health and Addictions Services, and Alberta Seniors and Community Supports' Persons with Developmental Disabilities Calgary Region Community Board.

The Persons with Developmental Disabilities (PDD) framework is of interest because of current efforts to individualize all support services contracted to third parties, to introduce an element of performance-based payment, and because of its unique governance objectives. The Calgary Health Region's (CHR) Mental Health and Addictions Services (MHAS) recently introduced competition into what was previously a sole-source contracting environment. Both the PDD and MHAS areas of service delivery are also notable for a historical and continued shift from government-run institutional care models to community based service delivery; however, this research is concerned with developments at the community service end of this spectrum. Finally, Alberta Employment and Immigration (AEI) contracting is of interest because the ministry's use of competition and performance-based payment structures is well established, having replaced internal delivery and sole-source contracting over ten years ago. AEI is responsible for the majority of the Province's career and employment services, including a range of mainstream and niche services. The latter include contracts for services intended for disabled populations. However, within the broader scope of AEI contracts are others that provide for a useful comparison to approaches taken by MHAS and PDD.

A survey of the respective contracting frameworks revealed that the three agencies vary in terms of the extent to which they rely on market mechanisms such as competition and performance contracting, but also the extent to which they suggest a mix of market and network organizational models. AEI was found to be the most typical of a market orientation, which prompted questions about the resulting nonprofit and public management challenges. MHAS only recently replaced sole-source contracting with a competitive request for proposals (RFP) process, and short-term effects were assessed to be negligible. One can presume, however, that over the longer term, competition may alter the current dynamic. Upon initial survey, the PDD situation was found to be the most problematic of the three, owing to the complex and disparate needs of its clientele, a selective use of market mechanisms, contracting objectives that represent movement further into a market paradigm, and overarching goals around shared governance and social transformation.

Following a survey of the respective contracting frameworks, a literature review was used to ‘inventory’ issues related to new public management era contracting, and also to seek out comment on what, upon initial survey, appeared an awkward meshing of market and network (or ‘collaborative’, ‘horizontal’) paradigms. This review surfaced a multitude of nonprofit and public management issues associated with a new public management legacy and market orientation, as well as others that occur at the intersection of market and network models. At this juncture findings from the survey of the respective contracting frameworks and the issues arising from the literature review were used to develop initial observations and identify themes to be more fully explored through primary research. In the AEI context, the primary research was used to examine whether

nonprofit managers identify with 'marketization' issues around mandate, autonomy and inter-organizational relationships. It sought both public management and nonprofit opinion on the use of service and outcome deliverables in contracted services for more 'barriered' populations. In the PDD context, the governance underpinnings, and specifically the mix of market and network organizational models, appeared to factor prominently into a host of complex contracting related issues. Therefore, the primary research was steered away from implementation challenges, and instead it was used to investigate issues around this intermingling of models.

## Chapter 2. Research Plan

This research is qualitative and takes the form of a multiple, comparative case study.<sup>3</sup> O’Sullivan et al. describe case studies as “studies that examine in some depth persons, decisions, programs, or other entities that have a unique characteristic of interest” (2003, p. 39). Yin explains that the case study is “used in many situations to contribute to our knowledge of individual, group, organizational, social, political, and related phenomena”, and when the focus is on contemporary events over which the researcher has no control (2003, pp. 1, 7-8). Additionally, he defines it as “an empirical inquiry that investigates a contemporary phenomenon within its real life context especially when the boundaries between the phenomenon and context are not clearly evident” (p. 13, bullets omitted). To the extent that this research was used to explore an issue versus a wholly unique situation, it can be considered an ‘instrumental’ study (Creswell, 1998, p. 62).

### I. Purpose

The purpose of this research was to describe and more fully understand the impacts of a continued and, in some instances, increased application of market mechanisms to the delivery of provincially sponsored employment services in Alberta, and specifically services for people with disabilities. Likewise, the research was intended to shed light on problems arising from the simultaneous use of market and network organizational models. The overarching question attached to this research was: What are

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<sup>3</sup> This research draws heavily on Robert Yin’s, *Case Study Research: Design and Methods*. Yin explains that a multiple case study can be comparative in nature. However, unlike comparative studies within the fields of political science and anthropology, which have distinct methodologies, Yin considers single and multiple case studies as, “variants within the same methodological framework” (2003, 46).

the challenges, benefits, and limitations associated with the application of market mechanisms to the delivery of disability and other niche employment services?

A secondary focus of enquiry was to begin to understand the fit between the prevailing market and emerging horizontal or network paradigms in the context of the contracting frameworks. It was beyond the scope of this study to explain the specific manifestations of these supposedly competing orientations. Rather the research explored the extent to which the contracting environments are characterized more so by one or the other, whether there is movement in either direction, and began to identify the issues that can result from the simultaneous use of market and network organizational models.

Therefore a secondary question associated with this study was: How are the prevailing 'market' and emerging 'network' organizational models evident in the contracting environments and what issues surround their use?

## **II. Units of Analysis / Cases**

The primary units of analysis were the contracting and procurement frameworks of three provincial departments and their corresponding groupings of service providers, or 'sub-sectors'. Within each unit, there were a number of 'embedded' cases, or 'sub-units' (Yin, 2003, 43-45). Sub-units took the form of service provider organizations, service contracts, annual reports and related records, and individual perceptions and responses.

### III. Methods

The research included a review of records and academic literature, and semi-structured interviews with public and nonprofit managers, executives and governors as depicted in Table 2.1.

| <b>Table 2.1 Sources of Data</b>  | <b>Case 1 - PDD</b> | <b>Case 2 - MHAS</b> | <b>Case 3 - AEI</b> |
|---|---------------------|----------------------|---------------------|
| <b>Case Description</b>   |                     |                      |                     |
| Policy Documents  | X                   | X                    | X                   |
| Reports and Discussion Papers   | X                   |                      |                     |
| Annual Reports / Business Plans   | X                   | X                    | X                   |
| Contracting and Procurement Related Documents                           | X                   | X                    | X                   |
| Council / Association Statements of Purpose and Mandate                 | X                   |                      | X                   |
| <b>Primary Research</b>   |                     |                      |                     |
| Council / Association Minutes   | X                   |                      | X                   |
| Interviews with Nonprofit and Public Managers, Executives and Governors | X                   |                      | X                   |
| Interviews with Government Employees / Managers                         | X                   |                      | X                   |

Due to the contentious nature of issues pertaining to the current PDD contracting environment, some participants agreed to interviews with the understanding that their roles would be described in sufficiently general terms. Therefore, this group of interview participants is described as ‘executives and governors involved in the PDD realm’. The remaining participants were either AEI contract management staff or executive directors or managers of AEI contracted nonprofit or not-for-profit organizations.

### IV. Process

The research began with a survey of the respective contracting frameworks or a ‘case description’. This included a review of government policy, reports, discussion papers, request for proposal documents, contractual agreements, as well as the various published descriptions of service provider associations. The case description was

followed by an extensive literature review intended to ‘inventory’ issues arising from the legacy of new public management contracting and the more contemporary thrust toward horizontal government, or a ‘network’ paradigm. At this juncture a number of initial observations were made based on the findings from the survey of the contracting frameworks and the literature review, and the researcher identified several issues pertaining to the AEI and PDD situations that warranted further exploration through primary research.

The primary research consisted of semi-structured interviews with governors, and nonprofit and public managers and executives. It was complemented by a review of official records of service provider associations. The primary research was designed to inform the propositions listed in Table 5.1.

## **V. Interviews**

### ***Sample of Participants***

A purposeful sample was chosen from the researcher’s own professional contacts as well as persons recommended by public managers and nonprofit executives. The criterion was that participants had significant experience with, and knowledge of, one or more of the contracting and procurement frameworks that are the subject of this study and, in the case of PDD, matters of governance. Fourteen in-person interviews were conducted: three with AEI contract managers, five with executives or managers with nonprofit organizations contracted by AEI, and six with executives and governors involved in the PDD realm.

### ***Recruitment and Informed Consent***

The researcher contacted interview participants directly by telephone and according to a predetermined script or, after an initial voicemail exchange, via email. Following the phone call or as part of the email exchange, participants were provided with an electronic copy of a voluntary consent form. This form included a description of the research, a rationale for why they were selected for participation, a description of how the information obtained through the interview would be used and would contribute to the research, a description of what the interview would entail, measures taken to protect confidentiality, and limits to confidentiality and anonymity. As required, permission was sought in advance from participants' supervisors.

At the time of the interview, this information was reviewed with participants and they were asked if they had any questions or concerns regarding the voluntary informed consent. Participants were asked to sign the voluntary consent form prior to commencing the interviews. With the exception of one interview, and with the permission of participants, interviews were audio-recorded. Written notes were taken through the course of the interviews.

### ***Risks and Inconveniences***

Participants were interviewed on topics they would consider as a matter of course in their day-to-day work and therefore possible harm was no greater than that which would normally be encountered in their professional activities. This research inconvenienced participants insofar as it required time out of their regular workdays.

### ***Confidentiality***

Owing to the relatively small number of individuals with expertise and experience related to the topic areas, the small number of associational actors (third party contractors, sector councils) involved in the work of disability and other employment services, and the tendency of those within the population to be known to each other, full confidentiality could not be assured.

### ***Format***

Participants were interviewed in their respective places of work and, as mentioned above, during regular work hours. Interviews were semi-structured and participants were asked a series of open-ended questions pertaining to contracting and procurement for third party delivery of employment services and/or the governance context in which contracting and procurement is situated. Participants were encouraged to speak openly about related issues; therefore, interviews also included general discussion of issues pertaining to the research topic. A list of sample questions is contained in Appendix B. Interviews ranged from thirty to ninety minutes in duration.

### ***Data Analysis***

All audio-recorded interview content was transcribed verbatim. Transcripts were then analyzed thematically according to key concepts in the form of assertions made by participants that would serve to either support or refute the propositions listed in table 5.1. The approach used was a combination of both inductive and deductive thematic analysis. Concepts were interpreted according to themes that surfaced in the literature review, but new themes or concepts specific to a given interview or interviews were identified as well.

## **VI. Review of Official Records**

The primary research was informed by the aforementioned case description and literature review, and also by an analysis of minutes of service provider association meetings. Here the content was analyzed according to the key issues that dominated meeting agendas with specific attention to those that would provide evidence of a market or network orientation as well as those specifically related to contracting and procurement.

## **VII. Boundaries**

The research was limited to the contracting and procurement frameworks of Alberta Employment and Immigration, the Calgary Health Region's Mental Health and Addictions Services, and the Persons with Developmental Disabilities Calgary Region Community Board, as well as the corresponding service providers. In addition to these 'sector' boundaries, the research was limited to the geographic jurisdictions as defined by the Calgary Contracted and Business Services arm of Alberta Employment and Immigration, the Calgary Health Region and the PDD Calgary Region Community Board. These generally include Calgary and the surrounding communities of Airdrie, Cochrane, Okotoks, High River, Black Diamond, Turner Valley, Banff and Canmore.

## **VIII. Limitations**

This research may be limited by the extent to which records, such as meeting agendas and particularly minutes, accurately reflect discussions and proceedings. There is little way of knowing whether minutes, often taken by a volunteer, are comprehensive,

balanced and free of bias. Similarly, interview participants' responses may well be informed by bias stemming from political convictions, work-related performance expectations, office climate, and the like.

More generally, it is commonly understood that interpretation and analysis of data obtained through qualitative research is never entirely objective (Fontana and Frey, 2003), and that there is no one "correct telling" of a given event or reality (Denzin and Lincoln, 2003, p. 8). "Data analysis is not off-the-shelf, rather it is custom built, revised, and 'choreographed' " (Huberman and Miles, 1994, as quoted in Cresswell, 2003, p. 142). However, the issues explored through the primary research were informed by both the case description and the literature review, and furthermore can be considered to be more 'concrete' than many topics that are approached through qualitative research.

Alberta Provincial guidelines for employees participating in research, and the overall sample size relative to population, may pose limitations on the research. Provincial employees are permitted to participate in research provided the information they provide is of a factual nature. While there most certainly exists a murky area between that which is purely factual and that which is entirely subjective opinion, some public employees may take an overly guarded approach to discussing the challenges and benefits of market-based approaches. Furthermore, the relatively small number of organizations acting as third party contractors means that full confidentiality cannot be assured. Participants may withhold information that, for example, they feel may depict funding bodies in negative terms for fear that the statements may be attributed to their respective organizations.

## **Chapter 3. Survey of Provincial Contracting Frameworks**

### **I. Introduction**

As in other jurisdictions, Alberta's human service delivery is characterized by a new public management era emphasis on third party contracting and, to varying degrees, the use of market mechanisms such as competitive tendering and performance contracting. An examination of Calgary-area employment service contracting provides an opportunity to consider the challenges, benefits and limitations arising from three separate contracting frameworks.

Under the 2004 Canada-Alberta Labour Market Agreement for Persons with Disabilities, the province and federal government cost-share approximately 50 million dollars of provincially administered employment services for people with disabilities. These funds are allocated to three ministries: Alberta Employment and Immigration, Alberta Health and Wellness, and Seniors and Community Supports.<sup>4</sup> Some of the funds are earmarked for cross-ministry initiatives involving all three, and Alberta Employment and Immigration has taken the contracting lead relative to these initiatives. In the Calgary area, Alberta Health and Wellness funds are expended by the Calgary Health Region, and Seniors and Community Supports by the Persons with Developmental Disabilities Calgary Region Community Board.

This chapter describes the contracting and procurement frameworks of the respective agencies and current initiatives aimed at revamping contracting processes. It

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<sup>4</sup> Based on 2006-07 actual expenditures. Of a total \$53,623,565 expenditure, \$28,997,694 was allocated to Alberta Employment, Immigration and Industry, \$2,264,717 to Alberta Health and Wellness, and \$22,361,154 to Alberta Seniors and Community Supports. The federal contribution was \$25,190,332. (Alberta, Employment Immigration and Industry, 2007).

also provides insight into the respective contracting environments and relations among service providers.

The first three sections outline the PDD, MHAS and AEI contracting and procurement frameworks respectively. They provide context for these frameworks by describing the mandates and relevant histories of the agencies, and the intent and nature of services contracted to third parties. The section describing the PDD framework also discusses the governance objectives that serve as backdrop to the contracting regime. This reveals that in theory the PDD contracted service environment is something more than a collection of principal-agent relationships indicative of a market environment. The next section provides a cursory look into the nature and composition of the three contracting environments. It briefly considers the extent to which service providers are organized around common issues and whether there is evidence of collaboration and consultation among service providers and across sectors. The chapter concludes with an initial consideration of issues arising from the three contracting frameworks.

## **II. Persons with Development Disabilities Calgary Region Community Board**

### ***Background***

The Persons with Developmental Disabilities (PDD) Calgary Region Community Board (CRCB) was created in 1998 as a result of the 1997 proclamation of the *Persons with Developmental Disabilities Community Governance Act*. The Act established a total of six regional boards<sup>5</sup> that reported to a Provincial Board, which in turn was responsible

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<sup>5</sup> The Act also established a foundation board responsible for land and assets and a board to oversee the provincially operated Michener Centre.

to the Minister of Community Development.<sup>6</sup> The Act was amended in 2006 when the Provincial Board was disbanded. At that time, the six regional boards became agents of the Crown, reporting through the Deputy Minister to the Minister of Seniors and Community Supports.

The regional boards are responsible for the provision of supports and services for persons with developmental disabilities in accordance with the principles of the *Community Governance Act*, the PDD mission, vision and values, the ministerial business plan, memoranda of understanding between the Minister of Seniors and Community Supports and the community boards, and the *Community Inclusion Supports Framework of Operational Policy*. The framework describes the available supports, specifically: ‘community living supports’ aimed at supporting individuals in their residential settings, ‘community access supports’ aimed at supporting participation in various community activities, ‘specialized community supports’ that include assessment and behavioural services, and ‘employment supports’ aimed at supporting individuals in their efforts to gain and maintain paid employment. The latter are of primary interest to this study and are further classified as ‘employment preparation’ supports that focus on skill development and work exploration, and ‘employment placement’ supports that help people find and keep work (Alberta, Seniors and Community Supports, Persons with Developmental Disabilities Program, 2007). The vast majority of services are contracted to third party providers.

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<sup>6</sup> The PDD mandate has fallen under the ministries of ‘Community Development’, ‘Health and Wellness’, and ‘Seniors and Community Supports’.

The preamble to the *Persons with Developmental Disabilities Community Governance Act* establishes ‘community’ as pivotal to the quality of life of persons with developmental disabilities and, as the name implies, matters of governance.

... it is important that adults with developmental disabilities have opportunities to exercise self-determination and to be fully included in community life;  
 ... the Government of Alberta recognizes, values and supports the ability of communities to respond to the needs of adults with developmental disabilities;  
 ...statutory programs, resources and services are best provided to adults with developmental disabilities in a manner that acknowledges responsibility to the community and accountability to the Government through the Minister;...

In 1999, the Provincial Board produced a paper entitled *Charting the Future Direction 1999-2009*. It describes an historical evolution of services for people with developmental disabilities from the geographically segregated ‘medical’ or ‘custodial’ models, to ‘developmental’ or ‘program’ models which served to establish congregated services in communities, and finally, to a ‘citizenship’ or ‘community membership’ model that serves as the foundation for a contemporary vision of inclusive communities (Alberta, Persons with Developmental Disabilities Provincial Board, 1999). The latter emphasizes both geographic and social inclusion.

In 2003 and 2004 a series of *Second Century Communities* discussion papers was prepared for the Provincial Board. Among the themes threaded through these discussion papers are that inclusion is achieved through differentiation, not uniformity of service; that it ultimately requires movement outside of formal service delivery systems; and that it is the cumulative impact of multiple stakeholders fulfilling a variety of roles. Hence decision-making and accountabilities should be based upon a ‘shared governance’ model. Prince (2001) points out that the *Community Governance Act* does not specify how

stakeholders are to be included in governance. The discussion papers were intended to help refine the ‘inclusive communities’ vision, and delineate roles and responsibilities within the context of shared governance (Alberta, Persons with Developmental Disabilities Provincial Board, 2003a; 2003b; 2004a; 2004b; 2004c). In 2005, the Provincial Board published two additional documents in the form of a *Governance and Accountability Background and Context* and a *Governance and Accountability Framework* (ibid., 2005a; 2005b), that were in part, a follow-up to an earlier environmental scan that suggested “community governance was not working in the way that was originally envisioned by stakeholders” (2005a, p. 3).

The partners needed to learn to work in true collaborative partnership with shared power, respect, honesty, and recognition of the interdependence and autonomy of each partner (ibid).

Once again, the governance and accountability papers were aimed at clarifying the meaning and intent of shared governance, the roles and responsibilities of various stakeholders, and the various layers or dimensions of shared governance: individual, community, regional, and provincial.

Since the Provincial Board was disbanded, there has been less of a concerted effort to solve the shared governance puzzle; however, key documents such as the CRCB *Business Plan for the Period of 2007-2010*, the *Memorandum of Understanding between the Minister of Community Supports and the CRCB*, and the *Community Inclusion Supports Framework* continue to predicate the PDD vision on interdependencies and collaborative approaches involving multiple stakeholders, and make direct reference to shared and community governance.

While the *Second Century* papers generally base the ‘inclusive communities’ vision on a moral imperative, there is an acknowledgement of a link between this vision and sustainability, and specifically, affordability (Alberta, Persons with Developmental Disabilities Provincial Board, 2004a), suggesting the vision is also tied to an economic imperative. The 2007-2010 CRCB business plan picks up on this theme. The strategic priorities listed in the plan read:

- Shifting from service systems to inclusive communities, understanding that it is in community that long-term societal outcomes are realized.
- Developing a new business model for supports and services that focuses on community outcomes for individuals and is sustainable within PDD's resource base.
- Focusing on long-term societal outcomes through policy coordination and integration. The ongoing pursuit of life outcomes for individuals provides an opportunity to focus on inclusion as the foundation for sustainability. (Alberta, Persons with Developmental Disabilities Calgary Region Community Board, 2007, p. 5).

This can be contrasted to the business model attached to the previous ‘sheltered workshop’ era, one that relied on client labour in commercial enterprises to offset ‘service system’ costs.

### ***Contracting***

Two mechanisms are used to purchase service from community agencies: sole source ‘contract funding’ and ‘individualized funding agreements’. Under contract funding, service providers receive quarterly payments in advance of service delivery based upon staffing, administration and, to varying degrees, infrastructure costs required to provide an agreed upon volume of service. This is essentially a cost-reimbursement, block-funding model, and program monitoring focuses heavily on program inputs and ensuring appropriate expenditure of funds according to three approved categories: direct service expenditures, service delivery costs, and administration expenditures. Service

providers are required to submit monthly nominal rolls, which, in the Calgary region, detail hours of service accessed by each individual recipient according to service type. Service providers are also required to supply annual audited financial statements. Contracts are renewed annually and according to a fixed-price determined by PDD. Surplus funds are either returned to PDD or are placed into a restricted surplus retention fund. Contractors are responsible for deficits. Many service providers supplement PDD funded operations with revenue from alternate sources.

The individualized funding agreement mechanism is used to allocate funds to individual service recipients for their specific service requirements under an hourly ‘fee-for-service’ arrangement. Recipients and their families then ‘purchase’ services from an approved service provider or assume responsibility for hiring and managing staff (‘family-managed services’). In practice, service providers invoice PDD directly for hours of service delivered each month through individualized funding and according to the same approved categories of expenditure that apply to contract funding. Individualized funding agreements are based on individual service plans and are reviewed on an annual basis. Subsequent to the 2003-04 Auditor General’s report, individualized funding recipient organizations are required to submit audited financial statements.<sup>7</sup>

Neither funding mechanisms ties revenue to program outputs or outcomes. On occasion, the CRCB employs a competitive tendering process, but typically for extraordinary and time-limited projects only. The rationale for sole-sourcing contracts is found in the ministry’s Contract Administration Manual for PDD Boards:

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<sup>7</sup> A variety of additional reporting requirements apply to PDD funding agreements including critical incident reporting and abuse prevention and response reports.

Services for PDD eligible individuals are most successful when the individual and their family choose the contractor, there is stability over time in the staff providing the support, and the contractor has demonstrated their experience, expertise and familiarity with the individual being supported over a period of time (Alberta, Seniors and Community Supports, 2008, p. 10) .

Although some PDD regions have established policy for approving new service providers, the ministry's contract administration manual is silent on this issue. Still, regional boards are required to submit rationale, in the form of a business plan, for every sole sourced contract at least once every three years. Competition exists to the extent that all service recipients, regardless of the funding type accessed, can choose from among approved service providers.<sup>8</sup>

A number of factors have prompted PDD to begin to revamp its contracting framework. The 2003-2004 Annual Report of the Auditor General made several recommendations to strengthen contracting processes. The report noted that monitoring activities and reporting requirements are not proportionate to actual levels and areas of risk and fail to evaluate service providers on performance. Furthermore there have been ongoing concerns among service providers and PDD staff and board members about a lack of consistency and equity within and between regions, micromanagement of contractor affairs, and a disproportionate focus on program inputs. PDD is involving service providers and a provincial umbrella group in the design and testing of the new contract template. To this end a Calgary region 'prototype' team is working in conjunction with a provincial PDD working group and a PDD/Alberta Council of Disability Services liaison committee.

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<sup>8</sup> Although some service providers offer services under both contract and individualized funding arrangements, others do not. Therefore service recipients' choice is somewhat limited according to the funding mechanism they access, and available space in respective services.

PDD has identified three “strategic shifts” for its contracting regime:

- Focusing on service and results
- Payment upon receipt of service
- [A] common contract policy and process

(Alberta, Persons with Developmental Disabilities, Calgary Region Community Board, 2008).

The contracting project is partway through a first phase that will serve to eliminate the contract or block-funding mechanism, ‘individualize’ all services across the province, and adopt common units of measure (hours of service). The goal of the second phase is to develop consistent service descriptions to facilitate common pricing for services. The third phase will focus on developing outcome measures, and the goal of the fourth and final phase is to tie monetary reward to performance. PDD is targeting 2011 for completion of this project.

Simultaneously, the CRCB has engaged three employment service providers in a project aimed at developing a new and better outcomes-focused contracting model. Originally to focus exclusively on employment services, the ‘Demonstration Project for a New Business Relationship and Contracting Process’ has expanded its scope to include community access services. The expected result is a streamlined, financially sound contracting model that supports and captures employment and community access outcomes and provides learning that can be applied more broadly (Persons with Developmental Disabilities Calgary Region Demonstration Project Steering Committee, 2008, pp. 3-4). Similar to the provincial contract change project, the CRCB would like this project to establish a standard cost for employment services and include an aspect of performance-based payment.

### III. Calgary Health Region Mental Health and Addiction Services

#### *Background*

The Calgary Health Region's (CHR)<sup>9</sup> Mental Health and Addictions Services (MHAS)<sup>10</sup> is responsible for services ranging from prevention to acute care. The division's stated mission is, "To boldly build a comprehensive responsive network of mental health services with innovative stakeholder partnerships" (Calgary Health Region, Mental Health Services, 2005, p. ii.9). Mental Health and Addictions relies on a variety of service delivery mechanisms, including internal service delivery, partnerships with stakeholders (e.g. school boards), and service contracts with community agencies.<sup>11</sup>

The *Mental Health Services Three Year Plan* affirms that contracted services delivered by community agencies "are an integral part of mental health services in the Calgary Health Region..." (p. vii.1). Such services are designed to assist people who are "functionally impaired by mental health problems to maintain community living and improve their quality of life" (Calgary Health Region, Purchasing and Supply Management, 2007, p. 3). The Calgary Health Region utilizes a 'continuum of care' model.<sup>12</sup> Within MHAS the continuum is defined according to eight major groupings:

- Prevention & Promotion Services
- Early Intervention Services
- Crisis Intervention Services
- Inpatient Acute Care

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<sup>9</sup> On May 15, 2008, the Calgary Regional Health Authority Board along with Alberta's eight other regional health authority boards, the Alberta Cancer Board, the Alberta Alcohol and Drug Abuse Commission, and the Alberta Mental Health Board were replaced with one 'super-board': namely, the Alberta Health Services Board. Alberta Health Services is responsible to Alberta Health and Wellness. Transition and restructuring activities are currently underway.

<sup>10</sup> In 2006 the CHR's Mental Health Services was renamed Mental Health and Addictions Services to reflect a somewhat broadened mandate. In this paper, both names refer to the same division within the CHR.

<sup>11</sup> In April of 2003 program service agreements funded by the Alberta Mental Health Board were transferred to Alberta's respective Regional Health Authorities.

<sup>12</sup> As defined by the Canadian Council on Health Services Accreditation.

- Rehabilitation Services
  - Basic Treatment Services
  - Specialized Treatment Services
  - Sustain and Support Services
- (Calgary Health Region, Mental Health Services, 2005, p. ii.7).

Employment services have historically been aligned with the ‘rehabilitation’ and ‘sustain and support’ service groupings.

### ***Contracting***

In April of 2005, the Calgary Health Region’s Mental Health Services was responsible for 48 programs contracted to 24 community agencies, representing approximately ten million dollars of the division’s 110 million dollar budget.<sup>13</sup> Currently, there are three contracts within the continuum of care which have an employment focus.

Prior to 2006, MHAS awarded grants and service agreements on a noncompetitive basis. Dependent on continued need and department priorities, agreements were renewed on an annual basis. In 2006 the MHAS process was brought into compliance with the CHR’s ‘Fair Competitive Processes and Ethical Business Practices’ and ‘Tendering of Contracts’ policies, which generally require that a formal competitive process be used for the purchase of goods and services in excess of \$100,000<sup>14</sup> (Calgary Health Region, 2002; 2007). While a number of grants were grandfathered into new agreements, contracted services were put to a competitive process.<sup>15</sup>

Currently, MHAS utilizes two service agreement types: ‘Community Capacity Grants’ and ‘Engagement of Service Agreements’. The *Community Capacity Grant*

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<sup>13</sup> At that time, approximately 90 services were delivered internally. The breakdown of internally delivered versus contracted services has not changed significantly since 2005.

<sup>14</sup> This corresponds with the 1995 *Agreement on Internal Trade* requiring that contracts for services valued in excess of \$100,000 be made accessible to all domestic suppliers through an invitation to bid; however, health and social services are not subject to the agreement.

<sup>15</sup> In some instances a ‘call for expressions of interest’ was used to gauge availability of contractors and contracts were awarded in the absence of formal requests for proposals.

*Administration Guidelines* state quite simply that these grants are used to contribute funds to new or existing programs or initiatives that “increase community capacity for mental health clients” (Calgary Health Region, Mental Health Services, 2006a, p.1).<sup>16</sup> MHAS accepts requests for funding on priority service areas determined on an annual basis.

Engagement of Service Agreements are used to purchase mental health services “requested and defined by the Calgary Health Region” (Alberta Health Services, Calgary Health Region, Mental Health and Addictions Services, n.d.) and where at least one of several criteria is present:

- The funding requested is more than \$150,000 per annum.
- The Region contributes more than 60% of the overall funding to the program.
- The services provided in the program have operational links to other Region programs that are contingent on maintaining the program activities.
- The Region may have input into the intake process or control access to the services.  
(Calgary Health Region, Mental Health Services, 2006b, p.7).

Engagement of service agreements are fixed-price insofar as the requests for proposals identify the amount of available funds for a given purchased service. The full amount of the contract is paid to contractors in the form of quarterly advance payments. Contractors are required to return surplus funds and are responsible for deficits. Various approval requirements apply to reallocating funds within and between budget categories.

MHAS Contractors are required to report annually on staffing and staff development, program highlights, client volumes and demographics, actual versus budgeted expenditures, as well as deliverables and program outcomes (for example,

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<sup>16</sup> The CHR Mental Health and Addictions Services website explains that Community Capacity Grants are used “to support programs designed and operated by the Community Service providers that serve mental health clients” (Alberta Health Services, Calgary Health Region, Mental Health and Addictions Services, n.d.). Therefore, funds may contribute to the capacity of community-based services, but ‘community capacity’ is not used here in the sense of building natural (versus formalized) supports in the community.

intake consultations, assessments, employment placements).<sup>17</sup> Contractors are required to provide financial information based upon a value threshold.<sup>18</sup>

The department has a designated evaluation team that performs program evaluations and assists contractors with developing “client level” outcome measurement frameworks (Calgary Health Region, Mental Health Services, 2005, p ii.16.). Therefore, contractor performance is evaluated in part on achievement or completion of deliverables identified in the contract, but MHAS does not attach payment to deliverables or service level targets. The benefits of the new contracting process as stated by MHAS are listed in Table 3.1.

**Table 3.1 Benefits of CHR MHAS ‘New Contracting Process’**

**Community**

- Open fair competition for all CHR funding
- Maintain a granting process to allow access to CHR funding for community generated initiatives
- Clear deliverables and reporting requirements in contractual situations
- More sustainability in longer term service agreements

**Mental Health Services**

- Processes compatible with CHR requirements
- Defined process and criteria for awarding contracts
- Open, competitive process
- Defined contracting processes will allow for long term expansion of contracts with community service providers

(Calgary Health Region, Mental Health Services, 2006b, p. 11)

While MHAS has introduced competition into contracting for services, terms of reference emphasize the importance of collaboration and partnership among service providers to the delivery of client-centered service with the continuum of care model.

<sup>17</sup> Contractors are also required to provide supporting documentation such as certificates of incorporation and proof of comprehensive liability insurance annually or prior to executing a contract.

<sup>18</sup> Agreements valued less than \$500,000 per annum require an independent auditor to prepare a “Notice to Reader” whereas audited financial statements are required for agreements valued over \$500,000.

## IV. Alberta Employment and Immigration

### *Background and Contracted Services*

The Ministry of Employment and Immigration<sup>19</sup> delivers a variety of labour force development programs and services under the authority of the *Income Assistance and Supports Act*. Services as described in Alberta's *Skills Investment Strategy Policy Framework* are intended to “help individuals prepare for, train for, find and keep employment” (Alberta, Human Resources and Employment, 2003, p. 1). Moreover, services support overarching goals around individual independence, a skilled, flexible and sustainable workforce, and a prosperous Alberta (Alberta, Employment and Immigration, 2008). Services are designed for provincial income assistance recipients (Alberta Works), individuals eligible for employment insurance,<sup>20</sup> other low income Albertans and those in need of supports to successfully transition into the workplace. Calgary's AEI Community and Business Services office is one of six regional offices managing services across the province.

The *Skills Investment Strategy Policy Framework* categorizes services according to four major program areas: career information (career and employment related information and resources), work foundations (basic skills acquisition for individuals who are low-skilled and unemployed), training for work (job-related training for low-income Albertans), and workforce partnerships (partnerships with organizations,

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<sup>19</sup> Since 1996 the unit responsible for career development and employment services has remained relatively unchanged; however, the ministry has been restructured and renamed on multiple occasions since that time. In chronological order, the name of the ministry responsible for these services has been ‘Advanced Education and Career Development’, ‘Human Resources and Employment’, ‘Employment, Immigration and Industry’, and finally, ‘Employment and Immigration’.

<sup>20</sup> Since the original signing of the Canada-Alberta Labour Market Development Agreement in 1996, the province has received transfer payments to provide employment supports and training to individuals eligible for employment insurance benefits.

communities and employers to address skill shortages). These groupings along with corresponding program elements are depicted in Table 3.2.

| <b>Table 3.2 AEI Career and Employment Services</b> |   |
|---|---|
| <b>Career Information</b>                           |   |
|   | Career Development Services               |
|   | Career and Employment Assistance Services |
|   | Job Order Bank Service                    |
|   | Job Placement Services                    |
|   | AHRE Print and Electronic Services        |
|   | Youth Connections                         |
| <b>Work Foundations</b>                             |   |
|   | Basic Skills and Academic Upgrading       |
| <b>Training for Work</b>                            |   |
|   | Job Skills Training                       |
|   | Integrated Training                       |
|   | Occupational Training                     |
|   | Workplace Training                        |
|   | Self-Employment Training                  |
|   | Disability Related Employment Supports    |
|   | Summer Temporary Employment Program       |
| <b>Workforce Partnerships</b>                       |   |
|   | Labour Market Partnerships                |

Within this array of programs and services are the generic employment resources designed for people who require minimal support to re-enter the workforce, as well as a host of placement and training focused programs. Many of the latter are designed with specific niche populations in mind including youth, people with disabilities, ‘older workers’, new Canadians, and First Nations. This research is generally concerned with contracting<sup>21</sup> for programs and services that include active employment placement

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<sup>21</sup> AIE also utilizes tuition payment for many of its skills training and academic upgrading programs and services. Once approved for funding, tuition is paid in full to the training provider on behalf of the learner, and in advance of training. Tuition based funding falls outside of the scope of this research.

assistance.<sup>22</sup> While the obvious place for these services is within the ‘job placement’ service contracts, a placement services component is sometimes embedded in ‘career and employment assistance services’ and almost always within the ‘integrated training’ service contracts. Key outcomes of nearly all Skills Investment Strategy programs are improved skills and employment situations, and increased independence (Alberta, Human Resources and Employment, 2003, p.8).

After the 1996 signing of the *Canada-Alberta Labour Market Agreement*, and the resulting transfer of responsibility for many of the employment services and programs previously delivered by the federal government, the province adopted formal guidelines for how contracts were to be awarded and payments structured. In keeping with the *Agreement on Internal Trade* and the *BC-Alberta Trade, Investment and Labour Mobility Agreement*, the vast majority of AIE’s contracted services are awarded through a competitive process. Today’s contracting policy framework no longer contains procedure that speaks to payment structure; however, contracted services continue to follow a convention established at that time. This is especially true of services in which the service provider plays an active role in placing individuals into employment and providing follow-up supports. These service agreements can be understood as a form of performance contract.<sup>23</sup> The practice is generally to attach not more than thirty percent of contract value to monthly fixed fee payments to support ongoing operations, and not less than fifteen percent to outcome achievement, usually defined along the lines of individual

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<sup>22</sup> As such, this study will not investigate Disability Related Employment Supports (DRES), which are typically purchased on an individual as-needed basis and outside of a broader contracting framework. For example DRES funds may be accessed to purchase needed workplace accommodations, assistive technologies, or interpretive services.

<sup>23</sup> The more generic ‘foundational’ services tend to be of a shorter duration, more self-directed, and therefore they track service volumes with lesser attention to tracking of individual employment outcomes. The majority of revenue attached to these contracts comes in the form of monthly, flat rate, fee-for-service payments.

employment placement, and employment retention at three and six months post-placement.<sup>24</sup> The remainder of revenue is attached to fee-for-service deliverables such as intake sessions, assessments, as well as workshops and training sessions. Service providers invoice the department on a monthly ‘after-service-delivery’ basis.

There is no expectation that contracted services operate on a not-for-profit basis and because AEI’s competitive process establishes a market value, service providers typically do not subsidize contracts. Service providers retain any profits earned operating AEI contracts and are responsible for any losses. Service delivery and outcomes are verified by a contracted third party, but there is no financial audit component to program monitoring. Contracts for generic services are typically three years in duration, not including follow-up services. Specialized services that are more immediately impacted by changes in local labour market conditions are typically contracted for two years with a potential to renew for a third year before again going to open competition.

## **V. The Contracting Environments**

The CRCB contracts to forty service providers, and to fourteen of these for employment services.<sup>25</sup> Provincially, there are approximately 900 service providers, however 100 receive approximately ninety percent of total PDD funding (Alberta, Auditor General, 2005). Information specific to the Calgary distribution is not available but it is known to be similar. Therefore the CRCB relies more heavily on a small number

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<sup>24</sup> Some program evaluation frameworks would classify a job placement and short-term retention as program outputs and reserve the term outcome for longer-term results such as increased self-sufficiency or increased workforce participation. For the purposes of its employment service contracting, AEI uses the term outcome to describe the end result of the service intervention.

<sup>25</sup> The CRCB purchases services from an additional fourteen ‘independent providers’, but none of these are employment services.

of large providers. Most large service providers are registered as nonprofit societies or not-for-profit companies. Other providers exist as private vocational schools and for-profit companies. There is little turnover among service providers. Most have long established relationships with the province and each other. Two regional and two provincial service provider councils / associations exist, namely the Community Rehabilitation Service Provider Council of Calgary (CRSPCC), the Calgary Service Providers Chairs' Council (The Chairs' Council), the Alberta Council of Disability Services (ACDS), and the Alberta Association for Supported Employment (AASE). The CRSPCC and Chairs' Council, in addition to serving as information sharing mechanisms, work to effect policy to support sustainable, quality service delivery. The ACDS is a provincial umbrella organization primarily concerned with education and accreditation. The AASE is comprised of service providers committed to the supported employment model<sup>26</sup> and emphasizes education and sharing of best practices. The organizational statements for these associations are contained in Appendix C.

In theory, PDD's governance model supports interdependencies, boundary spanning, and collaboration that might be indicative of a 'network' form of organization. Likewise, the existence, nature and intent of the various service provider associations provides some evidence that service providers are engaged around common issues and are more connected than in either of the other two contracting environments. Nevertheless, the principal-agent relationship between PDD and its contractors, the indirect but ever-present competition between service providers, and the objectives attached to contracting reforms are more characteristic of a market orientation. PDD

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<sup>26</sup> The Canadian Association for Supported Employment defines supported employment as "real work in an integrated setting with ongoing support provided by an agency with expertise in finding employment for people with disabilities" (Canadian Association for Supported Employment, 2008).

appears to consult extensively with service providers and other stakeholders on major policy issues.

The majority of contractors and grant recipients operating in the MHAS environment are nonprofit societies; however, the contractor group also includes municipalities, school divisions, and not-for-profit companies. Currently, there are no for-profit organizations contracted by MHAS to provide services within the continuum of care.

The MHAS three-year business plan describes a collaborative approach to planning and implementation.

The Calgary Health Region believes strongly that the most effective means to identify priorities, and to develop and implement strategies to address those priorities, is through inclusive collaboration with our regional and provincial partners (Calgary Health Region, Mental Health Services, 2005, p. i.2).

The plan lists a variety of standing committees that span the continuum of care, regions and sectors. Prior to the introduction of the competitive RFP process, regular 'executive director' meetings were convened by MHAS. The meetings informed policy and planning decisions. These have been discontinued so as not to privilege existing contractors with information not available to prospective bidders. No formal council or association of mental health service providers exists in the Calgary area. For a time, the Calgary Community Mental Health Planning Committee met regularly to develop strategies to raise public awareness around mental health issues and to communicate priority areas to local and provincial decision makers. The MHAS three-year plan acknowledges the role the committee played relative to a 2004-2005 expansion of contracted community services. The Committee has not been active since January of 2006; however, a 'Mental

Health Sector' subcommittee of the Calgary Homeless Foundation Community Action Committee is said to fulfill a similar role.

While there is evidence of service providers collaborating to further a mental health agenda, and there is an expectation that service providers collaborate for the betterment of a continuum of care, the increased market emphasis appears to impose constraints.

AIE contracts to a host of different service providers, among them public post-secondary institutions, private and quasi-public colleges, and private nonprofit and for-profit organizations. In some instances private service providers subcontract 'hard-skills' training modules for clients accessing integrated training programs. Many of the organizations within this contracting environment participate in associations formed around specific client populations, such as new Canadians and youth. One contractors' group exists, namely the Private Career Development Contractors Association of Alberta (PCDC). The mission of the association reads:

To provide a platform for the education and employment training sector to share information, best practices, and develop solutions to common issues and challenges (Private Career Development Contractors Association of Alberta, 2007a).

The group is concerned with the common needs and interests of private for-profit, not-for-profit and nonprofit organizations contracted to AEI and Service Canada.

There exist well-developed markets for most AEI contracted services. In describing its organizational history, the PCDC acknowledges the competition amongst its membership.

We gently explored our levels of trust, and our ability to share openly while maintaining a convivial competition in the RFP process. We examined the pros and cons of working together over time, and the

potential to improve services for clients. During this process, we realized that each of us had an excellent relationship with our contract funder(s), that there was a comfort zone for each of us to speak independently with the various government representatives, but that sometimes the problems that we saw were too big to deal with by one company alone (2007b).

This statement suggests the shared agenda is limited by competition among members who, given the competitive dynamic, prefer to act independently.

AEI and its regional offices periodically host information sessions for service contractors and provide for opportunities to dialogue on policy issues.<sup>27</sup> However, public managers are cognizant of the need to maintain an open, fair, and competitive contracting environment, and are careful not to advantage one contractor over the others. Of the three contracting environments, the AIE environment appears to represent the purest form of market organization.

## **VI. Summary**

A survey of the respective contracting frameworks reveals firstly, a predictable movement away from internal (hierarchical) service delivery. The three agencies vary in terms of the extent to which they use competition, tie payment to performance, and rely on nonprofit contractors to subsidize costs. AEI is responsible for the majority of Alberta's employment services. The ministry's approach to contracting is most typical of a market orientation. MHAS and PDD employ market mechanisms on a more limited and selective basis. The latter appears to be confronted with complex challenges as it endeavors to reconcile service outcome, governance, and contracting objectives.

The key characteristics of each contracting framework are included in Table 3.3.

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<sup>27</sup> More robust and formalized consultative processes are used to inform major policy changes.

| <b>Table 3.3 Characteristics of Provincial Contracting Frameworks</b> |  |  |   |  |
|---|--|--|---|--|
|   | <b>PDD - Contract</b>  | <b>PDD - Individualized</b>  | <b>MHAS</b>   | <b>AEI</b>   |
| <b>Service Delivery Framework</b>                                     | Community Inclusion Supports Framework   | Community Inclusion Supports Framework   | Continuum of Care   | Skills Investment Strategy   |
| <b>Procurement Method</b>   | Sole-source  | Approved service providers   | Competitive RFP process (newly introduced)  | Competitive RFP process  |
| <b>Contestability</b>   | Low  | Low <sup>28</sup>  | Low   | High   |
| <b>Contracting Mechanisms</b>   | Cost-reimbursement, block funding model  | Fee-for-service individual funding agreement                                   | Cost-reimbursement, block funding model   | Fee-for-service, performance contracting, tuition-based  |
| <b>Surplus / Profit</b>   | Returned to, or restricted by, funder  | Returned to, or restricted by, funder  | Returned to funder  | Retained by contractor   |
| <b>Pricing</b>  | Fixed fee  | Fixed fee  | Fixed fee   | Market value established through competitive RFP process   |
| <b>Primary emphasis of reporting and monitoring</b>                   | Inputs / appropriate expenditure of funds / units (hours) of service delivered | Inputs / appropriate expenditure of funds / units (hours) of service delivered | Inputs / appropriate expenditure of funds with lesser attention to service outputs and outcomes | Service outputs and outcomes   |
| <b>Payment type</b>   | Quarterly advance payments<br>To introduce performance-based payment by 2011   | Monthly fee-for-service on after-service-delivery basis                        | Quarterly advance payments  | Monthly fee-for-service and performance outcome deliverable payments on after-service-delivery basis |
| <b>Contractors</b>  | Primarily nonprofit, not-for-profit  | Primarily nonprofit, not-for-profit  | Exclusively nonprofit, not-for-profit   | Mixed market   |

The mandate of the program offerings under AEI's Skills Investment Strategy is twofold; to help unemployed, underemployed and low-income Albertans maximize their personal independence (thus reducing reliance on income assistance programs), and to respond to Alberta's workforce supply-demand issues. Both objectives are directly linked to the provincial economy and are somewhat more concrete than those found within the PDD

<sup>28</sup> All PDD clients, irrespective of the funding mechanism they utilize, can choose from among the approved service providers with the capacity to serve them. Entry of new service providers into this 'market' is rare so, at an organizational level (as opposed to a client level), contestability is low.

and MHAS mandates. The services range from generic employment resources and supports to various forms of training and active job placement for niche populations.

The existing market-based contracting and procurement framework, though well established, represents a significant departure from the blend of internal delivery and sole-source contracting it replaced. This is a unique context in so far as (a) a robust mixed market exists for services contracted by AEI and therefore contracts are highly contestable, and (b) public managers and service providers have over a decade of experience with market mechanisms other departments are now beginning to explore. AEI's Calgary Community and Business Services office has experienced little attrition over this time. Many of the staff worked for the Federal Government's Human Resources Development ministry prior to the Canada-Alberta Labour Market Development Agreement (LMDA). One can presume the office is a rich source of learning on issues such as transitioning from one framework to another and the benefits and limitations of performance-based payment.

Likewise, the perspective of contractors operating within this realm, among them numerous nonprofit organizations, is of particular interest. They are now in a position where they can speak to both the day-to-day challenges and the longer-term impact of operating within a market-based system. For example, has this system impacted organizational autonomy and direction? In what ways, if any, have relationships among service providers been impacted by competition for contracts and clients? Are some organizations better able to succeed in this environment than others? Does competition with for-profit organizations and public or quasi-public entities impact the role and work

of nonprofit organizations? How have contractors responded to the increased financial risk associated with the performance contract?

The PDD and MHAS contracting environments are characterized by transition and a more limited use of market mechanisms. Unlike AEI, MHAS only recently introduced competition for service contracts. On the surface, little else has changed. Today's continuum of care looks very much like that which existed when the department sole-sourced its contracts. Only one contract was displaced as a result of the competitive RFP process and the remaining went uncontested. Possible reasons for this could be (a) the terms of reference were by and large written to existing programs; (b) this is a newly opened niche market with a limited number of qualified contractors and (c) the 'fixed-prices' were below market value so few bidders were attracted to the contracting opportunities.

Still, this transition allows one to consider specific issues that may surface over time. For example, will competition alter the dynamic among contractors? Will competition cause them to re-allocate resources and otherwise influence organizational and operational priorities? How will public managers encourage competition for a fixed-price, niche service? How will they ensure a fair and open process while preserving the integrity of a continuum of care for a more vulnerable population? Will new service providers enter the 'market'? Finally, with a competitive RFP process in place, and a recent focus on developing outcome evaluation capacity, MHAS could conceivably introduce a performance-based payment dimension to their contracting. However, unless MHAS is willing to allow the competitive process to determine market value (including a

profit margin), service providers can be expected to resist assuming the increased financial risk.

Upon initial survey, the PDD contracting framework and context appears the most problematic of the three. Despite PDD's vision for inclusive communities and movement beyond service systems, the contractual incentive, if one exists, is to maximize volume of service delivery. PDD plans to standardize unit costs, adopt common service definitions, and eventually introduce an element of performance-based payment. This will prove challenging as PDD contractors serve a unique population with disparate needs and service goals, and according to varying service technologies and philosophies. Furthermore, public managers will be confronted with the challenge of steering a contractual framework that remains focused on the individual service recipient, toward overarching societal goals. Finally, PDD's vision for inclusive communities is predicated on the boundary-spanning collaboration and interdependencies of a shared governance model. Further movement into a market paradigm would appear to be, at least philosophically, at odds with governance ambitions.

The following literature review is intended to frame analysis of the challenges, benefits and limitations of the respective contracting frameworks, from both public management and nonprofit perspectives. It is used to 'inventory' issues related to new public management era contracting, but also searches out comment on what is perhaps an awkward meshing of market and network paradigms.

## **Chapter 4. Literature Review**

### **I. Introduction**

The previous chapter described the contracting frameworks of three provincial agencies responsible for, among other things, providing employment services to Albertans, including people with disabilities. One of these, AEI, has a lengthy experience with competitive RFP processes and performance contracting, and therefore should be a source of learning on the use of these mechanisms in a human services context. The CHR's MHAS recently transitioned from sole-source contracting to a competitive RFP process. The PDD CRCB intends to move contracting further into a market paradigm with the eventual introduction of an element of performance-based payment. However, it appears to struggle with the implementation of a shared governance model and the very complexity of serving a population with profound and disparate needs. This review is used to look to a number of places within contemporary public administration and nonprofit management scholarship, and at pertinent government and think-tank reports, to better understand the scope and nature of issues associated with the use of market-based mechanisms for the delivery of social or human services.

There exists no single or best way to structure comment on the benefits and the many challenges attached to third party contracting for human services. Lines can be drawn along public management and nonprofit sector perspectives, work-a-day challenges to implementation and 'higher-level' transformative issues and, finally, issues attributable to the legacy of the new public management and those related to horizontal, collaborative government. These are general, overlapping, but helpful categorizations. All are evident in this review.

The review begins with a brief section situating the Alberta Klein-Stelmach era reforms within the broader context of the new public management and neoliberalism in western democracies.

The next section proceeds to inventory a number of inter-related issues stemming from the legacy of the new public management, starting with a look into the use, benefits and consequences of contracting out, contract competition, and performance contracting. It draws from Van Slyke's (2002) *Public Management Challenges of Contracting with Nonprofits for Social Services*, and then considers the Canadian Federal Government 'post-2000' grants and contributions environment. The focus then narrows somewhat to look more closely at performance contracting and Behn and Kant's (1999) implementation-related strategies and pitfalls, following which literature on the U.S. Welfare Reform experience is used to situate performance contracting and contract competition within broader 'marketization' trends affecting the nonprofit sector. Here the focus of the review shifts to issues that are more transformative in nature.

Similar themes are extracted from Scott's (2003) research into the impact of targeted project-based funding on the Canadian nonprofit sector, the work of the Voluntary Sector Roundtable, and provincial government/nonprofit initiatives. The section concludes by looking to two places outside of the government contracting dynamic. Firstly, it visits recent trends in philanthropy that underscore concerns over the impact of market approaches on the nonprofit sector. Secondly, it presents alternate theoretical perspectives on disability and suggests one to be more compatible with a market ideology.

Next, a section is devoted to literature that reaches past the market paradigm. It provides a brief explanation of the more contemporary thrust toward collaborative, networked, or 'horizontal' government, including the problem of transitioning from the market paradigm. It shows the work of the Canadian Voluntary Sector Initiative and similar provincial initiatives to represent an attempt to reclaim some of what was lost over the past decades, but also to be somewhat at odds with the prevailing market paradigm.

This literature review concludes by summarizing the issues and challenges related to government contracting with third parties for human service delivery, and leads into a series of preliminary observations relative to the respective contracting and procurement frameworks.

## **II. The Alberta Klein-Stelmach Era**

The Ralph Klein Alberta Progressive Conservative Government, elected in 1993 and extending to 2006, is well known for its aggressive implementation of a neoliberal agenda. The changes to human service delivery discussed in this paper are largely attributable to this era. This regime was characterized by deep spending cuts, budget discipline, business planning, decentralization, service retrenchment, and the application of market mechanisms to the delivery of public sector goods and services (Clark, 2002; Schwartz, 1997). During this era many of the human service supports provided by the post-war welfare state, the various responses to need and misfortune, were returned to civil society, only this time as commodity. In his comparative analysis of 'reinvention and retrenchment' in Alberta and New Zealand, Schwartz explains that in both

jurisdictions, “reformers created a new normal by introducing markets or quasi-markets for public sector goods and services” (1997, p. 414). And so public managers were confronted with the challenge of creating markets for illness and unemployment, social development and self-worth.

It is important to note, however, that although market models are often times juxtaposed against notions of horizontal or networked government, and often in a linear fashion, the ‘Klein Revolution’ also included forms of devolution which implied an ‘opening up’ of policy making within a shared governance paradigm.<sup>29</sup> Whether rhetorical or otherwise, these experiments with shared governance help to understand the contemporary challenges and contradictions found within the PDD context.

Today, under the leadership of Ed Stelmach, the PC government holds true to its neoliberal principles and public administration is largely, although not exclusively, characterized by the market orientation of the new public management.

### **III. The New Public Management Legacy**

#### ***Overview***

Quite simply the new public management can be understood as market-ideology and private sector business practices applied to workings and responsibilities of government. It is a term that applies to a series of reforms, practices, and values that proliferated in western democracies through the 1980’s and 90’s. Osborne and Gaebler’s *Reinventing Government* (1993), a handbook of sorts for the Clinton-Gore National

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<sup>29</sup> Discussion papers prepared for the Persons with Developmental Disabilities (PDD) Provincial Board cite the PDD community board structure, along with devolution in the areas of children’s services, health and economic development, as examples of a shift toward shared governance (Alberta, 2003a). However, the PDD Provincial Board and the province’s regional health authorities have since been disbanded.

Performance Review, encapsulates the overarching goal – one of replacing centralized, hierarchical bureaucracy with an entrepreneurial approach.<sup>30</sup> The theoretical underpinnings of the new public management are to be found in public choice, principal-agent, and transaction cost analysis theories as well as Demming's Total Quality Management (Carroll, 1996; Denhardt and Denhardt, 2003; Kaboolian, 1998).<sup>31</sup>

Within the new public management paradigm, there is a separation of policy and service provision (Frederickson, 1996; Schwartz, 2003), or as Osborne and Gaebler (1993) put it, between steering and rowing. It follows that markets are created by contracting out and privatizing public goods and services and through competition and contestability; that accountability shifts from a focus on inputs to that of outputs and outcome achievement; and that government imports management and planning concepts from the world of business (Alexander, Nank, and Stivers, 1999; Clark, 2002; Cooper, 2003; Denhardt and Denhardt, 2003; Kamensky, 1996; Schwartz, 1997, 2003). Finally, service recipients are viewed more so as customers and less along the lines of democratically engaged citizens (Dutil et al., 2007), and political choices are replaced with 'market' choices (Denhardt and Denhardt, 2003).<sup>32</sup>

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<sup>30</sup> Osborne and Gaebler warn that government cannot be treated "just like a business", but suggest there are many similarities, and that the ten principles around which the book is structured can be applied across sectors (1993, pp. 20-22).

<sup>31</sup> Woven through Denhardt and Denhardt's *The New Public Service* (2003), is a comparison of the characteristics of new public management to those of traditional bureaucratic models and what they envision as a more citizen-focused paradigm. See also Gruening, (2001), Origin and Theoretical Basis of New Public Management. *International Public Management Journal*, (4)1 (2001); and Accoin, Peter, *The New Public Management: Canada in Comparative Perspective* (Montreal: Institute for Research in Public Policy, 1995).

<sup>32</sup> Dutil et al. distinguish the role of service user as customer, from that of client which applies to "long term relationships between individuals and service providers where dependency and personal guidance are central purposes", and citizen which, "refers to the conceptualization of the public as active and vocal participants in political deliberations about the design and delivery of government services" (2007, p. 78).

A vigorous and wide-ranging debate surrounds the new public management, the benefits and drawbacks of applying free-market mechanisms to human service delivery, the challenges to public administrators, and the overall impact on the myriad of third party contractors, many of them nonprofits, that today carry out work on behalf of government. Many have raised concerns about the 'marketization' of the nonprofit sector which can be understood as the combined effects of contract competition, performance contracting, retrenchment, commercialization, and an increased presence of for-profit entities in human service contracting (Alexander, Nank, and Stivers, 1999; Eikenberry and Drapal Kluver, 2004; Salamon, 1999).

The purported benefits of the market approach are increased efficiency achieved in large part by moving service delivery out of the public domain and exposing it to competition, and improved effectiveness resulting from competition among vendors and by focusing vendors on outcome achievement (Cooper, 2003; Ferris, 2000; Kirkpatrick and Lucio, 1996).

Under NPM in the 1980's and 1990's, ...the use of contracting rose significantly as a means of cutting the costs of public services, reducing the size of the state, avoiding public-sector unions, improving efficiency, and enabling government to manage to results for better customer service (Phillips and Lavasseur, 2004, p. 454).

Competition is seen as a catalyst for innovation (Apen Institute, 2001, p.5), as is the use of performance contracting, through monetary incentive and by affording contractors the flexibility to determine the means by which outcomes are to be achieved (Behn and Kant, 1999; Martin, 2005). The use of short-term, contestable contracts based upon pre-determined performance expectations allows for substandard suppliers to be replaced with relative ease (Entwistle and Martin, 2005; Goldsmith and Eggars, 2004).

The next sections search out the issues and challenges attached to the use of these various elements, and particularly in the human services context.

### ***Contracting Out***

Contracting out and privatization of government services has become commonplace in many western democracies. Indeed, in some jurisdictions in Canada, there is now a generation of service users and citizens who may not recall a time when road construction was performed by a government crew, a driver's license obtained at a centralized motor vehicle branch, or a bottle of wine purchased from a liquor board employee. But what has been the impact as the new public management, with its preference for contracting out, has found its way into some of the trickier places within the public domain, where service may be more difficult to commodify - to bundle into market-friendly units?

Van Slyke (2002) details a variety of implementation challenges associated with contracting out for social services, primarily from a public management perspective. For the purpose of this review, they are grouped into four major categories. Firstly, he cites several issues relating to the functioning of social service markets. He describes dependency issues that can result in instances where the number of available providers is insufficient, as well as the potential for highly capitalized organizations to underbid to establish themselves and then build monopolies. He highlights the transaction costs attached to building up markets and competition. And he talks about potentially costly information asymmetries that result when nonprofits, the new "street level bureaucrats", use their status as "social welfare experts" to advocate for greater spending (p. 506).

Secondly, Van Slyke raises several capacity issues, including the capacity for government agencies to properly manage contracts and service provider networks, as well as the capacity of nonprofit organizations to meet heightened administrative requirements.

Thirdly, he introduces several issues around accountability. Citing Donahue, he suggests a trade-off between accountability and innovation; “competition among contractors will inspire more efficient procedures; but ...as discretion to innovate is restricted, the benefits of competition are lost” (quoted in Van Slyke, 2002, p. 495). He talks about problems of maintaining democratic accountability when managing networks, and suggests that accountability issues arise when a) government is no longer visible to recipients, and b) services are delivered by contractors with diverse funding streams, implying accountability is diffused as a result.

Lastly, Van Slyke suggests that the very complexity of many social services presents unique contracting challenges. The legislative process can produce unclear and conflicting goals, and social service outcomes can be difficult to define and measure - “a market cannot be competitive unless the buyer can define what it wants to buy” (Kettl, as quoted in Van Slyke, p. 496).

The issue of complexity stands out as a primary consideration for contracting out. Deakin and Walsh (1996) assert, “It is easier to operate market-based contracting approaches for simple repetitive services than for complex professionally based activities, but there are difficulties even for simple services” (p. 37). Similarly, Langford (2008) and Howard (2008) make a distinction between the more accessible transaction-type, repeatable services, such as issuing birth certificates, and the more complex interactions

one finds in, for example, social services or the criminal justice system.<sup>33</sup> Within government sponsored employment services there is to be found a similar continuum, where, at the one end, there is the relatively straight forward walk-in resume service and, at the other, a supported job placement service for recipients with complex dependencies.

The post-2000 Canadian federal grants and contributions<sup>34</sup> framework is a study in complexity of a different sort. A 2006 Blue Ribbon Panel report details the onerous and illogical application and reporting requirements that were put in place in the wake of intense, sustained media and opposition party scrutiny of the administration of grants and contributions programs.<sup>35</sup> Many of the issues outlined in the report are attributable to what its authors describe as a “government-centric” approach (Canada, 2006, p. 23) and a risk-averse culture.

The authors describe what was an overall failure to consider recipients’ existing accountability frameworks, share information across agencies, and to scale accountability requirements to the size and risk of a given project. They observed a bias toward compliance with rules to undermine trust between parties. The result they describe as “an unproductive thicket of unnecessary and needlessly-complex rules and reporting requirements that serve neither the interests of government nor those of recipients” (p.

18). Recipients were required to supply the same information on multiple occasions and

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<sup>33</sup> Langford and Howard make this distinction in their analyses of contemporary ‘service transformation’ efforts and the use of citizen satisfaction surveys respectively; however, it is a distinction that is helpful in understanding the use and effectiveness of various contracting forms applied to human services.

<sup>34</sup> It should be noted that contribution agreements vary from contract agreements insofar as they are not intended to fund long-term service delivery on behalf of government. Rather they are, as the name suggests, contributions to programs of public benefit. The 2006 Blue Ribbon panel identifies that in practice, contribution agreements have been used for what more closely resembles third party service delivery. For the purpose of this research, the term ‘contract’ is generally used as a blanket term applied to various forms of funding agreements.

<sup>35</sup> In *The Politics of Public Management* (2003), David Good challenges the basis for the claims that dominated question period and newspaper headlines, and shares lessons learned in his role as then Assistant Deputy Minister.

re-apply for funding annually despite the multi-year nature of some programs, such as instances where the federal government was essentially purchasing ongoing third party service delivery. The Panel observed a lack of flexibility in how funds were expended and noted that funding failed to cover the full costs to recipient organizations. The report makes 32 recommendations aimed at addressing these and other shortcomings and ultimately, to “simplify administration while strengthening accountability” (p. vii).

Phillips and Levasseur’s 2004 analysis<sup>36</sup> identifies many of the same issues and describes the impact on the nonprofit sector as “overwhelmingly negative” (p. 453).

What is evident is that the accountability regime has significant transaction costs and unintended consequences, including direct financial costs, increased difficulty in attracting and retaining quality project staff, and threats to the credibility of voluntary organizations (p. 464).

While issues associated with the federal grants and contributions were almost certainly exacerbated by national media exposure and political motive, what is relevant to this study is the challenge of creating a contracting framework that ensures accountability while promoting innovation, flexibility and efficiency. Both the Blue Ribbon Report and Phillips and Levasseur’s work discuss implications and opportunities for horizontal management, a topic to be visited later in this literature review.

### ***Contract Competition and Performance Contracting***

As numerous authors rightly point out, competition among human service organizations is not new. Organizations compete for labour, clientele, legitimacy, alliances, and in the case of nonprofit organizations, board members and donations (Brody as cited in Tuckman, 1998, p. 176; Edwards, 2008, p. 59; Hossli, 2001; Phillips, 2004, p.18). Contract competition in the human services is a more recent development as

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<sup>36</sup> In this instance the analysis is specific to Human Resources Development Canada’s use of grants and contributions.

many organizations have operated under a noncompetitive 'quasi-grant' system (Nightingale and Pindus, 1997).

Among the more predictable responses to contract competition is information hoarding (Goldsmith and Eggars, 2004, p. 46) and, more generally, a tension between collaboration and competition (Cooper, 2003; Scott, 2003). Goldsmith and Eggars assert that competitive advantage lies in tacit knowledge (2004, p. 108). And while actors may be encouraged, or may even profess to share of their 'best practices', these are their 'trade secrets' and they can be expected to guard them as feverishly as in any other market, state sponsored or otherwise. So despite what might be an overall desire to function along the lines of interdependent and collaborative networks, the need to preserve competitive advantage places limitations on the ability of human service sectors to transcend the market model.

Performance contracting and contract competition most often go hand in hand (Eikenberry and Drapal Kluver, 2004; Grønbjerg, 2001; Nightingale and Pindus, 1997). The performance contract shifts the emphasis away from program inputs and the certainty of payment.

Unlike more traditional cost-reimbursement contracts, which protect providers of services by covering their costs regardless of outcomes, performance contracts shift the risk to providers, which only get paid for successfully completed assignments (Ryan, 1999, p. 130).

In its purest form, the performance contract would attach total program revenues to outcome achievement. In practice, most performance contracts involve linking some program revenue to a combination of quality measures, outputs, and successful outcomes. There are countless variations of the performance contract, ranging from a one-time

payment for an adoption placement, to milestone payments for employment services (Martin, 2005).

Behn and Kant (1999) contrast performance contracting to conventional 'regulatory' approaches, in which performance is measured according to contractors' adherence to specifications such as service technologies, human resource requirements and timeframes for completing specific activities. They imply that regulatory contracts are founded on mistrust - assuming the vendor will cheat and that the public official will collude for personal gain. Certainly, regulatory contracting establishes clear rules, but Behn and Kant stress that adherence to regulations provides no assurance of quality or outcome achievement. By contrast, the performance contract "can encourage government agencies to work cooperatively with their vendors to do what is necessary to achieve the results specified in the contract" (p. 473). While they stress that the performance contract results in heightened responsibility, the trade off is predictability, especially in the social services, where "producing any kind of real, human result is inevitably more complex than fulfilling the rules of a contract" (p. 473). Behn and Kant's perspective on performance contracting and the relationship between purchaser and vendor is unique insofar as it suggests a potential for collaborative relationships more typically associated with a network model.

Proponents of the performance contract point to compelling examples of heightened performance attributable to its use. Martin (2003) describes a variety of human service applications from the United States and, in some cases, two and three-fold increases in outputs and outcome achievement.<sup>37</sup> He concludes that performance

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<sup>37</sup> Martin acknowledges that his case findings result from a purposeful (not random) sample, are "impressionistic and preliminary" (p. 67) and therefore cannot be generalized.

contracting does appear to “[change] the behavior of contractors to focus more on performance” (p. 74). This is a simple enough assertion, and although those who view performance contracting through more critical lenses would likely agree, they would question the broader implications of refocusing organizational efforts, a topic to be visited shortly.

Behn and Kant describe a number of common pitfalls that can negate the benefits of the performance contract, along with strategies for avoiding them. To begin with, despite broad based claims about performance contracting effecting greater innovation, in some circumstances it can stifle or produce the wrong type of innovation. For example, once a contractor has developed a service technology that meets performance expectations, they may view experimentation with new, potentially more effective technologies, to represent an avoidable and unnecessary financial risk. Furthermore, if there is no financial reward for exceeding performance expectations, the contractor may become more motivated to explore innovations in cost-cutting rather than outcome achievement. In situations where a contract specifies a maximum number of individuals to be served, there is often no incentive to produce beyond that level.

Other pitfalls have more to do with sustaining a viable network of vendors. Many performance contract frameworks do not allow for start-up costs, a particular problem for undercapitalized nonprofit organizations. Some contract selection processes do not consider past performance of vendors, as to do so may be construed as unfairly excluding new service providers and, more generally, undermining democratic ideals. This can inhibit government’s ability to choose vendors with a proven track record and, over time, to develop the sort of “symbiotic relationships” with them that can serve to heighten

performance (p. 476). When track record is taken out of the equation, contracts may be awarded based on promises and, in the case of unproven vendors, these promises may be uninformed and unattainable.

Lastly, like Van Slyke (2002), Behn and Kant identify several “complexity pitfalls” (p. 477), in which they hone in on challenges specific to contracting for social services. Many social service outcomes are out of contractual reach, either because appropriate measurement technologies do not exist, or because the outcome may not be realized or known for several years after the service intervention, at which point efforts are further confounded by issues of attribution.<sup>38</sup> For these reasons, outputs are substituted as “surrogates” for outcomes and, as such, there is an inherent risk that these may not direct the efforts of the vendor toward the “true public purpose” of the contract (p. 478).<sup>39</sup> Additionally, Behn and Kant comment on issues of equitable access to services and client creaming. The latter is perhaps the most commonly cited problem associated with performance contracting and, more generally, the use of market mechanisms in the social services. It is argued that human service organizations that derive revenues either fully or partially from outcome achievement are less likely to take a risk on the ‘complex’ case in favour of those who are more likely to succeed.<sup>40</sup> Hossli

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<sup>38</sup> *Program Evaluation Methods: Measurement and Attribution of Program Results* describes two major types of ‘program results’ problems, namely “(a) *measurement problems* – how to measure the results associated with programs; and (b) *attribution problems* – how to determine whether and to what extent the program caused the results observed” (Canada, n.d., p. 6)

<sup>39</sup> In some instances, the overarching goal of the program may remain unclear and in dispute, making it impossible to agree on appropriate performance measures (Blasi, 2002).

<sup>40</sup> Alexander, Nank and Stivers (1999); Cooper (2003); Dart (2004); Denhardt and Denhardt (2003); Dutil et al. (2007); Edwards (2008); Eikenberry and Drapal Kluver (2004); Frumkin and Andre-Clark (2000); Goldsmith and Eggars (2004); Hossli (2001); and Van Slyke (2002) all make mention of such problems. However, Martin (2005) cites two recent studies that suggest ‘creaming’ may in fact be more of a theoretical assumption.

summarizes the sentiment among Government of Alberta contracted ‘community based trainers’:

While the emphasis on outcomes has been welcomed by many organizations, it does have some dark sides, namely that some of the people for whom such programs are designed no longer are given a chance because they present a significant financial risk to the organization (2001, p. 39).

Hossli’s comment applies to what is now the AEI contracting environment.

Most of the recommendations forwarded by Behn and Kant require little explanation. They assert that when actual mission-related results are beyond the reach of measurement technologies it is important that ‘surrogate’ output measures are “(a) linked to the mission; (b) easy to measure, understand and reproduce; and (c) facilitate benchmarking” both across time and vendors (p. 479). They encourage public managers to start simple and increase complexity once both parties are familiar with what is required to achieve the performance indicator. Both the vendor and the funding agency need to be willing to learn, change course, and improve. The relationship, they insist, must be one of collaboration. Nevertheless, they recommend use of multiple indicators and frequent monitoring because outputs from which payments are derived do not fully measure achievement of the public purpose. Payment to vendors should be based on milestone achievements, not simply the final output. Lastly, because established markets seldom exist for specialized social services, Behn and Kant feel it is important to work with vendors with a proven track record.

Both Behn and Kant and Blasi (2002) suggest that output measures may, to varying degrees, be relevant to the given social problem or public purpose. They imply that careful consideration when choosing the performance measure should result in a

reasonable ‘surrogate’. Others believe that by focusing on short-term outcomes and “reimbursable services of individual benefit” (Alexander, Nank and Stivers, 1999, p. 461) performance contracting tends to disregard, not merely miss, the higher-level societal goals of nonprofit organizations and the sector as a whole, especially when considered in consort with other ‘marketization’ trends.

Thus far the literature review has primarily focused on public management challenges associated with contracting out, competition, and performance contracting. It has described issues that, to varying degrees, may apply to the AEI, MHAS and PDD contexts. It now focuses on the transformative impact of marketization on the nonprofit sector.

### ***Marketization, Mission, and the Public Interest***

The American welfare reform efforts of the 1990’s are a study in the impact of marketization. Government retrenchment and contract competition at the same time opened up government contracting to the for-profit sector and, it is argued, left many nonprofits to do more with less (Ryan, 1998). Some of the latter have responded through various forms of commercialization, focusing efforts on services and other commercial ventures aimed at generating profit to compensate for inadequate funding for services to core constituents. (Alexander, 2000; Ryan, 1999; Weisbrod, 1997, 1998).

Observing the blurring of for-profit and nonprofit sectors during the 1990s, Ryan (1999) asked some fundamental questions about the role and future of the nonprofit sector:

Are traditional nonprofit goals of social advocacy and community building compatible with the goal of competing successfully in the marketplace? And perhaps more problematic, Is [sic] the common interest best served when nonprofits aim to compete on for-profit terms? ..the danger is that in

their struggle to become more viable competitors in the short-term, nonprofit organizations will be forced to compromise the very assets that make them so vital to society in the first place (p. 128).

Ryan and others stress that nonprofits have missions that extend well beyond mere service delivery, that they have a responsibility to pursue longer-term solutions to social problems, and that the sector plays a role vital to democratic engagement and the health of civil society. The combined effect of increased competition from for-profit entities, comfortable remaining within the narrow confines of the performance contract, and government retrenchment, have compelled nonprofits to focus on revenue generation at the expense of mission (Alexander, 2000; Eikenberry and Drapal Kluver, 2004; Frumkin and Andre-Clark, 2000; O'Connell, 1996; Ryan, 1998). As more work and energy is directed at the individual client level, there is little room left for grappling with the less tangible. The resulting 'mission drift' is a drift away from the harder-to-serve, away from advocacy, research, education, prevention, and away from nonprofits' "function as schools or laboratories of democratic citizenship." (Alexander, Nank and Stivers, 1999, p. 453).

Likewise, devolution and marketization are seen to be causing an overall 'depoliticalization' of the sector.

Civic mindedness and participation are not efficient, and pressure to do more with less – or less with less – inevitably forces priorities to be set in terms of the bottom line rather than in terms of building social capital (p. 462).

Within a competitive framework, organizations become reluctant to appear to be critical of government policy – to bite the proverbial hand. And so, it is argued, the direction of the once autonomous nonprofit is determined more so by government, and less so by first-hand knowledge of community needs (p. 462).

Finally, it has been observed that while larger multi-service organizations possess the professional expertise and capital to compete within this new environment, the smaller, oftentimes faith-based organizations lack the capacity, resulting in a “bifurcation” of the nonprofit sector (p. 458).

The issues arising out of the US Welfare Reform experience are by no means unique. They are mirrored in analyses of the Canadian nonprofit sector and social service contracting, and are also found woven through current debate around philanthrocapitalism. The 1999 report by the Panel on Accountability and Governance in the Voluntary Sector issued the following warning:

Done badly, linking outcomes to funding can shift resources from service delivery to measurement with no offsetting benefit to programs, penalize prevention and development programs and others with harder to measure outcomes, promote ‘creaming’ ...inhibit innovation, punish risk taking and discourage interprogram cooperation (pp. 36-37).

The report affirms the nonprofit sector’s role as “central to how democracy works” (p. 4), but also acknowledges the scope of responsibility and expectation government places on the sector.

They [governments] want it to deliver services once delivered by the state; to be the agents for strengthening civil society and democracy; and to serve as the ‘glue’ that binds an increasingly diverse population together (p. 65).

Scott (2003), in the Canadian Council on Social Development report *Funding Matters*, chronicles a similar set of impacts and challenges that have surfaced across Canada. The report describes the effect of an overall trend away from longer-term core (or grant-type) funding and toward short-term project-based funding. Scott asserts that from the funders’ perspective this shift “is driven by the desire for greater control over the activities of nonprofit and voluntary organizations, reduced risk of failure, and

enhanced accountability for the expenditure of public dollars” (p. 39). Consultations with, and surveys of Canadian nonprofit organizations surfaced a number of common themes or trade-offs. Firstly, the shift is viewed to strain resources. On the one hand, organizations are devoting more time and energy to application and often-times conflicting reporting activities, and to managing through the operational implications of short-term funding. On the other hand, project funding has typically been characterized by a narrowing of eligible costs to the exclusion of administration and infrastructure, a practice that Scott suggests is in part rooted in outdated assumptions about volunteerism.

Secondly, the shift toward targeted project-based funding is viewed to impact organizational mission,<sup>41</sup> autonomy and innovation.

[The] project-based model shifts the focus of attention to specific programs or activities and away from the whole organization. It effectively turns the adage “the whole is greater than the sum of its parts” on its head. Funders are interested in a specific set of outputs or outcomes – only one part of the whole (p. 40).

...funders today – despite the rhetoric about the importance of innovation – are very unwilling to take risks or to tolerate failure (p. 50).

It follows that organizations adopt vague missions that allow them to secure a broader scope of targeted, prescribed service contracts, and in an effort to temper financial volatility. At the same time, some let go of advocacy work because it is “not directly related to a program or project” (p. 151), and out of concerns that such activities will adversely affect funding decisions.

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<sup>41</sup> The notion of ‘mission drift’ factors prominently into literature exploring the ill-effects of project funding and ‘marketization’ on the nonprofit sector. However, from a public management perspective, “There can be conflict between the historical missions of NPS [nonprofit sector] agencies and the government’s current goals” (BC, Minister of Labour and Citizens Services, 2008, p. 42).

Successful organizations in a competitive funding environment are likely to grow to resemble the for-profit or commercial organizations with which they are forced to compete (152).

At a sector level, the “corrosive impact of competition” (p. 52) is at times seen to foil partnership efforts, for which there are greater demands from funders, and there is a growing divide between larger, neutral, multi-service organizations and those that are smaller and less resourced or those possessing a strong advocacy mandate. The latter are seen as marginalized and at risk of falling off the map. Scott arrives at a conclusion similar to those observing the marketization of the American nonprofit sector.

If the nonprofit and voluntary sector is weakened, Canadians’ opportunities for social participation, for democratic involvement, and thus for active citizenship, will be eroded (p. 154).

Many of the issues discussed thus far are evident in the various publications associated with the BC Government Nonprofit Initiative. The cost of participating in RFP processes and, more generally, the organizational capacity required to fulfill heightened administrative obligations are among the concerns raised by participants. Project funding is seen to impact organizations’ ability to maintain staffing, secure credit, conduct long-term planning, and develop long-term relationships with stakeholders.<sup>42</sup> The BC Government Nonprofit Initiative, the Alberta Nonprofit/Voluntary Sector Initiative, the previously referenced Blue Ribbon Panel and the Voluntary Sector Initiative (discussed in section iv), all recommend full-cost recovery apply to contracting for third party service delivery.<sup>43</sup>

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<sup>42</sup> See Round Table on Government and Nonprofit Relations in British Columbia, 2007a; 2007b; BC Government Non-profit Initiative, 2008a; 2008b.

<sup>43</sup> See Alberta Nonprofit/Voluntary Sector Initiative, 2007a; Canada, 2006; Canada, Privy Council Office, Voluntary Sector Initiative, 2002a. Full-cost recovery refers to funding at levels that acknowledge the total cost of service delivery, including administrative overhead and infrastructure required to support operations.

### *Philanthrocapitalism*

If the new public management has a philanthropic equivalent, it is the often-overlapping world of ‘philanthrocapitalism’. The term refers to a growing trend whereby market logic is applied to philanthropy in the belief that “business principles can be combined with the search for social transformation” (Edwards, 2008, p. 7). It is mentioned here because it underscores concerns about applying market models to the work of civil society. Edwards in his 2008 commentary on philanthrocapitalism acknowledges that a market approach can be used to “extend access to useful goods and services”, such as vaccines, but contends that the market is incapable of effecting the social transformation required to treat root causes. He likens this to “the man who tries to pull himself out of a swamp by his own hair” (p. 56). Edwards describes many of the same issues explained by those observing marketization trends, only here attributable to a market approach to philanthropy – “mission drift toward financial benefit” (p. 40), a compromising of the “deeper impact work” of social transformation (p. 42), and a weakening of civil society.

On a philosophical level, Edwards believes that market ideology runs contrary to the work of the nonprofit sector and social transformation objectives.

Market norms are ‘impersonal and egoistic’. Market freedom is the freedom to disconnect, to treat others as objects. (p. 42)

Citizen’s groups get results by giving things away, diffusing ideas and values through networks and movements, and cooperating with many best providers. By contrast, the logic of the market is to hold things back in order to gain competitive advantage, and results are focused on each firm (pp. 66-67).

Edwards' skepticism about marrying market ideology with social transformation seems particularly relevant to PDD's contracting reform and movement toward its vision of inclusive communities.

### ***Perspectives on Disability***

Thus far the literature review has concentrated on issues arising from a market paradigm in which human service contracting is biased toward a focus on participant-level outcomes. Around the same time that market principles were taking root in public affairs, a new perspective on disability was emerging. The thinking was expanding beyond the disability as the barrier to fuller participation in employment and community life, to include consideration of how disability might be "socially produced in the environment" (Albrecht and Bury, 2001, p. 598).

The socio-political model implies that disability stems from the failure of the social environment to adjust to the needs and aspirations of people with disabilities, rather than from the inability of disabled people to adapt to societal demands (Jongbloed and Crichton 1990, p. 35).

At the time, this shift in thinking provided the theoretical support for continued movement away from segregated rehabilitative settings, while today it no doubt serves to underpin more evolved notions of inclusive communities, such as those described in the *Second Century* papers referenced in the previous chapter. What is important for the purpose of this literature review is to suggest that it is the individual perspective on disability that is more compatible with a market ideology.

## **IV. Beyond the New Public Management**

To varying degrees, the three agencies discussed in this study rely on the market mechanisms discussed thus far. The next chapter will comment on public management

and ‘marketization’ issues in relation to the chapter three survey of the respective contracting frameworks. It will also identify areas for further exploration that were not clarified in the documentary account.

However, a simultaneous movement into a ‘horizontal’ paradigm would appear to present as one of the contemporary challenges to managing a market-based system. The literature review now considers issues arising from a contemporary thrust toward a more collaborative and horizontal approach to public sector management and governance.

### *Horizontal Government*

Today there exists a growing body of literature on topics of service integration (‘joining up’) and networked, collaborative or ‘horizontal’ government.<sup>44</sup> The common denominator is one of boundary spanning to further the objectives of government. The literature tackles weighty issues of governance (e.g., shared responsibility and accountability, democratic engagement, transparency), and management (e.g., leadership, cultural change, trust building, negotiation, dispute resolution) as government agencies navigate through new and expanding forms of integration, and as public, nonprofit, and private sector officials attempt to manage a host of unprecedented, disparate and often asymmetric forms of partnership.<sup>45</sup> Likewise it acknowledges the interplay or co-existence of market, hierarchy, and network models which, depending on the mix and the context, can complement or confound.<sup>46</sup>

A consideration of the emerging horizontal paradigm is important to this research for several reasons. The first is that within the contemporary horizontal thrust are to be

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<sup>44</sup> Langford (2008) explains how these trends, along with notions of ‘multi-channel delivery’, ‘information sharing’, ‘outcome and performance measurement’ and increased reliance on partnerships with ‘I.T. and community organizations’ have come to represent a ‘service transformation’ movement.

<sup>45</sup> See for example, Bryson et al. (2006); Ling (2002); Moe (2001); and Radin and Romzek (1996).

<sup>46</sup> See Exworthy et al, (1999); Rhodes (1997); and Thompson (2003).

found dimensions that may serve to remedy some of the problems that have resulted from the market emphasis of the new public management. The second is that the two do not necessarily intermingle well. Lastly, the PDD contracting framework is said to be predicated on shared governance and, at the same time, appears to be moving further into a market paradigm.

The previously referenced analyses of the post-2000 federal grants and contributions environment, and specifically the recommendations contained within the Blue Ribbon Panel report (2006), suggest that the administrative burden placed on government contracted organizations could be significantly reduced through efforts to collaborate, coordinate and streamline across ministerial and agency lines. While this would not eliminate the sting caused by project funding, it serves as one example of a horizontal management solution to a new public management problem.

The Canadian Voluntary Sector Initiative (VSI) and similar initiatives underway at the provincial level can be viewed to represent a significant effort on the part of the various governments and the Canadian voluntary sector to acknowledge and, over time, put right many of the problems stemming from the new public management era marketization of the nonprofit sector.<sup>47</sup> For instance, VSI documents repeatedly cite the toll government cutbacks, downloading, a shift to project funding, and new accountability regimes have taken on the sector (Canada, Privy Council Office, Voluntary Sector

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<sup>47</sup> The Voluntary Sector Initiative traces roots back to the 1995 formation of the Voluntary Sector Roundtable (Broadbent Panel), the (then) Liberal Government's Red Book II, and was formalized in Spring of 1999 when the federal government convened 'Joint Tables', representative of and jointly chaired by, both government and the voluntary sector. The joint tables considered three broad topics, "Building a New Relationship", "Strengthening Capacity", and "Improving the Regulatory Framework" - see Joint Tables (1999); Canada, Privy Council Office, Voluntary Sector Initiative (2002c); Canada, Privy Council Office, Voluntary Sector Task Force (2001); Canada, Privy Council Office, Voluntary Sector Initiative (2003).

Initiative, 2002c, p. 1; Canada, Privy Council Office, Voluntary Sector Initiative, 2003b, p. 4; Joint Tables, 1999, p. 19).

The VSI produced three documents intended to serve as a foundation for a meaningful and productive relationship across government and nonprofit sectors, namely:

- *An Accord Between the Government of Canada and the Voluntary Sector* (Canada, Privy Council Office, Voluntary Sector Task Force, 2001),
- *The Code of Good Practice on Funding* (Canada, Privy Council Office, Voluntary Sector Initiative, 2002a) and,
- *The Code of Good Practice on Policy Dialogue* (Canada, Privy Council Office, Voluntary Sector Initiative, 2002b).

The Accord and the Codes of Good Practice articulate values, principles, and practices aimed at acknowledging the voluntary sector's proximity to social issues and citizens, bringing the sector into the policy development fold, addressing inadequacies and obstacles associated with federal regulatory frameworks and funding mechanisms, and an overall commitment to improved collaboration across the two sectors (Canada, Privy Council Office, Voluntary Sector Task Force, 2001; Canada, Privy Council Office, Voluntary Sector Initiative, 2002a; 2002b).

It's pragmatism at its best; the government needs a strong, responsive voluntary sector that can assist departments and agencies as they develop policies, and plan programs and services for Canadians. It also needs to stay connected with citizens at the community level – a function the voluntary sector is well placed to carry out (2003b, p. 5).<sup>48</sup>

However, it is important to note that the market and horizontal do not always make for a peaceful co-existence.

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<sup>48</sup> Dutil et al. (2007), citing long held goals around the democratization of social services, and public confidence in nongovernmental organizations, suggest, similarly, that voluntary organizations may have an important role to play in achieving such goals (p. 85). However they caution that the extent to which government services are now anchored in a customer approach means that it is difficult to transcend into more meaningful forms of democratic engagement. Additionally, they reference a “strong thread of...argument which insists that public servants should not be taking the lead in interacting with citizens when the dialogue moves beyond exchanging information and answering questions”(p. 86). No doubt these concerns extend to the notion of the nonprofit sector assuming such a role.

Phillips describes certain elements which challenged the VSI's collaborative intent, not the least of which was the use of contribution agreements and competitive tendering for the purpose of awarding funds to nonprofit participants to carry on the work of the VSI. She suggests that this practice compromised trust, especially during the tendering process, and created "an inner and outer network" (2004, p. 14) based on who was successful in their bids for funding. She implies that over time these issues, along with the ever-present principal-agent dynamic, in which government retained control over problem definition, impacted the ability to carry out sustained, collaborative policy work (p. 7). Phillips concludes that despite the successes of the VSI, "the rhetoric and assumptions of horizontal governance have outpaced the realities of practice" (p. 2).

The competing values of the market and horizontal paradigms are acknowledged in similar initiatives underway at the provincial level, including the earlier referenced BC Government Nonprofit Initiative and the Alberta Nonprofit/Voluntary Sector Initiative.<sup>49</sup> The BC Initiative roundtable discussions revealed the challenge of maintaining "open dialogue and consultation...while preserving procurement integrity" (BC Government/Non-Profit Initiative, *Terms of Reference*, n.d.). Both initiatives acknowledge the importance of a vibrant nonprofit sector. Both are concerned with elevating the relationship between government and the nonprofit sector to something more than mere 'buyers' and 'sellers' to that of a 'strategic partnership' or a 'relationship of equals' (BC Government Non-Profit Initiative, *Recommendations*, n.d.; Alberta Nonprofit/Voluntary Sector Initiative, 2007b, p. 16). However, the ideals and aspirations of such initiatives are easily juxtaposed against procurement, and to a lesser extent, trade

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<sup>49</sup> The majority of Canadian provinces and territories now have similar initiatives.

policy<sup>50</sup> that has grown increasingly ambivalent about the role of the nonprofit sector, the principal-agent nature of the funder-contractor relationship, and to the ever-present competition among service providers.

Phillips and Lavasseur discuss the challenge of reconciling accountability and horizontality in relationships between government and third-party contractors amidst the current transition from market to horizontal or networked models.

In Canada, as elsewhere, the process of governing is in transition from 'new public management' (NPM), which relied heavily on contracting-out, market-based policy tools and government control, to a model of horizontal 'governance,' which depends on collaboration with non-governmental actors, a wide variety of policy tools, and works mainly through networks rather than hierarchies. The key to effecting this transition lies in redefining government's relationships with its non-governmental partners and developing appropriate mechanisms for sustaining constructive relationships with them. This is by no means a smooth evolution, and it is in the state's relationship with the voluntary/non-profit sector - which has a greatly expanded role in service delivery but which is often seen to be less than an equal partner - that the vestiges of the old and the innovations of the new models of public administration collide (2004, p. 452).

While theirs is an analysis of the earlier referenced 'post-2000' HRDC grants and contributions environment, a time of excessive and debilitating accountability measures, the dynamic they describe is sure to be present any time goals around collaboration are situated amidst a principal-agent relationship.

A key challenge for the emerging model of governance will be to find a balance between the exercise of appropriate controls when public money is expended on services and project funding is entrusted to voluntary organizations, on the one hand, and, on the other, the construction of ongoing, positive relationships with these voluntary organizations, which increasingly act not only as service providers but also as governance partners (pp. 469-470).

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<sup>50</sup> Health and social services are exempt from the *Agreement on Internal Trade* and the *BC-Alberta Trade, Investment and Labour Mobility Agreement* (TILMA). Similarly, TILMA does not apply to services purchased from nonprofit organizations. The employment services purchased by AEI are typically not considered social services and therefore are not exempt.

It is a fundamental question of whether “control exerted by [an] accountability regime” and “attempts at collaborative relationships” (p. 453) can co-exist, or does the former undermine the latter?

In summary, the recent emphasis on horizontal, collaborative government includes dimensions that could serve to address issues and challenges arising out of new public management era contracting for human services. Yet it is, in some instances, an unlikely bedfellow for what remains a prevailing market orientation. This is an important consideration as PDD attempts to utilize elements of both.

## **V. Conclusion**

This literature review has surfaced a wide range of potential challenges confronting both public sector managers and nonprofit organizations as they work within the dictates of new public management era contracting and the demands of the more recently articulated horizontal, collaborative paradigm. The former are summarized in table 4.1.

The literature describes how, in the absence of well-developed markets, government funders can find themselves dependent on one or several contractors. Likewise, ‘hollowed out’ government can come to depend on contractors for the very information required to inform funding decisions, and difficulties can arise where contractors’ historical missions conflict with government goals. There can be significant transaction costs associated with building up competition for services previously delivered within an integrated hierarchy or through a limited number of sole-source contacts.

| <b>Table 4.1. Challenges Attributable to NPM Era Contracting for Human Services</b>   |
|---|
| <b>Public Management Perspective</b>  |
| <b>Dependency and Functioning Markets</b>   |
| Underdeveloped markets<br>Monopolies<br>Alignment between government goals and nonprofit missions<br>Information asymmetries<br>Inability to consider vendor track record<br>Decline of trust   |
| <b>Transaction Costs / Capacity Issues</b>  |
| Building up capacity and competition<br>Awarding and monitoring contracts   |
| <b>Measurement Issues</b>   |
| Unclear or conflicting legislation or program goals<br>Difficulties defining and measuring outcomes<br>Difficulties attributing outcomes  |
| <b>Accountability and Innovation</b>  |
| Misdirected innovation / disincentives<br>Innovation stifled by accountability measures<br>Risk aversion<br>Lack of direct accountability to citizens<br>Client creaming / issues of equitable access to services   |
| <b>Nonprofit Sector Perspective</b>   |
| <b>Functioning Networks</b>   |
| Information hoarding<br>Reluctance to partner<br>Bifurcation<br>Decline of trust  |
| <b>Transaction Costs / Capacity Issues</b>  |
| Government-centric processes / administrative burden<br>Lack of administration capacity / funding at less than market value<br>Application and reporting processes disproportionate to scale of program and level of risk<br>Risk transferred to vendor<br>Financial volatility   |
| <b>Mission and the Public Interest</b>  |
| Mission drift / mission vagueness <ul style="list-style-type: none"> <li>-efforts focused at individual level goals at the expense of social transformation</li> <li>-movement away from research, prevention, education, advocacy, democratic engagement</li> <li>-client creaming / issues of equitable access</li> <li>-short term focus</li> </ul> Depoliticalization<br>Inability to participate in policy dialogue<br>Loss of autonomy<br>Weakening of civil society<br>Commercialization |

Public managers are challenged with the task of fashioning abstract notions of public purpose into market-friendly units. Due to the relatively intangible nature of many social or human service outcomes, measurement and attribution issues can thwart efforts to move beyond a 'regulatory' regime to one more focused on performance outcomes. Performance contracting can undermine principles around equitable access to service, and inadvertently provide incentive for unwanted forms of innovation. Finally, public managers are required to balance accountability and certainty, on the one hand, with affording contractors the latitude to take risks and innovate, on the other.

The impact of new public management era contracting on the nonprofit sector is understood in the context of broader 'marketization' trends, which are seen to be challenging the sector's very ability to pursue the public interest. This marketization is said to be impacting the composition of the sector and the ability and willingness of nonprofit actors to rise above self-interest. Project funding and RFP processes can be costly and entail redundant, 'government-centric' procedures. Reporting requirements may or may not be proportionate to actual levels of risk. Performance contracting and project funding are seen to transfer risk to the contractor, cause financial volatility, and crowd out smaller organizations that may be lacking in financial resources and administrative capacity. Moreover, when contractors are focused on short-term, participant level outcomes, and when resources are redirected toward application, reporting and revenue generating activities, it can be at the expense of their broader missions. The competitive process can have a neutralizing effect on those organizations with an advocacy focus, and in the interest of maintaining a level playing field, exclude organizations from policy dialogue.

The challenges, as understood from the nonprofit perspective, speak to two contrasting views on the role of the sector and the nature of its work. Within a market paradigm, the nonprofit organization is largely seen as a service provider, a means to an end. The sector may be viewed as a lower cost alternative to government service delivery or, as is often the case when performance contracting is used, government may in fact be “purposefully neutral” (Ryan, 1999, p. 129) on how and whether nonprofits factor into the mix. The nonprofit entity, on the other hand, may view service delivery as merely one of the ways in which it pursues a broader mission fashioned around higher-level societal goals of social transformation and democratic engagement. These contrasting perspectives can be understood as representing opposite ends of a continuum, as depicted in figure 4.1. Each contracting dynamic employs different market mechanisms and to varying degrees, therefore the role of the contractor plays out differently in each context.

| <b>Figure 4.1 Market and ‘Public Interest’ Perspectives</b> |   |  |
|---|---|--|
| <b>Market Perspective</b>                                   |   | <b>Nonprofit / ‘Public Interest’ Perspective</b> |
| Sector as means to an end                                   | ↔ | Mission an 'end' in and of itself                |
| Individual focus  | ↔ | Societal level focus                             |
| Tangible, immediate outcomes                                | ↔ | Less tangible, longer-term outcomes              |
| Service recipient as customer                               | ↔ | Service recipient as client, citizen             |
| Repeatable / transactional service                          | ↔ | Emergent / transformational work                 |

The work of the Canadian Voluntary Sector Initiative and similar provincial initiatives, and the current emphasis on horizontal, collaborative government suggest a potential to reconcile some of the new public management era challenges, and to more fully acknowledge the role and work of the nonprofit sector. Still, these horizontal or collaborative initiatives can be viewed to be straining against the current of a continued market emphasis. The principal-agent nature of these cross-sector relationships and the spirit of today’s procurement policy surely impose limitations on the extent to which

government and the nonprofit sector can fashion a 'more equal' relationship and enhance the sustainability of the nonprofit sector. For example, an issue that factors prominently into the discussions and work associated with these initiatives (and the Blue Ribbon Panel report) is the need for policy around full-cost recovery. Yet such a policy, in the context of procurement policy that is neutral on the role of the nonprofit sector, could conceivably draw more competition from for-profit contractors. Nonprofits could be crowded out and, with them, the 'value-added' work of research, education, engagement, and advocacy. The cruel irony may be that the nonprofit sector's role is in part secured through the very under-funding it rightly protests. Such a debate is out of the scope of this study but illustrates how the prevailing market approach to contracting seems an uneasy fit with objectives associated with the emerging horizontal or collaborative paradigm.

On a much more pragmatic level, analysis of the federal grants and contributions context implies that in theory, as government becomes increasingly characterized by a horizontal perspective, there is a huge opportunity to ease the administrative burden on contracted entities by streamlining and standardizing, where feasible, application procedures and approaches to monitoring and evaluating performance of third parties. Likewise, as government increasingly operates at an arm's length from citizens, there appears to be an opportunity for nonprofits to renew their focus on citizen engagement and civil society.

The extent to which challenges associated with new public management era contracting and the apparent rub between market and horizontal approaches are present in

the context of the AEI and PDD contracting environments,<sup>51</sup> will be explored through the subsequent primary research. The next chapter presents some preliminary observations and identifies issues to be explored further through interviews with government and nonprofit sector participants.

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<sup>51</sup> MHAS was not included in the primary research component of this study for reasons explained in the next chapter.

## **Chapter 5. Preliminary Observations and Issues for Further Exploration**

Thus far, this research has described the contracting frameworks of three departments possessing of a mandate to deliver employment services, including services for people with disabilities and other ‘niche’ populations. It has sought out contemporary scholarship and government and think-tank reports that speak to the challenges associated with applying market mechanisms to human service delivery as well as those that result from a mix of network and market organizational models.

This chapter suggests that a unique set of challenges accompanies each of the contracting frameworks and forwards a variety of observations to this effect. Likewise it isolates several issues that will be explored further through interviews with public and nonprofit managers and governors, and a review of service provider association records.

The chapter three analysis of the MHAS context revealed that the department only recently introduced a competitive RFP process and that it did so to comply with CHR procurement policy. Only one contract was awarded to a non-incumbent service provider and the RFP process failed to generate competition for the remaining service contracts. As previously suggested, the lack of any real competition for the majority of contracts can likely be attributed to three factors: the terms of reference were written to existing services; there are a limited number of service providers that possess the expertise to deliver what can be understood as ‘niche’ services; and prices were fixed below market value. One might conclude that, given the under-developed nature of the market for MHAS contracted services, the department is dependent on existing service providers. However, the MHAS possesses many of the characteristics of a traditional hierarchy and, therefore, the ability to utilize internal delivery mechanisms.

In the short term, the effect of competition on service providers appears to have been negligible and is most likely limited to an increased administrative burden associated with a more involved application process, and fewer opportunities to meet with MHAS management. However, the literature summarized in Chapter four surfaces a variety of issues that may come into play over the longer term, especially if, in the future, the department adopts a policy of full-cost recovery or introduces an element of performance-based payment. For example, larger and more fully resourced organizations could quickly emerge as the dominant services providers, increased competition could erode inter-organizational relationships, and organizations could begin to steer their missions toward contracting opportunity at the expense of less tangible aspects of their mandates. Even in the absence of more outside competition, it is probably inevitable that the current dynamic among contractors will be altered when some choose to bid on contracts currently held by others.

The introduction of competition resulted from a need to comply with CHR policy and not from a strategic decision aimed at reworking a sub-sector. The full effect will be borne out over time and may include challenges not anticipated by either public managers or the existing service provider network. For this reason, a dialogue between public and nonprofit managers working within the AEI and MHAS spheres may help the latter hedge against the some of the pitfalls associated with further movement into a market paradigm.

In summary, the MHAS mission “To boldly build a comprehensive responsive network of mental health services with innovative stakeholder partnerships”, insofar as

that 'network' is intended to include third party service providers, could be threatened by further movement into a market paradigm, or conversely, a retreat into hierarchy.

The AEI contracting framework is most typical of a market approach with its use of contract competition and performance contracting. Presumably, any number of the public management and nonprofit perspective issues discussed in contemporary scholarship could apply to this setting. Furthermore, the Calgary region office is potentially a rich source of learning.

The impact the market approach has on nonprofit contractors is most likely tempered by AEI's practice of allowing the competitive bidding process to establish market value for services, including profit margin. Contractors with a mission aligned with AEI objectives may be less inclined to seek out alternate sources of revenue, but contractors struggling under other fixed-price regimes may be tempted to stretch or otherwise alter their missions to compete for AEI contracts. The opportunity to profit from AEI contracts can be expected to add to the competitive tension already present among service providers and potentially displace some of the nonprofit actors.

The subsequent primary research will be used to more fully investigate three issues arising from the AEI context, the first of which is the effect of a market approach on the service provider dynamic. The PCDC publicly acknowledges that competition among service providers places limitations on collaboration. At the same time it claims to exist, in part, to share best practices. This seems unlikely, given the level of contestability within this arena; however, a review of meeting minutes has the potential to reveal the primary issues around which service providers come together in this forum. Similarly, interviews with service providers may provide insight into the extent to which the current

contracting and procurement framework imposes constraints on inter-organizational relationships or the overall dynamic among services providers.

The second area is the overall impact on the nonprofit providers operating in this environment. The literature review reveals that a market approach can have a considerable impact on organizational autonomy, direction, and the ability to pursue higher-level and often less tangible aspects of organizational mandate – such as research, education, advocacy, and engagement of civil society. Therefore, interviews will be used to gather nonprofit managers’ perspectives on if and how the market-oriented contracting and procurement framework has impacted at an organizational level. Thirdly, the literature identifies the challenges of applying performance contracting to some of the ‘harder to reach’ areas within the human services and specifically the more barriered populations. Interviews will seek out nonprofit and public managers’ perspectives on how successfully the service and outcome deliverables used by AEI respond to the needs of, and capture meaningful outcomes for, the harder-to-serve populations, and the extent to which the framework encourages or allows for service provider innovation. Once again, learning from the AEI context may prove helpful as PDD initiates performance contracting, albeit in a less ambitious fashion.

Within the PDD context one can observe a host of inter-related issues that surround service contracting. PDD’s is a transformational vision, and this alone introduces issues not present where services are more transactional and outcomes more immediate. However, the challenges that bedevil PDD contracting can also be understood as resulting from the use of seemingly divergent governance paths.

The PDD context is characterized by a network orientation insofar as long-term and mutually dependent relationships exist between and among PDD and service providers, and the realization of PDD's vision is based upon what is professed to be a shared governance model. The hierarchical is evidenced by a small amount of internal delivery, control over intake, case management and pricing, and a push for common service definitions. Finally, the individualized nature of services, the diffused but ever-present competition for clientele and employees alike, and movement toward an element of performance contracting, speak to a market emphasis that factors prominently into the governance dynamic. While not all of the contracting-related issues evident in the PDD context relate directly to the mix of governance models, it is a prominent theme and one not easy to reconcile. Among the issues that can be observed within this context are the following:

### ***Individual and Societal Level Outcomes***

The overarching goal of PDD services is to arrive at more inclusive communities; however, the emphasis of both contracting mechanisms currently in use is on individual service consumption. The contracting framework appears to reward care-giving over community building and can reasonably be expected to reinforce organizational cultures that deliver self-perpetuating services. Whether this is the case is a question that lies well beyond the scope of this research, and it is important to acknowledge PDD's preference for individualized services is not solely tied to a market agenda, or assurance around outcome achievement. Certainly, it can be understood as casting the service recipient in a customer light, and it achieves this purpose. But there is also a moral imperative attached to ensuring "personal agency" or "self-determination" of a vulnerable population

(Alberta, Persons with Developmental Disabilities Provincial Board, 2005a; 2005b) that focuses services at the individual level. However, where service providers pursue the higher-level goals of the community inclusion framework, they appear to do so in the absence of some form of contractual incentive.<sup>52</sup>

The final phase of PDD's provincial contracting change process is intended to attach monetary reward to individual outcome achievement. One can presume that these outcome measures will speak not only to the efficacy of a 'client-centered' service, but will also provide a point from which one can extrapolate to societal level change – to act as 'surrogates' for the greater public purpose. In the case of employment services, this will require an evaluation mechanism that is sensitive to the duration and quality of the employment experience, for an employment placement can occur with or without the workplace education, the attitudinal change, the social integration, and the overall capacity-building that will sustain it and effect quality of life outside of formalized supports.

The incremental and elongated processes PDD has applied to its provincial contracting change process and the CRCB contracting demonstration project speak to the challenge of building a contractual framework that a) delivers assurance around basic needs, b) supports self-determination and individual outcome achievement, and c) more generally moves society in the direction of including persons with disabilities in the workforce and community life with a lessened requirement for state sponsored interventions.

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<sup>52</sup> It could be argued that mandatory certification requirements provide an element of incentive. Contracts specify that service providers must be certified or accredited through the Alberta Council of Disability Services' quality standards framework (or an approved equivalent), which emphasizes choice and community integration.

To ensure that the contractual framework indeed directs services toward the overarching goal of inclusive communities appears to be the most significant and critical challenge. On the one hand, a societal level goal is extremely difficult to fashion into a performance outcome. On the other, by continuing to focus almost exclusively<sup>53</sup> on the individual, services could easily become biased toward a ‘disability as barrier’ perspective.

### ***Differentiation Versus Common Service Definitions and Standardized Unit Costs***

The goal of the second phase of the provincial contracting change project, and one that similarly applies to the CRCB contracting demonstration project, is to address funding inequities by arriving at common service definitions and standardized unit costs or, quite simply, a consistent, predictable, fee-for-service payment structure. The challenge here will be to do so while preserving differentiation of service.

‘Differentiation’ may be taken to mean that the type and intensity of service is customized to respond to the unique needs and circumstances of each individual service recipient. Indeed, the nature, severity and manifestation of disability are different for each service recipient, as is the composition and engagement of support networks. It can also be understood as the current diversity of service designs and philosophies that empowers the service recipient with choice. If differentiation is taken to include the latter, the inequities created by a history of arbitrary and isolated funding decisions may in fact be replaced by new inequities in a system that treats apples as oranges.

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<sup>53</sup> When the PDD Provincial Board was in existence, there was a requirement that Community Regional Boards invest in community development projects, but this requirement did not survive into a post-Provincial Board era. The CRCB has subsequently discontinued this form of programmatic investment.

### *Service Systems Versus Community Stakeholders and Natural Supports*

It is not uncommon to hear human service administrators and practitioners refer to the ‘human service industry’. While the competition among PDD service providers may be more subtle and diffuse than in other sectors, administrators are understandably concerned with organizational interests and issues of sustainability and growth. The PDD vision, which includes a movement beyond formalized supports, may indeed run contrary to the business objectives of some organizations. There will almost certainly always be a need for supports for persons with profound disabilities; yet, in theory, the more successful the sector is in achieving the higher-level goals, the less work there will be to go around.

This suggests a need for the human service contractors to view themselves as contractors in the temporal sense of the word. The work becomes akin to building a bridge, not running a ferry service, only the ‘bridge’ in this context is not a singular project to be managed, but it results from countless interactions in countless settings. PDD’s preferred outcome is more akin to a social movement. If it is possible to contract for social change, then, in the short term, the contract has to steer the contractor toward different work and in the longer term, less.

### *Managing Change on a Horizontal Plane*

As implied above, the realization of PDD’s ‘inclusive communities’ vision will require buy-in, consensus and collaboration between and within stakeholder groups. Unlike other areas within the human services that can effect top-down change by replacing contractors, often through a competitive process, for several reasons such options are not as readily available to PDD. PDD contracts to over forty organizations,

but it relies heavily on a small number of large contractors and few, if any, alternate providers exist. Furthermore, there are ethical, logistical and financial considerations around building up competition and any substantive redistribution of clients, and therefore of funds. Given the vulnerabilities of the population served, a disruption of long-established trust relationships with PDD clients would almost certainly have harmful effects. Finally, a top-down approach would seem to run contrary to the ideals of shared governance. Rather, change within the PDD environment is apt to be incremental, not wholesale, and arrived at through consensus, not contestability.

### ***Market Mechanisms and Shared Governance***

Still the performance-based payment goals attached to both contracting initiatives have the potential to alter the dynamic among service providers. Regardless of the merit or logistical challenges of attaching however much payment to outcome achievement, will those who gain financial advantage through such a system be as apt to share service technologies with others looking to do the same? Although it appears to have lost some momentum as a result of the elimination of the Provincial Board, PDD builds up a vision of transformational outcomes achieved through a host of boundary spanning interdependencies and a shared governance model. If indeed the PDD vision is predicated on various forms of meaningful (versus symbolic or rhetorical) collaboration, what, if any, effect will result from a simultaneous shift further into a market paradigm? Are the two at odds or can they co-exist? And if so, what is the appropriate mix?

### ***Performance Incentives and Fixed Pricing***

As previously explained, PDD payment is 'fixed-price' in nature and funding is below what most would consider market value. Indeed, the rate at which PDD operations

are funded has become the single-most contentious issue between the provincial government and contracted service providers. Furthermore, PDD has strict policies around the retention and use of surplus funds. While some service providers are in philosophical agreement with the notion of performance-based payment, it may be misplaced in a context in which many organizations supplement operating and infrastructure costs through fundraising and alternate revenue sources.

### ***Reporting, Evaluation and Information Management***

PDD has acknowledged that the focus of its monitoring and reporting activities is not proportionate to areas of risk, not unlike the post-2000 federal grants and contributions environment. As it attempts to transition to a framework more focused on performance outcomes, PDD will likely need to overcome the measurement and attribution challenges that accompany services designed for people with complex needs and that come into play when individual level outcomes are used as surrogates for higher-level societal outcomes.

Regardless of the fit with shared governance, or the apparent disconnect with the current fixed-price policy, the performance-based payment objective is confounded by the unique nature of services for individuals with more profound, and usually ongoing, support requirements. Discussions at the CRCB contracting demonstration project steering committee have surfaced the unique evaluation and information management challenges associated with providing services to people with developmental disabilities. Unlike the AEI environment, where service recipient populations present less profound barriers to employment and are not characterized by long term or ongoing dependencies, services for people with developmental disabilities are neither linear nor fixed to a

specific point in time. Employment services often involve multiple placements before an appropriate and sustainable match is found. It is not uncommon for a service recipient to return to 'earlier phases' of a program or service intervention and for the nature and intensity of services to a particular individual to ebb and flow over time. Moreover, the long-term nature of service interventions means that there are bound to be a significant number of legacy or inherited cases with the introduction of any new tracking system. For these reasons it becomes very difficult to construct and manage a data set that supports payment based upon deliverables and outcome achievement.

In summary, The PDD context offers up a complex set of contracting-related challenges, and too many to fully explore in this research. What appears to emerge as the primary distinction between the PDD context and those of AEI and MHAS is a desire, indeed a requirement, for social transformation. Were it enough to merely place a person with a developmental disability into competitive employment, a simple performance outcome payment scheme may prove sufficient. But the societal level change required to make that placement meaningful and sustainable does not readily translate into a market-friendly commodity, and the collaboration required among multiple stakeholders could be stunted through the use of market mechanisms. The question in this context appears to be the same as that which Edwards (2008) is asking in the context of philanthrocapitalism – that is, whether it is feasible to rely on market mechanisms to effect social transformation. At present, it seems unclear how either the existing or the proposed contracting frameworks will reinforce or encourage achievement of the goal of inclusive communities within a shared governance environment. Moreover, it may be that a single,

viable contracting alternative will remain elusive in the absence of a greater consensus and reconciliation around the preferred governance mix.

As implied by Thompson (2003) and others, the market, hierarchy and network models can complement or confound. During the Provincial Board era there was much deliberation over shared governance, but less attention was paid in published reports to the effects of intermingling market and network models. In the absence of a provincial board to carry the shared governance torch, further movement into a market model could compromise what has been accomplished to date, and result in a drift away from what was originally envisioned. PDD may do well to ask what blend of organizational models - what mix of command and control, reciprocity and trust, and price and competition - will support a viable contracting regime and, more generally, fully engage stakeholders in a collaborative process.

Of course, getting the contract right will not alone lead to achievement of a vision. Indeed, the *Second Century* papers stress the importance of multiple parties fulfilling a variety of roles. But the contract is the lever that not only actuates service priorities and technologies, but also defines and influences relationships between and among PDD and service providers. Given the ambitious and transformative nature of the PDD vision, it would seem paramount that PDD be deliberate, as opposed to experimental or random, as it constructs the organizational underpinning that will support, among other things, a viable contracting alternative. And if true community governance (as a dimension of shared governance – one that involves regional boards, service providers, people with disabilities, and ‘communities of interest and place’) is to be achieved, one can presume

that PDD will need to establish conditions that will maximize collaboration among stakeholders.

The next chapter details how semi-structured interviews with nonprofit and public managers and a review of service provider association records were used to confirm or refute several propositions around the more salient contracting related issues identified thus far and as depicted in table 5.1. In the AEI context, the primary research was used to look for whether nonprofit managers identify with ‘marketization’ issues around mandate, autonomy and inter-organizational relationships. It sought both public management and nonprofit opinion on the use of service and outcome deliverables in contracted services for more ‘barriered’ populations.

In the PDD context, the primary research was intended to support or refute the notion that contracting is situated amidst a less than deliberate mixing of market and network organizational models, and it was attached to the following logic: (a) what momentum toward shared governance that may have been gained during the Provincial Board era has been lost, (b) there is now somewhat of a gravitation toward the expanded use of market mechanisms, (c) this is occurring in the absence of a meaningful dialogue around the impact on what might otherwise be understood as a network model, and (d) this could have a number of consequences akin to those surfaced in the literature review and detract from PDD’s overarching goal of inclusive communities.

| <b>Table 5.1 – Research Propositions</b>   |
|--|
| <p><b>Proposition: The market emphasis of the AEI contracting and procurement framework places limitations on inter-organizational relationships and the service provider agenda.</b></p> <p><i>Methods to explore proposition:</i></p> <ul style="list-style-type: none"> <li>- Review of service provider association minutes.</li> <li>- Interviews with nonprofit managers / executives.</li> </ul>                |
| <p><b>Proposition: The market emphasis of AEI contracting and procurement has impacted the priorities and mandates of nonprofit service providers operating within this sphere.</b></p> <p><i>Methods to explore proposition:</i></p> <ul style="list-style-type: none"> <li>- Review of service provider association minutes.</li> <li>- Interviews with nonprofit managers / executives.</li> </ul>                  |
| <p><b>Proposition: A unique set of challenges accompanies AEI’s use of performance contracting for services intended for more barriered populations.</b></p> <p><i>Methods to explore proposition:</i></p> <ul style="list-style-type: none"> <li>- Review of service provider association minutes.</li> <li>- Interviews with nonprofit managers / executives.</li> <li>- Interviews with public managers.</li> </ul> |
| <p><b>Proposition: The momentum toward shared governance that may have been gained during the PDD Provincial Board era has been lost.</b></p> <p><i>Methods to explore proposition:</i></p> <ul style="list-style-type: none"> <li>- Review of service provider association minutes.</li> <li>- Interviews with executives / governors.</li> </ul>   |
| <p><b>Proposition: There is now movement within the PDD context toward the expanded use of market mechanisms.</b></p> <p><i>Methods to explore proposition:</i></p> <ul style="list-style-type: none"> <li>- Review of service provider association minutes.</li> <li>- Interviews with executives / governors.</li> </ul>   |
| <p><b>Proposition: This is occurring in the absence of a meaningful dialogue around the impact on what might otherwise be understood as a network model.</b></p> <p><i>Methods to explore proposition:</i></p> <ul style="list-style-type: none"> <li>- Review of service provider association minutes.</li> <li>- Interviews with executives / governors.</li> </ul>  |

## **Chapter 6. Summary of Interviews**

This chapter contains a summary of themes from interviews with government officials<sup>54</sup> and nonprofit executives and managers involved with AEI contracting and procurement as well as executives and governors involved in the PDD realm. The interviews were supplemented with a review of minutes from service provider association meetings. The subheadings in the two sections correspond with the propositions listed in table 5.1.

### **I. Alberta Employment and Immigration**

#### ***Inter-Organizational Relationships and the Service Provider Agenda***

Minutes of the Calgary chapter of the PCDC, extending from 2002 to present, were reviewed to determine the nature of the Council's ongoing agenda. The minutes reveal an overall focus on contracting conditions and service recipient advocacy. The most well attended meetings have been those where government officials have been in attendance, and particularly when they have been asked to present on department budgets and business plans. Over the years, the Council membership has discussed many topics that relate directly to contracting and procurement, including funding priorities and trends, the financial risk associated with AEI contracting, the criteria used to evaluate proposal submissions, and concerns over the legitimacy of awarding contracts to large, quasi-public educational institutions.

The minutes also reflect discussions focused on the policies that determine client eligibility for services and funding. This too can be viewed as part of an overall focus on

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<sup>54</sup> Also referred to as contract managers in this chapter.

business conditions, as clients represent revenue. However, these discussions appear less tied to organizational interests and there is evidence that AEI relies on this forum, and contractors' proximity to clients, to ensure department policies are responsive and fair. To this end, the PCDC is called upon to comment on research, policy recommendations, and for representation on related government committees.<sup>55</sup>

The minutes contain little evidence that service providers use the forum to share best practices. This was confirmed in interviews with service providers, of whom none could recall discussions to this end. On sharing of best practices, one participant commented that, "at the service delivery level, it's probably not realistic",<sup>56</sup> suggesting best practices are akin to confidential business information. However, this participant acknowledged a generalized learning that occurs among executive directors.

Other participants expressed their skepticism with the forum, and acknowledged a tension and mistrust among competing parties. One explained that for-profit service providers, using the council as a platform to further organizational interests, had left him<sup>57</sup> disillusioned, and that the council failed to achieve meaningful dialogue on client level issues. Another questioned the tactics used by another member to gain information about one of his organization's service contracts when the contract was put to competition. Minutes from the past year reflect discussions pertaining to the relevance of the council, and a struggle to attract members and to generate interest in attending regular meetings.

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<sup>55</sup> It is difficult to summarize the overall intent of PCDC interactions with government, as individual members' agendas are sure to range from rent-seeking to more earnest advocacy on behalf of disenfranchised constituents.

<sup>56</sup> All quotes in this chapter are taken from transcripts of confidential interviews conducted between February 2<sup>nd</sup> and 13<sup>th</sup>, 2009.

<sup>57</sup> As a measure to further protect participant confidentiality, gender specific pronouns have been assigned randomly.

In general, service provider participants described a competitive dynamic that imposes constraints on inter-organizational relationships. Consistent with the PCDC minutes, participants noted an ability to find common ground on contracting related issues, but described other forms of collaboration as superficial. The current dynamic was contrasted to both the pre-LMDA environment and other more traditional funding regimes where collaboration was described as more meaningful and substantive.

...what it's done by pitting us against each other as competitors – it's made us look over our shoulders to see who else is in the playing field. And while early on...we were sharing curriculum with each other, ...helping each other getting programs going, we don't do that anymore. ...If it [AEI funding] makes up two thirds or more, I think it colours an organization more. We still have a number of formal partnerships in areas that are not touched by any of this. ...It makes service providers reluctant to refer clients because there's money attached to them.

One participant commented that the AEI funding environment is not conducive to the sort of cross-program collaboration that could otherwise effect broader outcomes and ultimately result in more people with disabilities accessing the workforce. Rather, this participant observed that organizations contracted by AEI to serve people with disabilities define their relationship first and foremost as competitors, and not as parties working toward a mutual and higher-level goal. Another participant was skeptical about an AEI contract intended to involve multiple stakeholders in a campaign to increase the business community's capacity to employ people with disabilities;

There are not a lot of not-for-profits that are going to sit there and say, 'Yeah, I'm going to help them out' ...Why the hell would we do that when it puts us into direct competition over the tendering of our own contract?

The interviews suggest that it was the disability serving organizations operating in the AEI context that struggled the most with the transition from a pre-LMDA

environment. When AEI (then Advanced Education and Career Development) assumed responsibility for employment services, it chose to consolidate the multiple pre-existing disability-specific contracts into one ‘pan-disability’ contract that required the successful proponent to work collaboratively with the various disability serving organizations. Service providers responded by forming a consortium. With one of them acting as the fiscal agent, and with a general understanding that the consortium would subcontract to member organizations, the consortium won the contract. In time the consortium registered as an independent not-for-profit organization under the *Companies Act*, and the consortium members, a mix of nonprofit and for-profit organizations with an interest in serving people with disabilities, became shareholders responsible for electing the company’s board of directors.

However, this was not a smooth transition. The AEI officials interviewed described the animosity that resulted when pre-LMDA service providers lost their contracts. One service provider described the resulting tension as “outright hostility”. Eventually the governance structure, which included shareholders in direct competition with the organization, proved untenable, and many organizations elected to return their shares - but not all left peacefully. A recent annual general meeting and awards ceremony was derailed by disgruntled shareholders who challenged the legitimacy of board decision-making, and made demands for what the board considered proprietary information.

We had five shareholders left and they were all pretty much odd ones in that some were Edmonton-based which had nothing to do with us. They were in direct competition for our contract and there was a mixture of nonprofit and for-profit. It was a nightmare ... At the last AGM, the old shareholders starting threatening the board saying, ‘We’re not going to vote you in unless you give us information like how much people are

getting paid and how many contracts you have and the dollar value,' and basically tried to get all the information they needed to compete effectively against us for our contract. To which the board said 'No way', so they gave them back their shares and became shareholders themselves.

The animosity described in this account is by no means the norm for relationships among organizations delivering disability services under the AEI banner. What is evident, however, is that despite the collaborative intent that may have existed among some organizational actors, the transition into a market model, and the governance path chosen by service providers, placed them into a direct and divisive conflict of interest. The resulting tension was fuelled by the reality that subcontracting roles did not materialize in the way some had envisioned. The service providers interviewed did not appear to be overly burdened by past conflicts as the most disaffected presumably operate outside of the AEI contracting environment. Rather, those who currently hold contracts with AEI are cognizant of the limitations associated with operating within a competitive environment.

It should be noted that government officials highlighted a more recent practice of effectively 'piggy-backing' programs funded by another department onto existing AEI programs. So while the competitive dynamic across service providers imposes limitations on service provider collaboration, there is evidence of a horizontal integration that broadens the scope of existing programs.

Overall, AEI's market emphasis has impacted inter-organizational relationships, especially among disability serving organizations, and it has placed parameters around the service provider agenda.

### *Priorities and Mandates of Nonprofit Service Providers*

Although participants identified a number of ways in which the AEI contracting and procurement framework has impacted at an organizational level, the experiences have varied. However, there was agreement that it had impacted overall organizational capacity. Participants commented that operating AEI contracts has required them to develop capacity in areas such as accounting, information technology, outcomes monitoring and reporting, and risk management. This professional expertise is of the sort that those observing the ‘marketization’ trends described in chapter four would argue is contributing to a bifurcation of the sector.<sup>58</sup> Additionally, participants reported that the transition from payment in advance of service delivery to payment after service delivery, has forced them to build up working funds and therefore financial capacity.

Participants were generally in agreement that AEI requests for proposals are highly prescriptive and therefore; (a) provide little room for innovation and, (b) depending on organizational response, can have a significant impact on mission and organizational direction. Participants relayed four distinct experiences.

One participant reported that her organization had managed to hold steadfast to its mission, but that it is now less involved in advocacy and public education. On the one hand, she felt that AEI funding was important because it gave the organization a necessary scale and capacity. On the other hand, she felt that too much AEI funding, as a proportion of total revenues, exposes an organization to too much financial risk and has too much of an influence on organizational direction.

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<sup>58</sup> Indeed, among the nonprofits that have established a strong presence within the AEI context are a number of faith-based organizations that have evolved into large nondenominational entities that otherwise might have been crowded out of the career development market.

A second participant reported that his organization had been tempted to 'wander their mission', but to date had resisted this temptation. In contrast to those more anchored to their mission, a third participant described how her organization's board of directors has come to measure success on the organization's ability to secure government (primarily AEI) contracts and expand services, and how today they struggle to articulate a clear mission. In effect, she described the board's thinking as a product of over a decade's worth of project funding.

It's stifled the way our board thinks... They don't know what the broader mission is or should be... Here we are now and we need to change our mission and that's as a result of the work we've been doing over the past years and AEI programs have been a big part of that.

A fourth participant reported that because AEI is their sole funder, and because the organization's contract manager does not permit them to direct program resources toward non-program related activities, they are very limited in their ability to expand into related areas of need or to diversify their funding. Finally, an additional participant offered that organizations tend to respond in one of three ways. She distinguished between: (a) organizations with drastic turns in mission or direction; (b) those that establish and perfect a niche and, (c) those that are well established and expand mission in a more planned or methodical fashion.

There is evidence that the AEI contracting and procurement framework has impacted organizational mandate and priorities in a manner consistent to that documented in the literature review. However, some organizations have demonstrated the ability to succeed in this contracting environment while choosing not to expand or alter their missions in a haphazard manner.

### *AEI's Use of Performance Contracting with Harder-to-Serve Populations*

Service providers' opinions about the overall advantages of AEI's performance contracting were mixed, but generally they favour the approach for contracts with a sustained demand, versus programs where client numbers fluctuate or where there are 'lag times' between batch intakes. Two participants described their initial reluctance to assume the financial risk associated with AEI's service activity and outcome deliverables. However, in time, both came to prefer the model.

My first thought was I was quite shocked and horrified at the change - and quite anxious about the way the organization was required to assume financial risk in entering into these services... As we've worked with it, I've become more satisfied with that model of funding for services because, although we take some risks, we also have some net benefits to the organization compared to our other types of funding.

The net benefits described by this participant, and echoed by others, are the flexibility over use of program revenue, and the ability to direct profit as the organization sees fit. Participants were quick to contrast this to the line-by-line audit emphasis of federal contribution agreements. Still, the risk attached to AEI contracts is a source of concern for the PCDC membership and, as will be discussed later, appears to be more pronounced in the programs with a harder-to-serve clientele. The PCDC recently forwarded a letter to AEI asking the department to consider increasing the limit for monthly flat rate fee-for-service payments (currently fixed at a maximum of thirty percent of the contract value), to use ranges rather than specific targets when determining success rates, and to extend the length of contracts.

Despite the heightened risk, those who favoured performance contracting spoke of two additional and related benefits. Firstly, they commented that it results in a more efficient use of state-sponsored programs. Participants generally felt that where revenue

is tied to outcome achievement, service providers pay closer attention to front-end assessment work to ensure the clients they accept will benefit from the service. One participant described how under the previous sole-source, grant-type regime, clients would often cycle through programs with little potential for success. This participant added that, while it happens to a lesser extent under the current framework, there are still some service providers who lack the discipline and rigour to resist “filling seats at any cost” to maximize service activity outcomes.

Secondly, participants generally felt that the milestones and targets inherent in service contracts have a ‘focusing’ effect on service providers and program staff alike.

It helps sharpen an organization’s ability to spell out what they are actually delivering. I think it helps them get closer to the results that they’re looking for...so it’s not as nebulous, as often in our sector, we tend to frame things. That’s a big upside – just the clarity that is spelled out from the front.

One service provider commented that staff in AEI funded programs have a better understanding of program intent and are more in tune to program performance than their counterparts working under grant-type frameworks.

They are working with program information far more than the other services. While there might not be a lot of room for innovation, people know what they’re doing in those services and that’s better for the clients and staff.

Another described how performance contracting had required service providers to focus on “proving worth” as opposed to merely existing as a worthy cause.

As implied in the above quote, some participants felt that AEI contracts fail to encourage innovation. They described an rfp process that is highly prescriptive in terms of the program elements and outcomes that ultimately make up the payment schedule upon which the department’s performance contracting is based. However, others stressed

that, provided contractors remain within the parameters of the contract and deliver the required program elements, there is room to take innovative approaches to delivering service elements. The interviews revealed varying definitions of innovation. One participant suggested the term is misunderstood.

You're asked to support your submission with evidence-based research and so if you are being truly innovative and proposing to do something that hasn't been done before, there's little chance it will be supported. There doesn't seem to be a common understanding about 'innovation'. Really, it's creating something that doesn't exist. They won't fund that... I think that's a risky thing for them because they want to know that something works. ...They are risk averse.

Although one of the purported benefits of performance contracting is that it allows the contractor to determine how to achieve the desired outcomes, in the AEI context significant control is exerted over means. This is consistent with the practice of attaching approximately fifty percent of program revenue to service activities or milestones. Were AEI to place a greater monetary emphasis on outcome achievement, the department would likely be less concerned with the specific nature of service elements. By specifying the required elements, the department is better able to make 'apples to apples' comparisons when evaluating proposal submissions, while mitigating the financial risk to its service providers.

Where service providers do have room to influence service design, they do so with the resulting deliverables schedule in mind. "I do think it impacts how you're going to create your model. It's how you get paid." Despite the prescriptive nature of requests for proposals, participants acknowledged a dialogue that occurs between service providers and government officials, and that ultimately influences content.

I think there is still some room to innovate but it is severely limited... once it's in the rfp, that's pretty well it – but I think there are subtler ways

of influencing what goes into the rfp. ...you work with your project officer during the year. I think it's critical to involve them, to talk about the trends.

The lesser emphasis (typically a minimum of fifteen percent of total contract revenue) on service outcomes may explain why, as earlier referenced, some service providers continue to accept participants less likely to succeed. It was suggested that there might be instances where contractors feel 'trapped' in a contract that would otherwise lose money. It was also suggested that some contractors fear that if a program is not fully utilized, it may be deemed unnecessary.

Service providers identified a number of challenges associated with the use of performance contracting with harder-to-serve populations, some exclusive to this realm, and others simply more pronounced. The challenge most commonly cited by service providers and government officials alike was the ability to meet performance contract targets amidst a strong economy, both in terms of client volume and success rates. During these 'boom' times, a greater proportion of those who would otherwise access programs intended for harder-to-serve populations are in fact absorbed into the workforce. As a result, contractors find themselves serving individuals with multiple and profound barriers, who are marginally employable, and who may not be able to achieve the department's minimum requirement of fifteen hours of employment per week. One government official described this as the "expected to work, but not bloody likely" population. This issue is confounded by several factors.

Firstly, contracting cycles typically span four years, from rfp development to contract completion.<sup>59</sup> Participants commented that the boom-bust nature of the

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<sup>59</sup> Contract managers described the competitive rfp process as thorough, but very time consuming, implying there is a significant transaction cost associated with cycles that include researching, planning,

provincial economy makes forecasting difficult although, as mentioned earlier, the PCDC is advocating for longer contracts as a means of mitigating financial risk.<sup>60</sup>

Secondly, not all service providers feel that they are in full control of their intake decisions and do not want to jeopardize relationships with government referral workers.

Where it becomes dicey is when you're looking at low level integrated training where persons are not always recruited by the service provider. Sometimes the referral is made by an AEI welfare office. They're sending someone over for you to fix them. You don't want to lose that relationship so you take them in. They don't work out. They don't follow through. There was a reason they were being referred by the welfare worker.<sup>61</sup>

Participants described how this practice benefits neither the client, who fails in the program, nor the service provider who, under a performance contract, loses revenue and is required to report the compromised program success rates in subsequent bids.

Thirdly, in the case of disability services, the full extent or manifestation of disability may be difficult to determine in an initial assessment. One service provider described the scenario in which a client initially presents with a physical disability and might not feel comfortable disclosing mental health issues that ultimately surface 'midstream'. This creates problems for the client who might require supports in excess of what the service provider is able to offer, and for the service provider who is understandably concerned about the performance implications in a contract that calculates success rates based upon those who commence the service. Additionally, the provincial database used to monitor

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writing and issuing the rfp, and then evaluating proposal submissions, interviewing lead proponents, and negotiating and drafting contracts. Furthermore, one contract manager described a trade-off between an open and fair competitive process and the ability for government to respond to emerging issues in a timely fashion through sole sourcing.

<sup>60</sup> A participant explained the rationale for longer contracts as: (a) few landlords are prepared to enter into lease agreements under five years, (b) service providers lose seasoned staff amidst the uncertainty of the competitive rfp process, and (c) a longer contracting cycle could smooth over the effects of fluctuations in client numbers.

<sup>61</sup> This participant also offered that there are instances where nonprofit providers' compassion outstrips reason, resulting in poor intake decisions where people with multiple barriers are accepted into programs ill-equipped to serve them.

programs codes clients according to ‘primary disability’. When the full extent of disabilities is not entered into the database, the disconnect between what is entered and what is happening at an operational level makes it difficult for the contractor to provide a rationale for why some clients take longer to reach contract milestones, why the contractor might feel it necessary to shift the emphasis of program elements, and to properly interpret contract success rates. Service providers added that there are multiple definitions of disability and conflicting estimates of the number of people with disabilities, which led one to question the validity of the service utilization targets attached to his contract.

Overall, service providers supported the spirit and intent of performance-based contracting, but questioned whether contracts are sufficiently broad and flexible enough to respond to the needs of harder-to-serve clients, especially in times of profound labour shortages. Participants made a number of observations that suggest programs are somewhat constrained given the contracting parameters and the reality of the client base served. One implied that the people with disabilities who can achieve independent employment<sup>62</sup> are not necessarily the ones coming through the doors.

What’s interesting is that the high functioning people with disabilities are not going to go through the types of services that AEI provides to gain employment. They’ll do it on their own. So we’re left serving people whose barriers are higher and who likely won’t hit independent employment the way AEI’s measuring it...

Additional concerns that surfaced in the interviews were: that many clients have ongoing support requirements even once employed, and well beyond the mandatory but time limited six-month follow-up period; that some clients’ progression toward employment

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<sup>62</sup> Independent employment is that which can be sustained in the absence of formalized support.

does not necessarily follow the linear path implied in payment schedules;<sup>63</sup> and that multi-barriered clients require a more holistic service if issues are to be addressed in a thorough and substantive manner. Although there was a general acceptance that performance needs to be tied to concrete outcomes, concerns were expressed that outcomes as defined in contracts are narrow and superficial, fail to take into account the less tangible gains made by clients as a result of involvement in services, and ignore the need for work aimed at achieving broader societal level outcomes.

But perhaps the most significant challenge identified by service providers has nothing to do with the contract per se, but rather with a work culture that developed under a grant-based regime.

...one of our biggest issues here is that most people that come to work with [us] are not used to working in that environment of performance. ...there's no other way to do it than to say – 'our contract demands that we have x number of placements in a month. That means you must have x number of placements in a month'. ...So when you start doing that, what we find is that people start saying, 'the hell with this' because most not-for-profits don't work in that realm. ...you're not held accountable at the end of the month for what you did or didn't do. ...That's a hard culture and for us, every time we start to talk to people about performance, they leave. They don't like it. It doesn't feel comfortable.

This issue was not mentioned in reference to contracts for less-barriered populations, where a different work culture appears to have developed, and one more akin to the for-profit placement firms that also compete in this domain. Many of the staff involved with AEI's disability serving contracts have previous experience with more clinically oriented programs and those that have historically been rooted in vague notions of rehabilitation. However, not only are staff in the disability sector less accustomed to working under a

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<sup>63</sup> Participants frequently referenced the intermittent and cyclical nature of many mental health afflictions and described clients whose lives were peppered with times of debilitating crisis.

performance-based system, but they are challenged to overcome stigma and public perception issues not associated with the work of placing less barriered populations.

The public officials interviewed were unanimous in their overall support for the existing performance contracting framework. They described it as fair, transparent, and feel it allows them to focus on monitoring service quality versus contractors' expenditures. They agree with the underlying philosophy that allows contractors to manage their budgets as they see fit. Finally, they feel the deliverables model is flexible enough that it can be applied equally well across the full continuum of AEI contracted services.

Like service providers, the contract managers felt that the contracting framework keeps contractors focused, especially in contracts for harder-to-serve populations where a "sympathetic view of the client population" can result in a "toning down" of outcome expectations. As one participant put it, "It holds their feet to the fire". Yet contract managers were themselves sympathetic to the challenges attached to contracts accessed by harder-to-serve clients. They were quick to acknowledge that there are many variables associated with these contracts that are out of the contractors' control, including the impact of economic conditions on the client base and all manner of individual client circumstances that can erode program success rates. In general, they have had a more difficult time arriving at appropriate targeted success rates. One described this exercise as "a bit of a stab in the dark", and reported that the department has, over time, lowered expectations, which now are typically set between fifty and sixty percent in programs serving people with disabilities.

The contract managers are cognizant of the need to maintain a viable market for these services. It was learned that because the utilization patterns and success rates associated with these contracts are difficult to predict, contracts are frequently amended to maximize service provider revenue. Contract managers are required to leave targeted success rates intact, as to do otherwise would represent a substantive change to what was originally included in the rfp and would undermine principles around fair competition. However it is not uncommon for amendments to effectively ‘front-end load’ contracts so more revenue is attached to milestones achieved earlier in the service intervention and less to the latter stages and successful employment outcomes. The deliverables schedule upon which payment is based was described by government officials more as a cash-flow mechanism and less as a performance tool. Given the challenges attached to these contracts, service providers also described this practice as both fair and necessary. However, one service provider felt that by manipulating the deliverable schedules, the department was getting away from the spirit of performance contracting.

Finally, the issue of client ‘creaming’ was not brought up by any of the interview participants. When asked about it, contract managers acknowledged that it happens; however, it is not a significant concern. One described it as somewhat of a relative term. For instance, as implied earlier, a strong economy greatly diminishes the potential for creaming. Furthermore, AEI contracts for a broad spectrum of employment services, ranging from those for multi-barriered individuals to services for unemployed professionals, and it uses both third party assessments and contract management oversight to ensure appropriate utilization of these contracts. However, one contact

manager conceded that amidst the present economic downturn, government employees have been discussing the prospect for the issue of creaming to arise.

In summary, service providers identified a variety of challenges that are unique or more pronounced where AEI's performance contracting model is applied to contracts for people with disabilities or other harder-to-serve populations. As a result, contracts are frequently amended and in general, become less performance oriented. The remainder of this chapter relates to the PDD contracting framework.

## **II. Persons with Developmental Disabilities**

### ***PDD Shared Governance – Momentum Lost?***

The interviews confirmed that any momentum toward shared governance that might have been gained in recent years has indeed been lost. However, there was little evidence that substantive gains had been made, so there was little momentum to lose. Participants held differing opinions as to the overall merit and attainability of shared governance. It became evident that these opinions were based upon varied expectations for, and understandings of, shared governance. None of those interviewed felt that a consensus around the very meaning of shared governance had been achieved. A variety of definitions were offered. The primary distinction among them was whether shared governance implies a power sharing or a sharing of oversight, and whether in this context it applies to the PDD program, or more generally, to a vision for inclusive communities. For example, one interview participant offered that where PDD and service providers share a common vision, independent of their contractual relationship, there is an opportunity for an element of shared governance. But it was stressed that this is a sharing

of oversight of respective roles in changing community, and is to be contrasted with something that would involve a shared authority over systems. Relative to systems, “It’s a contractual relationship. It’s not a shared governance relationship.”

This ‘shared authority over systems’ perspective, on the other hand, was evidenced in the frustration expressed by what other participants described as the ‘one-sided’ nature of PDD governance, a sentiment that was also conveyed in Chairs’ Council meeting minutes. Generally, this frustration appears to be accompanied by an acknowledgement that such a conception of shared governance is not workable in the context of what is undeniably a principal-agent relationship between PDD and service providers.

I think people have kind of given up on that because the reality is it’s not going to happen so let’s just call a spade a spade and carry on. ... We used to spend quite a bit of time talking about how it could be different but at the end of the day, they’re a funder – they have ultimate power, we don’t – it’s one-sided so when you have a power imbalance, what’s shared? It’s a nice idea, but does it really work? They call the shots; they make the rules. You play or you don’t get paid – it’s pretty simple.

Overall, most were resigned to the fact that shared governance will not be achieved in any sense that would involve a rebalancing of power and authority.

Participants offered a host of reasons why shared governance failed to take root. The sector was described as insular, adversarial, and mired in historical grievances. It was suggested that service provider boards are preservationist, and that they fail to define their roles outside of fiduciary and management responsibilities, or to engage in a more substantive dialogue on how the sector might collectively effect societal level change. Others felt PDD community regional boards lack sufficient cross-sector representation,

that they are subordinate to the minister, and have, over time, become “non-entities”, powerless to set direction and increasingly disconnected from their communities.

The criticism directed at service provider boards speaks to issues symptomatic of, or at least consistent with, a contractual framework that emphasizes service consumption. Those aimed at the PDD community boards appear to speak to the very relevance of these governance bodies in light of the Alberta Government’s preference for centralization and its emphasis on cost containment.

So at the present time the notion of community governance, I don’t think, is a concept that has life. That’s not to say there aren’t people that are supportive of it, and want it to come back; it’s just it has no traction currently within the ministry. ...I think part of the reason, if not the full reason, is that government would like to control the entire process through contract of how things are done, how services are delivered and therefore, control the costs. ...it’s very much a provincial government interested in centralized authority, not distributed decision making or governance.

It was suggested that rather than be subjected to the political embarrassment of a full and public retreat from the shared governance model, the province will continue to downplay it as the emphasis shifts to a new agenda of “program reform”, with its component parts: “clarity of mandate, transparency, accountability, effectiveness and efficiency, and sustainability.” Furthermore, there is a perception that so long as regional boards support the ministerial direction, they will continue to exist, but that the boards could be dissolved with little consequence.<sup>64</sup>

Lastly, despite a growing realization that shared governance is no longer a priority, a degree of confusion exists among those operating in the PDD realm. Minutes from recent Chairs’ Council meetings reflect an intent, on the part of the Council, to

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<sup>64</sup> It was also noted that although the boards are largely vestigial, they continue to serve a useful ‘firewall’ function for the ministry.

rekindle a dialogue on governance and joint decision-making.<sup>65</sup> While this can easily be interpreted as a play for more influence over policies affecting business conditions, it serves as evidence that PDD has not made a clean break from shared governance, but in effect has left it dangling. “It has created all sorts of expectations ...that somehow it could be different, but I don’t think it really has been different at the end of the day.”

Within the PDD context, shared governance is dead, but has yet to be given a proper burial.

### *The Expanded Use of Market Mechanisms*

The contracting reforms described in chapter three represent an increased emphasis on market mechanisms in contracting for PDD funded services, and the interviews confirmed a broader market agenda in which the language of ‘new business relationships’, ‘program reform’ and ‘sustainability’ has replaced that of shared or community governance. While early discussions around sustainability were used to encourage service providers to consider new ‘alliances’, however defined, the term is now synonymous with a consolidation of services to be brought about through mergers and acquisitions, a performance emphasis in contracting, and a contemplated use of competitive tendering. So, in addition to an expanded use of market mechanisms in service contracting, PDD is encouraging additional business strategies with the hope of effecting a more efficient service delivery market.

A small number of service providers appear receptive to this ministry-driven agenda, but participants shared that in general there is little appetite for an expanded use of market mechanisms, that there is “fear and apprehension” around performance

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<sup>65</sup> The resulting conversations between the Council and PDD Board were steered in the direction of PDD’s sustainability agenda.

measurement, and reluctance to consider inter-organizational alliances beyond safe, but relatively trivial strategies, such as joint purchasing. Moreover, those with experience delivering disability services within both the AEI and PDD realms warn of the potential for a significant out-migration of staff not accustomed to working in a performance-based contracting environment. “When you start trying to put that into the PDD world you’ve got a whole system with people who are not used to working in that environment, who therefore won’t meet their contract demands, and who will leave the field.” This could serve to intensify the human resource challenges already experienced in this realm.

In summary, not only is there movement toward an increased use of market mechanisms in contracting, but also toward fewer contractors within a restructured sector.

### *Toward a Meaningful Dialogue*

To the extent that the principles accompanying PDD’s expanded use of market mechanisms and urgings toward a sectoral restructuring are not intended to co-exist with a shared governance model, from the PDD perspective, a dialogue relative to the marrying of market and network models of organization is arguably moot. It follows that participants reported no such dialogue has occurred. But there exist some significant issues which challenge governors to broaden their interpretations of the governance role.

Firstly, this shift will challenge the inter-organizational dynamic. Although the shared governance model failed to materialize, characteristics of a network model of organization are to be found in this sphere. Interviews and service provider council meeting minutes revealed that there is a level of trust, cooperation, and reciprocity that

does not exist in the market dominated AEI context.<sup>66</sup> Service providers and governors may soon be confronted with a heightened competition that will threaten what collaborative spirit presently exists.<sup>67</sup> There is an acknowledgment among service providers that the current system “needs fixing”, and there appears to be general agreement that there are too many service providers, and that performance varies markedly among them.<sup>68</sup> But the change process remains externally driven by PDD in what is already an emotionally charged and adversarial environment. The issues surrounding the AEI consolidation of disability contracts could very well pale in comparison to the issues that could potentially come to bear in the PDD realm.

Secondly, by all indications contracting reforms will do little to steer service providers toward higher-level, transformative outcomes. Rather contracting, once ‘reformed’, will remain biased toward service consumption, only in a more competitive environment. The currency remains individual level support and in the absence of visionary leadership across the sector, it will only cement what one participant describes as a reversal of means and ends.

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<sup>66</sup> Some participants, somewhat dismissively, commented that service providers are “united in anger” and “collaborate in their adversarial position against PDD”, yet minutes of council meetings also reveal a willingness to share resources and knowledge, ranging from risk management policy to staff training.

<sup>67</sup> It is important to note that some welcome the increased competition, which they feel will be accompanied by “comparability” and a transparency that does not currently exist, and that will serve to pave the way for mergers and acquisitions that are tied to ‘sustainability’ objectives.

<sup>68</sup> A number of interview participants were highly critical of the performance of service providers operating in the pre-LMDA context and the current PDD context. Among them, there was a sentiment that not all of the problems of the nonprofit sector are externally imposed, and that some of the problems that a market approach is intended to remedy, are ones the sector has created and perpetuates. This raises a question as to how prevalent concerns over nonprofit performance within more traditional grant-based contracting environments are, as this sentiment can be contrasted to the treatment of the nonprofit sector in some of the ‘marketization’ literature summarized in chapter four, where nonprofits are portrayed more so as acted upon by external forces, and their relative worth tends to go unquestioned. It also raises a question around whether it is possible to purge the sector of some of its less productive actors and characteristics, and at the same time avoid the ill effects of marketization.

What's been the flip over the last fifteen years is that the agencies were the means by which an outcome, or an end, was achieved for persons with developmental disabilities. What's flipped in this rush to the market model is that persons with disabilities are now the means to the organization's end of sustainability, and that is a profound philosophical shift, and governors are comfortable with that. That's what has taken place without really any reflection. So we now see that we want to preserve the agencies - so the agency is now the outcome. And if you have lots of people, and lots of contracts, and lots of funding going through those services, then you will be sustainable. ...My opinion is it runs against the very social purpose of the nonprofit sector.

Service provider boards were criticized for their inward, organization-centric and preservationist focus. Several participants observed that many board members tend to lack an appreciation of sector level issues and are overly dependant on executive directors for their information. If this is the case, what will inspire a conversation around service providers' roles in effecting inclusiveness, about the social value these organizations create outside of mere care-giving?<sup>69</sup>

Given PDD's retreat from shared governance, a dialogue focused on the impact of a market thrust on a network model is somewhat of a non-starter. However, so long as PDD's vision remains one of effecting societal level change, it is important to consider the notion that its contracting framework is seemingly at odds with its vision for inclusive communities.

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<sup>69</sup> Some service providers argue that their approach to service delivery effects community capacity, but as one interview participant put it, they need to "sneak around" the parameters of their contract to do it. PDD acknowledges that community development work requires a different form of contract. Despite the fact that the PDD business plan makes a direct link between inclusion and sustainability, and that PDD's vision is one of social transformation, no such contracts are currently in place in the Calgary region. Ironically, the contractual emphasis on individual level supports may serve to undermine personal agency and service differentiation objectives by encouraging self-perpetuating services that miss the overarching goal of inclusive communities.

## Chapter 7. Conclusions

This research set out to describe and more fully understand the challenges, benefits and limitations of three contracting frameworks used for the delivery of disability and other niche employment services in the Province of Alberta. A secondary focus was to explore the apparent simultaneous use of market and network models of organization, and especially within the PDD realm. The literature review served to inventory numerous contracting related issues attributable to new public management era contracting and grouped them according to public management and nonprofit perspectives. And it acknowledged an uncertain and philosophically strained transition from market to network models of organization.

All three contracting and procurement frameworks are, and continue to be, shaped by the principles of the new public management. It is no coincidence that the AEI framework is most indicative of a market-style model. To the extent that AEI services take the form of point-in-time transactions, however elongated, are not tied to overarching transformational goals, and are delivered to what the department describes as a “ready, willing, and able” population, the services, and therefore the need, can more easily be fashioned into market-friendly terms. Generally, both government officials and nonprofit service providers have come to prefer the performance contracting and competitive rfp model over more traditional grant-type regimes, and feel the benefits outweigh the challenges and limitations.

Despite what they describe as an onerous rfp process, government officials believe the framework is open, fair, transparent, and flexible. There is a general consensus that services are better focused and more appropriately utilized. Service

providers value the flexibility they are afforded relative to expenditures, and they are quick to contrast AEI monitoring activities to those attached to federal contribution agreements. While some organizations struggled with the transition to payment on an after-service-delivery basis, this transition also moved them into a full-cost recovery environment. As such, service providers are able to build profit into their program budgets and direct surplus funds to other aspects of their missions.

Nonprofits have been required to develop an increased capacity to successfully operate within the AEI regime. This is something they feel is a positive development although, since the signing of the 1996 LMDA, there has likely been a certain bifurcation within the career development sector. The existing contractors are presumably those that were either well-resourced going into the transition, or managed to acquire the financial and administrative capacity to succeed in this environment.

Predictably, the competitive rfp process has impacted the inter-organizational dynamic. Best practices are now treated as trade secrets and there is notably less collaboration among service providers than prior to the LMDA. Likewise, the competition among service providers has placed new parameters around an inter-organization agenda, an agenda that is now primarily focused on efforts to ensure favourable business conditions, and advocacy around department policy on client funding and eligibility.

Some organizations operating in this realm have remained anchored to their missions, but have struggled somewhat to fulfill higher-level objectives and less tangible aspects of their organizational mandate. Others have allowed their missions to be significantly impacted by the 'project' nature of AEI funding, one to the point where its

board struggles to articulate a mission outside of its role as contractor. While it is argued in contemporary literature that competition and a monitoring emphasis on outcomes both serve as catalysts for innovation, these effects appear to be cancelled out by the highly prescriptive nature of AEI's requests for proposals.

Service providers are generally receptive to AEI's use of performance contracting, but there is somewhat of a tendency for contract managers to view it as a cash flow instrument, and some service providers object to the absence of financial reward for exceeding performance expectations. Others feel it focuses on narrow and superficial outcomes and disregards societal level work. There is evidence that the AEI contracting and procurement framework is less well suited to programs and services for people with disabilities and harder-to-serve populations. It is here that concerns become more pronounced. Disability serving organizations struggled with the forced consolidation brought about by a post-LMDA shift in contracting policy. The residual effect on inter-organizational relations is still felt today, and competition among service providers continues to crowd out meaningful forms of collaboration. The transition to a regime with heightened performance expectations has also impacted at a staffing level, and service providers find it difficult to retain staff more accustomed to working under a grant-type framework.

Service providers feel that the performance contracting framework restricts their ability to respond to complex issues with a more holistic approach. While a new Canadian or a youth may require assistance to deal with transitions at particular times in their lives, some forms of disability resist a linear approach to service intervention. There is a sense that existing contracts are not sufficiently broad or flexible enough to respond

to the complex needs of harder-to-serve populations. Likewise, service providers have experienced difficulties managing programs across economic cycles.

Government officials feel that although there are challenges attached to contracting for services accessed by multi-barriered clients, the performance contracting framework is sufficiently flexible and can be made to work equally well across a continuum of contracts. But it is a common practice for contract managers to amend contracts for harder-to-serve populations midstream, so as to maximize service providers' revenues. By front-end-loading the deliverables schedules, and setting lower success rates, AEI effectively tones down the performance aspect of these contracts. This raises a question as to whether the performance contract, as it is presently configured, is the most appropriate contracting tool for these services. Despite the fact that it is made to work in this context, AEI may determine that it is not in clients' best interest to be served by programs with failure rates as high as fifty percent.

AEI may find it necessary to consider supplementing contracts during times of economic strength when the definition of "ready, willing and able" becomes skewed, and when there is typically more room in the department budget. This would allow service providers to respond to complex needs in a more holistic fashion and to do some of the work that falls outside of contracted deliverables and time-limited follow-up periods, work that some service providers report to be performing out of moral obligation and in the absence of remuneration. Similarly, the department may choose to expand its current practice of allowing other departments to piggyback on existing programs to make services available to people who might not be able to achieve the minimum requirements for AEI eligibility.

Having only recently introduced competition into what remains a fixed-price contracting environment, the market for CHR's MHAS services remains underdeveloped, and the effect on service providers has likely been negligible. As stated in the preliminary observations of chapter five, these effects will be borne out in time. MHAS has developed the evaluation capacity that is required to support a form of performance contracting. However, this may prove difficult in a fixed-price regime and the department shows no sign of movement in this direction. Given the current restructuring of Alberta's health system, the immense capacity for internal service delivery, and the fact that MHAS contracted services make up a relatively insignificant portion of an overall regional budget, it is unlikely that MHAS will initiate further contracting reforms in addition to those that have brought it into compliance with CHR procurement policy. Nevertheless, the introduction of competition will, over time, alter the existing dynamic among service providers and may result in other pitfalls that are identified in the literature review. The AEI context can serve as somewhat of a foreshadowing of what might lie ahead for those operating in the MHAS realm. Government officials and nonprofit leaders alike could benefit from a dialogue with their counterparts in the AEI contracting realm on how the learning from the AEI experience might translate over to the MHAS context. The same is almost certainly true of PDD.

PDD is at an important intersection and there is every indication that it is pressing further into a market paradigm. The interviews revealed that any momentum toward a shared governance model has been lost, but also that shared governance is no longer part of the PDD agenda. Rather, PDD intends to expand its use of market mechanisms and pursue a new agenda of program reform and restructuring. Despite this new direction,

vestiges of the shared governance experiment remain, and characteristics of a network model of organization are to be found amidst the current contracting environment.

PDD's plain language version of its mission, vision, and values communicates to Albertans with developmental disabilities that its primary function is that of effecting a more inclusive society. The mission reads, "PDD helps people in Alberta to respect and include adults with developmental disabilities" (Alberta, Persons with Developmental Disabilities Provincial Board, n.d.). A variety of issues warrant consideration as PDD implements changes to its contracting processes and its broader agenda of reform, the most significant of which call into question PDD's very ability to realize its vision of inclusive communities.

The rationale for PDD's individualized approach to service contracting can be found in principles of personal agency, self-determination, and service differentiation. But the market focus also makes demands for individual-level outcomes and service units, which are much easier to fashion into commodity. However, by placing the emphasis of contracting at the individual level, a market approach can reinforce a disability-as-barrier perspective and ignore those barriers that are "socially produced." Furthermore, although PDD may wish to 'level the playing field' for contractors by standardizing unit costs and service definitions, this will make it more difficult to safeguard the service differentiation principle, and it could create new inequities among service providers. Lastly, as opposed to diminishing reliance on service systems, an individualized approach may serve to preserve them. Some argue that this is already the case, that service delivery has replaced social transformation as the outcome. At best the current system, with its singular focus on service consumption, confounds efforts aimed

at achieving higher-level societal goals, and at worst it rewards those programs that foster dependence or perpetuate the status quo.

The AEI experience suggests that introducing an element of performance-based payment may serve to better focus existing services. Assuming that higher-level outcomes can be achieved by increasing the number of individual level outcomes, it could be argued that this will occur by providing financial incentive for the latter. But as discussed in the preliminary observations, PDD is faced with a host of ‘complexity’ challenges that impede progress toward a workable performance-based payment mechanism, and service providers may offer resistance to the notion of tying revenue to performance within a fixed-price regime. In light of the fact that contract reforms are partly in response to problems identified by the Auditor General, it remains to be seen whether PDD will be able to lessen the regulatory nature of its contract monitoring as it attempts to turn its attention to performance. If it is unable to do so, the transaction costs to PDD and service providers alike may increase as a result of additional layers of reporting. Service providers may also find it more difficult to retain employees. Some predict an exodus of staff not accustomed to working under performance-based contracting frameworks.

Those within the PDD realm will also need to consider the impact that further movement into the market paradigm will have on the inter-organization dynamic as it can be expected to impose limitations on collaboration. To the extent that higher-level outcomes are to be achieved through the collaborative effort of disability service providers, or through sharing best practices, progress will be stunted by the use of market mechanisms. If PDD is successful in achieving consolidation within the sector, it will

also need to consider strategies to minimize the toll this takes on relationships among service providers and to prevent rifts such as those that resulted from a similar process in the AEI context.

Concerns exist over the ability of governors in this realm, and within a market-based contracting model, to rise above organizational interest and focus on the higher-level outcomes. Although the PDD community boards may be seen as a vestige of a failed and perhaps disingenuous attempt at shared governance, they may in fact have a role to play in refocusing, expanding, and rejuvenating governance amidst an era of program and contracting reform. For instance, they could facilitate a dialogue that considers the role of service providers relative to higher-level goals, and that considers how to more fully align the interests of service providers with the interests of those they serve.

Institutions are strongly driven to survive and flourish in the marketplace. Questions that arise are the following: Does the survival and health of institutions in a disability business translate directly into improved goods, services and quality of life for disabled people? At what points do the interests of institutions and consumers converge, and where do they differ? (Albrecht and Bury, 2001, p. 605).

If one of the interests of ‘consumers’ is to be defined less in these terms, and more as participating members of an inclusive society, then Albrecht and Bury’s become important questions for governors to consider as they push, or are pushed, further into a market paradigm. For it seems entirely possible, within a market-based system, for a ‘flourishing’ organization to fail those for whom it exists.

There is an overall consensus that the PDD service system ‘needs fixing’. An increased reliance on market mechanisms may allow PDD to realize greater efficiency in individual service delivery; but, quite simply, a market inspired contracting regime

cannot be expected to encourage the collective pursuit of a transformational vision. Indeed, it can be seen to run contrary to such objectives. It seems important for Community Board members, service providers, and other stakeholders to consider how they might preserve, or perhaps reclaim, the public interest perspective upon which service provider organizations were founded. If the Community Board has a meaningful role to play amidst the restructuring and reworking of a sector and its service systems, it might be one of encouraging the ‘shared oversight’ that was earlier differentiated from shared-decision making, one of elevating governance to a place where organizational interests become secondary, and one of propelling a sector toward societal level goals.

If governance can be expanded beyond organizational interest, then it follows that discussions aimed at a structural reform of the sector might become less encumbered. Moreover it might then become possible for the sector to link sustainability to a collective vision. This linkage is made in PDD’s business plans, but in practice PDD is looking to an expanded market approach for its remedy; and its vision, in the absence of strong governance, could get lost along the way.

Market ideology, as embodied in human service contracting, tends to remove the individual manifestation of the ‘problem’ from its broader or societal context. It transforms the way in which society defines, understands, and responds to social issues. While Alberta’s is an aggressive pursuit of a market agenda, the province may be reaching the limits of where a market-inspired model can be expected to produce meaningful results.

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**Appendix A – Abbreviations**

**AEI** – Alberta Employment and Immigration

**PDD** – Persons with Developmental Disabilities (A branch of Seniors and Community Supports)

**CRCB** – the PDD Calgary Region Community Board

**CHR** – Calgary Health Region

**MHAS** – CHR Mental Health and Addictions Services

**RFP** – Request for Proposals

**LMDA** – Labour Market Development Agreement

## **Appendix B – Sample Interview Questions**

### **AEI - Organizational Dynamic**

1. What are the benefits/challenges associated with AEI's use of a performance contracting framework?
2. What are the benefits/challenges associated with AEI's use of contract competition?
3. Have you observed the existing AEI contracting and procurement regime to have an impact on relationships among service providers? If so, how?
4. What impact (if any) does contract competition have on the sector?
5. What impact (if any) does performance contracting have on the sector?
6. How would you characterize the relationships among service providers operating in the AEI environment?
7. Do you feel the existing contracting and procurement regime impacts the organizational behaviour of service providers? If so, in what ways?
8. Can you describe the common issues that bring AEI contracted service providers together?
9. The PCDC exists, in part, to share of best practices. Are you aware of best practices shared among service providers?
10. What do you see as the fundamental purpose of the PCDC?

### **AEI - Organizational Mandate and Autonomy**

1. What impact (if any) do you feel AEI's contracting and procurement framework has had at an organizational level?
2. What impact (if any) does contract competition have on your organization?
3. What impact (if any) does the current performance contracting approach have on your organization?
4. Are there ways in which organizational behaviour, strategy, and decision-making are influenced by the existing contracting and procurement framework?
5. Has it impacted internal resource allocation?
6. Do you feel your organizational mandate or mission has been impacted by AEI's approach to contracting and procurement?
7. Are there individuals or populations that according to your mission and organizational values you feel compelled to serve but can't? If so, can you comment on this?
8. What does it take for an organization to succeed within this contracting environment?

### **AEI - Performance Contracting**

1. What have been the advantages of AEI's service and outcome deliverables model?
2. What have been the challenges associated with this approach?
3. Where does it work best?
4. Where is it more difficult to implement?
5. How well does the existing contracting framework capture successful outcomes for harder-to-serve populations? At what level?
6. In what ways does the existing contracting framework encourage or discourage innovation?
7. Do you feel this form of contracting steers service providers in the right direction? Why or why not?
8. In what ways does the existing contracting framework encourage or discourage innovation?
9. What has AEI learned over the years about using performance contracting for services for multi-barriered populations?

### **PDD - Shared Governance**

1. During the PDD Provincial Board era, the board attempted to build consensus around shared governance. What is your understanding of PDD's model of shared governance?
2. To what extent do you feel there is consensus around shared and/or community governance?
3. Do you feel shared governance is of greater or lesser priority than during the Provincial Board era, or has it remained the same? On what do you base this assessment?
4. Do you feel it is feasible for PDD to achieve shared governance? What would need to happen for shared governance to be fully realized?
5. What should be the roles of PDD and service providers within a model of shared governance?
6. What would it take for service providers and PDD to work as more equal partners?

### **PDD – Use of Market Mechanisms**

1. Are there ways in which you feel contracting could be improved? What elements would you change, remove, or introduce?
2. The Chairs' Council is lobbying for PDD to adopt licensing, fee-for-service payment, and outcome/key performance indicators. To what extent do you feel Calgary-area service providers endorse this direction?
3. At a recent meeting, the notion of tendering contracts was raised. To what extent do you feel there is an appetite for this among service providers?

**PDD – Dialogue on Market and Network Models**

1. As PDD looks to introduce 'market mechanisms', and as some service providers suggest new approaches to contracting, are you aware of any dialogue among governors or managers about how this strategy fits within the context of shared governance?
2. Do you feel the introduction of performance contracting will alter the existing dynamic among service providers? If so, how?
3. Do you feel service providers who benefit financially within a context of performance contracting will share of best practices? Why or why not?
4. If we accept that there has been a philosophical shift from an individual perspective on disability to a societal perspective, how can contracting be used to support further movement from an individual to a societal perspective on disability?
5. Has there been discussion about how contracting can best support societal level outcomes?
6. What conditions do you feel need to be in place for PDD to realize its goal of inclusive communities?

## **Appendix C – Organizational Statements of Service Provider Associations**

### **Community Rehabilitation Service Provider Council of Calgary**

*Mission:*

“Providing leadership and support to member agencies through communication, information sharing and a strong united voice.”

*Vision:*

“A council that influences policy, decision making and quality service” (Community Rehabilitation Service Provider Council of Calgary, 2007, p. 1).

### **Calgary Service Providers Chairs’ Council**

*Purpose:*

- To advocate for the development and implementation of effective long-term and sustainable high-quality service and funding framework [sic] that enables adults with developmental disabilities to receive the supports necessary to live fulfilling lives.
- To be a collective voice of the elected officers and owner/operators of PDD service providing organizations in the Calgary Region.
- To provide a collaborative forum for interacting with board chairs, owners/operators of PDD service providers, and other stakeholders regionally and provincially (Calgary Service Providers Chairs’ Council, 2006, p. 1).

### **Alberta Council of Disability Services**

*Mission:*

“To lead, support, and influence community disability services, through education, partnerships and accreditation” (Alberta Council of Disability Services, n.d.).

## **Alberta Association for Supported Employment**

### *Mission:*

“AASE fosters growth, innovation and awareness in the area of employment for people with disabilities.”

### *Objectives:*

1. To encourage the development of and participation in Supported Employment.
  2. To promote and market Supported Employment to create awareness in the general public.
  3. To ensure funding for the ongoing operation of the Association and approved events.
  4. To foster our members' pursuit of excellence.
    - To address issues pertaining to the delivery of quality services to persons with disabilities.
    - To provide leadership and set standards for the delivery and development of quality service.
    - To develop a network for exchanging information.
- (Alberta Association for Supported Employment, 2007).