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**Lessons Learned from Public and Private Contract Managers for Effective Local
Government Contracting Out: The Case of New Jersey**

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ABSTRACT

To date, very few studies have explored practical strategies for exercising effective financial management of local government contracts through two main stakeholders' perspectives of the contracting system at the same time. Employing a series of semi-structured interviews with public officials and private contractors in New Jersey, this study attempts to fill this gap in the scholarship. The finding of this study suggests that government agencies should pay greater attention to competitive bids without favoritism, contract specificity, a statewide performance database, sufficient staffing with well-trained personnel, strong leadership, team-based structures, two-way communication, and evaluation based on both qualitative and quantitative values.

KEYWORDS

Contract management; contracting out; financial effectiveness; perception differentials

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Introduction

The last few decades have witnessed the growth of publicly-funded yet externally-delivered goods and services at all levels of government. As many government agencies have increasingly relied on goods and services provided by the private sector under contract, critics have argued that contracting out is potentially susceptible to financial mismanagement and corruption stemming from opportunism and other managerial inefficiency (Prager, 1994; Savas, 2000; Stein, 1990). If this is true, over time the agencies will struggle with poor contractor performance. Acknowledging this challenge, to date, scholars have rigorously explored a set of organizational and contextual factors that are directly or indirectly associated with contract effectiveness and performance (e.g., Amirkhanyan, Kim & Lambright, 2007, 2010; Brown & Potoski, 2003a, 2003b; Cohen & Eimicke, 2000; Fernandez, 2007, 2009; Hefetz & Warner, 2004). But notably, the existing literature tended to focus heavily on only public contract managers' perceptions and failed to uncover the causal link between the management process and subsequent financial outcomes of local government contracting out, beyond the efficiency grounds based on cost savings. In addition, most scholarly attention on contracting out has been mainly based on quantitative analysis rather than qualitative analysis, except for research on relational contracting in the association of nonprofit organizations (e.g., see Amirkhanyan et al., 2010; Lambright, 2009; Van Slyke, 2007, 2009; Van Slyke & Roch, 2004).

Considering the lack of valid evidence on effective financial management in local government contracts and the relative scarcity of qualitative research, this study attempts to fill the gap in the scholarship by employing semi-structured interviews with public contract managers and private contractors at the local level. It can be reasonably expected that qualitative analysis will yield more practical suggestions and strategies that have been overlooked in the

existing organizational and contextual context and have not emerged from quantitative analysis. If feasible, they can be incorporated into the management-performance link of local governance for successful contracting out in the long term.

In today's complex and uncertain times, although contractual relationships implicitly force two main stakeholders to make a commitment and faithfully maintain credibility in their relations with each other, it is more likely that structural and managerial problems embedded in the contracting out process may be drawn from both parties. To overcome such challenges, public and private contract managers' concerns and opinions about local government contracts need to be complemented each other. For example, without proper safeguards in complex contracting out settings, government contracts might be easily vulnerable to self-interested contractors' opportunistic behaviors, such as unethical mismanagement and financial corruption in the forms of fraud, waste, and abuse over time (Brown & Potoski, 2005; Donahue, 1989; Fernandez, 2007; Savas, 2000; Stein, 1990; Van Slyke, 2009). In such a situation, public managers may be afraid to contract out or be willing to find more systematic strategies than before (Auger & Raffel, 2004; Ferris, 1986). Likewise, contractors, seen as private counterparts as well as external service providers who are engaged in the same government contracting process with public managers, sometimes are likely to encounter uncertainties and respond to contingencies. This case may occur when government agencies conduct unfair bidding processes or minimal monitoring due to the lack of management capacity. Given this, there is no guarantee that current government contracting out systems can sufficiently ensure that governments will achieve satisfactory financial performance when they contract out their goods and services. Taken together, it is reasonable to expect that in addition to public contract managers, contractors

have enough reason to evaluate the current contracting out process and further provide more feasible suggestions for improvement (Romzek & Johnston, 2005; Yang, Hsieh, & Li, 2010).

Within the given arguments above, this study basically aims to understand under which conditions local governments can exercise effective financial management of their contracts to achieve fiscal effectiveness and combat corruption in the use of public funds. In an attempt to conclude qualitative approach of two main stakeholders' perspectives is valuable to find more feasible conditions and strategies, this study compares key emerging themes from the interview data. In doing so, it seems that this research allows for deeper probing of the issue as to which procedures (rules) pertaining to a typical local contract need to be revamped and which management activities from bidding through auditing need to be improved.

Existing theoretical approaches of effective contract management and performance

In various service contexts, a recent but growing body of literature on government contracting has actively highlighted issues regarding how to manage contracts effectively, in general, and how to hold contractors accountable for the goods they provided and the services they delivered, in particular (e.g., Amirkhanyan et al., 2007, 2010; Brown & Potoski, 2003a; Fernandez, 2007, 2009; Girth, 2012; Romzek & Johnston, 2002; Yang et al., 2009). Nevertheless, as noted earlier, there is a dearth of scholarly research that empirically tests the link between organizational and contextual factors and financial management and performance beyond generally accepted cost-saving rationales in the local contract setting. With this challenge in mind, this study draws on two main theoretical threads, as in Fernandez's research (2007, 2009), to find some clues on how and what factors shape successful contracting process, accompanied with high levels of performance including financial outcomes. It appears that understanding the existing theoretical

approaches on contract management and performance is worthwhile in that it assists in gaining more scrutiny about the determinants of effective financial management of local government contracting out.

Conventional wisdom perspective

The conventional wisdom perspective appears to be a classical economic approach as well as control-oriented management philosophy that is dominant in the research on contracting out (Davis, Schoorman, & Donaldson, 1997; Marvel & Marvel, 2009). It embraces principal-agent theory, transaction cost theory, market theory, and incentive theory at large. From this theoretical standpoint, generally governments are viewed as principals and private contractors are viewed as agents in a typical government contracting setting. In particular, principal-agent theory and transaction cost theory commonly envision both principals and agents as utility maximizers with bounded rationality (Williamson, 1981; Lambright, 2009). Ideally, it is expected that the principals represent the public interest and the agents should serve the principals' interests (Martin, 2004). In practice, however, contractors have better information on their day-to-day service delivery operations and more professional expertise than governments do, and information about them and their behaviors are not easily observed by the principal. Such asymmetric information and conflict of interest are embedded in the contractual relationship (Kettl, 1993; Prager, 1994; Shetterly, 2000) and, therefore, may cause inefficiency and unavoidable high transaction costs in government contracting, especially difficulties in overseeing the agents' behaviors. Fearing such scenarios, governments have enough reason to devote time to building up effective contracting systems to control the agency problem (adverse selection and moral hazard) and related conflicts before and after awarding a contract. Moreover,

it is also important for governments to award contracts for public service delivery to contractors that are less likely to engage in discredited or costly management of public funds. Market theory holds that competition in the contracting out process can lower the comparative costs of the public service delivery and eliminate the possibility of financial corruption and monopoly (Girth, 2012; Savas, 2000; Sclar, 2000).

According to incentive theory, one can argue that incentives work with reward contingent contracts to agents who control corruption and monetary or nonmonetary praise, whereas penalties function with contract terminal or rebidding. Girth (2012) agreed with this point, stating that “[a]ppropriately designed incentives help to overcome the information inefficiencies in the principal-agent exchange” (p. 3). In this sense, a government contracting system, at least in part, should be designed by reflecting intensive *ex ante* incentives (reward before the fact) for satisfactory performance, or appropriate *ex post* penalties (sanctions after the fact) for poor or unsatisfactory performance (Brown & Potoski, 2005; DeHoog, 1990; Girth, 2012; Martin, 2004).

Taken as a whole, governments are encouraged to have, for example, market competitiveness in the bidding process, strong external control methods in evaluating contracting performance (e.g., rewards or sanctions), and trained agency personnel with expertise in contract administration (Brown & Potoski, 2003b; Fernandez, 2007; Girth, 2012; Lambright, 2009).

Relation-oriented perspective

Assuming that contractors act as more pro-organizational partners than self-interested agents in a government contracting setting, the relation-oriented perspective provides useful insights to supplement generally accepted theories indicated above, and suggests a well-rounded, ideal contracting relationship. For example, in stewardship theory, scholars tend to refer to “a

principal-steward relationship” or “relational contracting,” arguing that the main parties rely on mutual planning, bargaining, negotiation, and collaboration in the original contracting agreement (Fernandez, 2007; Sclar, 2000; Van Slyke, 2007). According to them, given longer relationships in government contracting, there may be greater likelihood that contractors have a chance to learn about a government’s contracting out system and offer helpful suggestions for improvement of the current system, which in turn can lead to higher levels of contracting performance (Amirkhanyan et al., 2007; Kelman, 2002). Also, strong collaborative relationships between two stakeholders may help lower transaction costs (particularly, *ex ante* screening and *ex post* monitoring costs) (Bertelli & Smith, 2010; DeHoog, 1990; Sclar, 2000). Consistent with this perspective, Amirkhanyan et al. (2012) argued that “[r]elational contracts are based on open-ended long-term exchanges in which personal ties and informal communication foster trust and flexible approaches to solving implementation problems” (p. 344).

Amid this perspective, it seems that agency problems can be minimized by selecting contractors whose goals are closely aligned with those of the principal. If a principal and an agent share the same internal values, including responsibility and trust, it is possible to solve managerial and ethical problems, reduce transaction costs, and ensure accountability in the contracting out process (DeHoog, 1990; Marvel & Marvel, 2009; Van Slyke, 2009). In sum, it is thus expected that long-term contracting agreements, and the so-called, internal accountability methods such as frequent communication, collaboration, and trust-building between the parties matter for effective contracting financial management and performance.

Research methods

Overview of interview recruitment and participants

This research focuses on the perceptions of public and private contract managers participating in a typical local government contract, regardless of specific service areas. In other words, the target population of this study consists of two different participants : (1) local contract administrators¹ who provide technical assistance in the areas of contract preparation control, monitoring, amendment and closeout, audit compliance, and service evaluation under the purview in public agencies and (2) managers and workers in contracting organizations that are involved in procurement, professional and service vendors responsible for the delivery of purchased services by local government agencies. Both participants, in their roles, are expected to be charged with administrative and cost efficiency, accountability, and integrity in the contracting process.

The significance of this research was electronically advertised by using the e-mail lists of public and private contract managers that have been obtained from the official websites of all counties, cities, towns, townships, and boroughs in New Jersey. For small-size localities, the available contact information appeared to be relatively limited. In this case, the information of contracting organizations (for-profit and nonprofit vendors) was gathered directly from the city and county clerks or purchasing officials through e-mailed requests. Yet it should be noted that due to a lack of active, voluntary participation, a combination of purposive and snowballing sampling methods was utilized in this study. Once the invitations to participate are agreed in a certain degree, the potential participants received the interview protocol (questions) beforehand, if necessary, prior to the schedule to conduct the interview. Through a follow-up email, they were informed that their interviews will be electronically recorded using either videotape or audiotape and transcribed verbatim. Potential interviewees who agreed in participation were asked to set up a meeting for interviews to schedule their convenient time and place. Needless to

say, all eligible respondents participated voluntarily, based on the first willing to participate in this study. The length of individual interviews ranged from approximately 25 to 60 minutes and the average was about 30 minutes.

Without asking any sensitive information such as race, educational level, and income level, all in-person interviews were conducted in an open-ended style that encouraged the free flow of ideas. Topics discussed in the interviews with public and private contract managers mainly included the general contracting out process, challenge (barrier) and advantage associated with a typical agency/organization contract, environment, and financial (monitoring) system that local public agencies have used. In addition, the respondents were asked to recommend techniques or requirements for financially effective contract management linked to higher financial performance. A total of 23 semi-structured interviews were conducted from June 2014 to February 2015 with employees from 12 local government agencies and 11 contracted providers (here, 6 nonprofit organizations and 5 for-profit organizations). Table 1 and Table 2 provide interview participants' selected characteristics.²

[Table 1 here]

[Table 2 here]

With respect to local government contracts, all government agencies and organizations related to a contract need to comply with the NJ Public Contract Law (N.J.S.A. 40A:11) in practice. Such regulations and formal procedures also apply to private contractors. Therefore, all interview participants acknowledged that they were fully aware of the law and related contracting procedures before the interview process proceeded. In particular, interviewees who were private contract managers included employees working for nonprofit and for-profit

organizations in a contractual relationship with local government agencies and managed public funds allocated through contractual relationships on a regular basis.

Interview questions and analysis

As noted earlier, the interview data analysis is aimed at finding additional requirements and systematic strategies that public agencies or managers could adopt to better invest their time and resources in exercising effective financial management in local government contracts. Amid this perspective, the final interview protocol included the following questions:

Q. Can you describe your thoughts on effectiveness of government agency's current management systems in the contracting out process?

- Probe: Do these procedures effectively help carry out fiscal duties and responsibilities of contract administrators (including public managers and contractor)?
- Probe: What is the biggest challenge (barrier) associated with your agency/organization contracts?

Q. What do you suggest/recommend for government agency to achieve fiscal effectiveness and combat corruption (effective financial management) in the entire contracting process?

Content analysis based on a thematic approach was employed as the analytical technique for explaining the findings. The interview data were entered, managed, and analyzed using a qualitative software program, NVivo 10, which can generate and confirm themes from the analysis. By following coding methods as per Braun and Clarke's (2006) guidelines,³ this study conducted a thematic analysis in order to identify, analyze, and report on main patterns (themes) within the interview data. More specifically, the "word frequency queries" of NVivo 10 were run

to identify words and word groups (e.g., stem words or synonyms) that occurred most often, as well as the relative and absolute frequency of a certain word (word groups) within the data set. As an initial approach to analysis, assigned codes included “negative impact,” “procedure,” “challenge,” “barrier,” “requirement,” “corruption,” “use of public funds,” “effective financial management,” and “financial performance.” The selection of these terms was based on the related literature and main research purpose of this study. Next, in order to ensure and support this initial coding scheme, “text search queries” were used to look for specific themes and subthemes that emerged inductively from the data, or words with a shared stem.

In line with two main interview questions above, the qualitative data from contract managers in both public and private sectors was identified and divided into two main areas: (1) perceptions of contract managers on overall effectiveness of current contracting out system and (2) suggestions and recommendations for successful contracting out in the specific context of effective financial management. With respect to the effectiveness category, four themes were generated largely from the interviews with public contract managers, whereas three themes were generated from the analysis of the interviews with private contract managers. In terms of the category of suggestions and recommendations, while seven themes emerged from the data contained in the transcripts of interviews with public contract managers, four themes emerged from the data contained in the transcripts of interviews with private contract managers. It should be noted that given that respondents were asked to answer open-ended questions in the interviews, a low frequency of comments on a particular theme was reasonably taken into consideration since it does not necessarily mean that it is less important to two main stakeholders in the contract relationship. Figure 1 presents a summary of qualitative findings that were divided into the two main categories and reported across the sector.

[Figure 1 here]

Findings

As evidenced in the collected answers, although no two different sector contract managers' interviews were exactly alike, the majority of public and private contract managers reported a strong sense of dissatisfaction from their experiences in the local contracting out process. In other words, the patterns expressed in the interview scripts were similar across two sectors in that both types of contract managers provided negative and unfavorable views of the current New Jersey local contract management system. The interview findings also suggest that the system needs to be improved and primary concerns can be mitigated by new strategies and strong managerial efforts. Each key emerging theme is discussed in further detail below.

Public contract managers' thoughts on current local contracting out system

Presence of favoritism. The majority of public contract managers perceived favoritism, inherently based on political ties or personnel connections, as one of the main challenges in the bidding process. In practice, New Jersey has a unique law named "Pay-to-Play legislation" (pursuant to N.J.S.A. 19:44A-20.4 *et seq.*). According to this legislation, particular services areas (e.g., professional services such as accountants, architects, lawyers, or IT managers and emergency services) are allowed to be in contractual relationships with local government agencies without holding a bidding process under the law. This situation may be problematic given that the lack of an open, competitive, and fair bidding process creates increased risks for fraud, waste, and abuse in local government contracting (Hefetz & Warner, 2012). The following quotations support this argument:

Usually, bids are not open to the public. Or maybe they are there, but they don't advertise it. If it's an emergency matter, all related process could be very short. There is no bidding. It depends. They may be like, 'He knows the service, let's just give it to him.'

There can be a corrupt aspect to government contracting. Government contracting should be a competitive bidding process, where the contract is given to the lowest bidder. There is a professional service that has to do with attorneys, engineers, and websites. In awarding the contract, it is not purely price driven. With the Pay for Play regulations, that is usually the case.

Red-tape. Another big challenge embedded in the system turned out to be bureaucratic “red-tape.” In the literature, red-tape has been defined as excessive, unduly expensive, or burdensome administrative rules, regulations, procedures, or requirements (Bozeman, 2000; Bozeman, Reed, & Scott, 1992). Aligning this perspective, the findings of the interviews confirmed that public contract managers tended to feel more constrained by formal rules and organizational procedures, from the bidding, reporting, payment, and accounting process to that of auditing. Especially, given that this task delay of payment or reimbursement continues, it is possible that government agencies are more likely to lose potentially high-performing, responsible vendors in the short term and further struggle with a dearth of sufficient competition in the bidding process in the long term, as discussed in the following quotes:

There are multiple levels of rules, procedures, and reviews and so on. Usually once you are involved in contracts, you are stuck with them because it would cost too much to replace the contractor. The process takes too long and discourages bidders.

In the city government, every process should be reviewed and approved by the Council meeting, the board of freeholders, but they usually meet every other week. In summer time, they gather for the meeting once a month. If vendors, particularly small business contractors, miss the due/deadline, they should wait to get vouchers for reimbursement until the next meeting begins, about another 30 days... this complex schedule can appear

too crucial to get paid in the cycle. In the end, it is more likely that the government agencies are in trouble in keeping good credits from contractors and then lose their good vendors.

Lack of intensive monitoring. Interviewees stated that current local governments tended to heavily rely on self-reported financial data and documents from contractors and oversight was sometimes infrequent and minimal without direct site visits or additional independent audits to control opportunistic contractors. This observation is well illustrated by the following quote:

There has been a little of site visits and other monitoring ways. In particular, we were not on site as much. For the contract, we do site visits every year. But some contractors, in the case of bigger ones, have several locations. There might be several program locations and their administrative office might be in a different location. So it is not easy to visit all different locations and to look through personnel, financial, and client files. Instead, we tend to talk to some of staff members in the contractors.

Interestingly, they also reported that compared to for-profit contractors, nonprofit ones have been less screened and monitored as in previous studies (Marvel & Marvel, 2009; Van Slyke, 2007; Witesman & Fernandez, 2013). According to a respondent,

I have two audit contracts going on right now that are looking at two Department of Health Service divisions that operate huge programs. They've got millions and millions of grants and government funds, but there is no oversight of non-profits. So, they have deficit funded contracts ... Some people never come out and take a look at your information. They just accept what you give them and that's it.

Information asymmetry on contractors and subcontractors. Public contract managers viewed asymmetric information embedded in the contracting relationship as one of the primary challenges. In cases of information sharing between government and the contractors, many local agencies have struggled to collect sufficient information (e.g., past experience, reputation, and financial/management capacity) on contractors and subcontractors before a typical contract

begins, and they lack sufficient information on how well and how much subcontractors report their performance to contractors. Several respondents explained further:

We are criticized by individual auditors for working with un reputable vendors who hid past issues. In practice, some of them aren't always honest. They will say they are experienced and they can provide the lowest price of delivering the service but nobody knows if they are the most responsible and capable bidder.

Sometimes, although we do not have any detailed information on potential vendors to provide services, we are forced to do business with contractors and sub-contractors that have prior negative experience with other municipalities, and the prevailing wage law. Despite what is put out by contractor or the union, neither one guarantees acceptable work.

Suggestions and recommendations from public contract managers

Replace favoritism (political ties) with more fair and competitive bids. As illustrated above, the majority of public employees responded that the main cause of unsatisfactory financial management and performance in local government contracts was a lack of fairness and transparency in the selection of vendors in the bidding process. In this sense, public contract managers strongly insisted that there should be clearer rules and stronger restrictions on favoritism, not only by amending existing legislation to require competitive and fair bidding process for all contracted services, including emergency and professional services, but also by making the process more visible to the public (e.g., open the process to the public using websites). The following quotations support this argument:

Proper enforcement of the pay-for-play regulations is absolutely necessary...With strict pay-for-play regulations in place, the lowest bidder with the best services will be rewarded the contract, regardless of whom they support politically. No favoritism, no corruption.

The position to be contract managers or procurement officials should not be appointed by the current administration so that they can always change to ensure that the person is unbiased... Just make it more transparent. The bidding process should be out there; on the website or anything, so that the people who want to know what is going on can find out what's going on. It shouldn't be so secretive. Right now, it is.

Contract specificity matters. Public managers reported that hidden information and uncertainty inherent in the contractual relationships may be overcome by ensuring clear language, regulatory requirements, and tight contract specification in writing request for proposal. This observation is in accordance with Amirkhanyan et al. (2007, p. 711) argument that contract specificity (clarity) can reduce the impact of informational asymmetry on the contractual relationship. Similarly, Fernandez (2009) noted that a high level of contract specificity allows government agencies to deliver their expectations clearly and accurately to the contractor, thereby holding the contractor accountable for performance (p. 81). Interviewees commented along the same lines:

I believe that the bids being put out should be better written and specific. Too many variables that require the bidder to bid out at the worst-case scenario which increase bid amounts. Poorly written RFP details and vague guidelines make it difficult to bid efficiently.

Sometimes, vendors tended to try inflate the price because they have to negotiate the price down so that they could extend the service provided. The first thing that you need is to be very clear about what they are supposed to be provided in the RFP and make sure that their response commits to providing those things. No flawed RFP.

Need for sufficient staff (personnel resources). Another frequently referenced suggestion from public contract managers was ensuring that public agencies hire sufficient staff to manage contract effectively. In stances where a government agency continues to face a lack of personnel expertise in managing contract, contracting (public procurement) remains easily vulnerable to financial corruption and ethical management issues as a result of opportunistic behavior on the

part of contractors (Fernandez, 2009; Girth, 2012). Thus, government agencies need to focus on and invest in “micro-management” or “micro-monitoring,” meaning that the activities and performance of contractors are sufficiently monitored by an adequate number of appointed staff members. This is well illustrated in the following quotes:

In today's day with so much streamlining and budgets being very tight, we are losing personnel. It is not easy for only one person to review all papers and manage all vendors. Especially, our purchasing department should hire more and more officers to deal with oversight works. That would probably make the process better; including a monitor.

To check their job like a building construction, monitoring officers are needed. So, if you have an employee, someone that you choose as a project manager, the manager needs to consistently monitor the contractor. Obviously, the more frequently their checking, the better it is ...Government agencies need to focus on and invest for 'micro-management,' meaning that you need to have someone on staff that stays on the contractor.

Provide systematic training and education. In practice, only qualified purchasing agents, who are in charge of purchasing and contracting at the local level, had taken a series of training seminars and classes regarding contracting out and purchasing-related law. For other public employees, there has been little or no opportunity to take such courses, nor have such courses been mandatory. Yet, it is important for public contract managers to be “smart managers” in knowing “how to manage and monitor,” beyond mere “smart buyers” in knowing “what to buy,” as per Kettl (1993). Taking this view, interviewees insisted:

Public managers in local governments need to be trained. I mean more hands-on training for contract administrators. And they need to be professional. They need to be subject experts themselves ... There's a need to make them aware of the difficulty of the other side. This is a mutually benefiting experience for both parties.

All government officers, regardless of their level, should take basic classes for effective contract management. One of them might be an 'ethics' class. They should be obligated

to continue to take this class as well as the 'basics of local government contract law.'

When I talked with my coworkers, most of them do not understand the micro-level policy and management process.

Invest in performance evaluation database. Local government agencies also need to invest in developing a statewide contract database (a so-called electronic portal of local contracts) that, in addition to basic information (e.g., cost/price of goods and services they are currently able to provide and past contract experience and performance) and monitoring progress of all registered contractors. In other words, such database should be designed to track vendors' performance and information that is accessible to all local entities and agencies, as the following quotes illustrate:

I think one thing that would be helpful is a central reporting agency to look at past performance. So if everyone, contractor A,B,C... needs to have a place to go and talk about their experience. If there was a performance evaluation database for contractors and vendors, governments could go and review that data.

To find pre-qualified responsive vendors and suppliers, a statewide electronic portal for submission of paperwork and billing along with paperwork progress needs to be implemented. Also, government needs to respond to contract issue questions quickly and not get bogged down too much in the bureaucracy.

Strong leadership matters. Public managers also stressed the importance of strong leadership and effective supervision to proceed toward financially effective contract management. This is in line with Amirkhanyan et al.'s (2007) observation, which suggested that contract management can be more effective in situations where senior management places a high priority on subordinate staff conducting contract monitoring activities and provides necessary guidance (p. 709). For example:

Perhaps, a strong stable leadership in managing contracts can have set an example. One of the things that is pushing him/her is federal audits of other agencies using Medicaid

dollars. There is a full concept of holding everyone accountable, holding the managers accountable, holding the contractors accountable.

Need for a team-based organizational structure. As the last theme drawn from the public sector, a team-based organizational structure is noteworthy since it allows us to ponder the link between organizational culture, structure, and performance in the local government contracts. For example, one respondent stated that “[w]hen a team (or committee) of individuals for a public work project share their experiences and opinions, the contract work including management and evaluation could be effective... they can share what they have looked at, heard, and felt each other.” As can be seen from this quote, the basic idea underlying this theme appears to be that cooperating and working together by bringing all areas of expertise to one table is an effective strategy for achieving the overall goals of the agency.

Private contract managers’ thoughts on current local contracting out system

Poor communication between government and the contractor. The majority of private contract managers pointed out the caveat of poor communication between two main stakeholders of the contracting relationship. According to them, contractors have had difficulty interacting and communicating with public employees during the contract or after the contracted services were provided. Interviewees also viewed public agencies as not taking responsibility for their roles in the contractual relationship, as they tended to resolve problems by relying on third-parties outside of the contractual relationship rather than by confronting issues themselves. For example:

When it comes to working with government agencies, a lot of the frustration is communication between me and my counterpart or the people monitoring our program. A lot of the time I feel like, ‘Ah, they don’t get it. They don’t really understand what we are doing.’

Whenever facing difficulties in closing out projects on which additional work has been required, we tried to discuss with the government. But, often the municipal bodies involved do not have the interest in making the decisions necessary and look for third parties like judges, mediators, and arbiters to make the decisions for them. This allows them to appear to bear no responsibility to the voting public for the outcome of the contract disputes. This wastes considerable time and contractor resources.

Red-tape. Private contract managers were more likely to encounter fiscal stringency due to late reimbursement and unreasonable demands (e.g., additional financial documents). Such formal, bureaucratic red-tape may result in the delays within government agencies (Bozeman et al., 1992; Feeney & Bozeman, 2009), in turn, make contractors frustrated, especially when they are seldom paid in a timely fashion. Highlighting this sentiment concerning the government's procedural inefficiency, interviewees reported:

The contracting and financial management systems are too rigid. Too much time-consuming. I think that contractors should be allowed to submit any documents we need via e-mail. But the thing is that government always wants all original documents including purchase orders and any paper versions to pay for vendors.

If the origin of the money is federal, there are more regulations about how fast you have to pay. If the origin of the money is local, regulations may not be as stiff. Many of the cities and counties are still manual; they are not even systemized yet. The cities and the counties have a tendency to be late all of the time, while the federal government is done more timely with their contracts.

Discrimination among vendors. Contractors in public works (e.g., construction, plumbing, and electrical services) viewed discrimination by public agencies and their favorable attitudes towards large business firm as the main sources of their discouragement. According to Local Public Contracts Law (N.J.S.A. 40A: 11-1 *et seq.*), “set-aside contracts” function as a contract for goods, equipment, construction, or services and is further designated as a contract for which

bids are invited and accepted only from qualified *small* business enterprises, in addition to qualified veteran, minority, or women's business enterprises. Besides, the only condition under which a public director may not grant approval for proposed regulations is if the director finds that these regulations unnecessarily restrict the participation of *small* businesses in the public bidding process. As such, although state law and related rules contain some policies to support qualified small business firms, private contractors expressed that a significant gap between policies and practice exists. Particularly, small-sized vendors reported that public agencies may be reluctant to award contracts to relatively small or new business firms and are critical of their management capacity. According to respondents,

Small contractors are frozen out. Not because of ability. Contracts seem to be pre-chosen. In terms of timely payment of invoices, smaller more innovative firms cannot afford to carry accounts receivable for 60 or 120 days. They eventually opt out of government work and you are left with the larger firms that are willing to carry these costs because they have deeper pockets. This is unfair... Contracts should be broken out so smaller firms can compete.

The bidding process is in favor of only large 'Daddy Warbucks.' It seems to be more corrupt, as large company's getting the contracts, and provide lower quality service to the municipalities and our citizens. For public work projects, governments will issue deposits before contracted is completed. Small construction and renovation firms cannot bid on jobs that will not issue deposits.

Suggestions and recommendations from private contract managers

Consider qualitative values in line with goal (mission) of contractors. The most cited observation in the interviews with private contract managers was that government officials need to focus on "real" qualitative values behind the numbers in measuring and evaluating contractor performance. According to the interviewees, government agencies and managers are more likely

to focus on quantitative values including visible target (e.g., amount of money spent, targeted numbers, or timeline) rather than actual program outcomes. This is not sufficient because qualitative values stem in large part from the pursuit of specific goals and missions of contracting organizations in practice. Interestingly, such narratives were mostly drawn from the interviews with nonprofit contractors. Below are specific examples from the data:

The mission of my organization is to help bring people off of public assistance and give them independence. This agency is more on quality rather than quantity and it is not performance-based. We still have goals, but the contract does not rely on numbers. I would not only find them a good job, but also help with training so they could move to another good job, trying to make them more successful... We might hit the numbers that the contract required, but that doesn't mean that we were fulfilling the mission.

I believe what is the most needed for government agencies is really looking at what is the goal when they are monitoring. What are contractors trying to achieve? Of course, the government agency has a goal. But, you have to make sure that the milestones you set for these companies make sense... It would better to look deeper. It is like there is a problem with the car and we are assuming that it sounds like it's the engine. But, without opening up the hood and looking inside, we don't really understand what is going on.

Build partnership based on extensive communication. Notably, frequent and open communication between two stakeholders may result in improved contracting performance in that it offers more opportunity for each to become familiar with each other, share their concerns, and promote mutual understanding (Fernandez, 2009, p. 75). Thus, as interviewees suggested, local government agencies and their employees should develop partnerships based on extensive two-way communication and frequent interaction with contractors. This theme is in line with relational-oriented perspectives. Besides, this observation is reminiscent of Van Slyke's (2009, p.140) statement that "[c]ollaboration and contracting are no antithetical to one another. Indeed,

successful contract relationships often involve some degree of collaboration between the buyer and seller.” The following accounts illustrate this point:

We need more communication between the government and the contractors. Value engineering can bring the cost down for the owner and the profit margin up for the contract, a win-win situation. Contract partnering has to be pushed more between the government and the contractor. I believe that is the way everyone wins from a long, strong relationship.

As a contractor, we have a business plan actually. This is how much it would cost to start that. If we could have that type of conversation, rather than the government saying, ‘Ok if you don’t expand to 12 kids by next year then we won’t be able to afford’ ... because that is not helpful. What is helpful if you can really have a conversation and develop a partnership. Ultimately, you want the same result.

Need for intensive and frequent monitoring. Private contract managers perceived the importance of extensive behavior-based oversight and frequent monitoring – beyond just *arms-length* regular monitoring – to identify poor-performing contractors, eliminate their shirking and unethical behaviors, and advance towards the goal of satisfactory contract management and performance. They were more likely to argue that to hold two parties accountable to their performance, monitoring activities should be transparent yet conducted unexpectedly. This is in line with previous research (e.g., Amirkhanyan, 2011; Fernandez, 2009; Kettl, 1993; Savas, 2000) suggesting that well-monitored vendors are more likely to perform according to contract specification and provide more credible management of public money and higher service quality. For example:

Based on my experience, the intensity of monitoring is important. For example, if you know that you have an auditor coming once or twice a year and you know when, people prepare for it... But, if you do it at random, such as do it one week and come back three

weeks later, you are preparing people to be on top of their paperwork. If you give a pop quiz, you are really testing people.

The people who are managing the program or spending the money have a monthly report every single month, so they know what they spent. A lot of organizations don't do that, or they do it every six months, or once a year, or quarterly. It has to be done every single month, so you know exactly where you stand all the time. And, it is easier to catch something before it gets out of hand.

Feedback matters. A final theme that emerged from the private sector concerned the importance of feedback. One respondent stated that “[f]rom the contractor side, I would expect to get feedback from the organization that I’m working for. Without feedback, how could I know how to improve my services? How can I ensure that I’m going to continue building a relationship with your organization?” As this quote demonstrates, it can be reasonably expected that tracking wrongdoing using monitoring systems and feedback mechanisms in *ex post* evaluation process benefits both parties in on-going contractual relationships in the context of organizational learning.

Discussion and conclusion

This study basically aims to better understand how local government agencies can exercise effective financial management in their contracting out process. Based on a total of 23 in-depth semi-structured interviews with public and private contract managers participating in New Jersey local government contracts, it was found that they were largely dissatisfied with the current contracting out system and had strong realistic views of improvements that could positively impact contracting financial performance. By comparing the perceptions of the two groups of stakeholder, several visible similarities and differences in how public and private contract

managers responded to the effectiveness of local agency contracts and how they reported valuable suggestions and recommendations for effective financial management were found in this study.

The majority of both public and private contract managers were significantly more likely to report the challenge of red-tape embedded in the contracting out process. According to interviewees, such red-tape may result in the delays within government agencies and discourage vendors in the short term and induce a dearth of competition in the bidding process in the long term. Accordingly, this finding implies that public agencies need to change the formalized, centralized rules and requirements to be more flexible and feasible in decentralizing authority and responsibility to lower levels in organizations. Moreover, in terms of selecting vendors from the bids, contract managers from both sectors reported that the process is somewhat unfair due to political ties and personnel connections. It implies that there is a tendency of distributive and procedural injustice in awarding a certain type of service delivery, which, in turn, government agencies need to be open, competitive, and transparent in awarding contracts. They also valued the significance of frequent and intensive monitoring. This finding suggests that public agencies need to pay greater attention to government management capacity to ensure that financial and personnel resources are efficiently distributed. Appropriate investments in the capacity of local governments should be required in order to provide effective micro-management, including on-going financial oversight.

This qualitative research also indicates that public contract managers have argued that contract specificity, trained agency personnel with expertise in contract administration (training and education), IT (shared contract database for local governments), strong leadership, and a team-based organizational structure can play a key role in leading to effective financial

management and performance in local contracts. These viewpoints appear to be consistent with conventional wisdom perspective widely cited in the contracting literature, including principal-agent theory and transaction cost theory (Brown & Potoski, 2003a, 2003b; Fernandez, 2007, 2009). On the other hand, private contract managers have highlighted the importance of trust-building based on extensive communication and collaborative relationships between two main stakeholders of the contracting relationship. They also stated that feedback from government agencies to correct wrongdoing matters to effective financial management in that it helps align the goals of the contractor and the government agency and further reflect public expectations well. It seems to be in line with previous studies based on relation-oriented perspective such as relational contracting, stewardship theory, mutual planning, goal congruence, trust, and collaborative management (Amirkhanyan et al., 2007; Lambright, 2009; Marvel & Marvel, 2009; Van Slyke, 2007, 2009; Van Slyke & Roch, 2004). When considered together, it is reasonably concluded that that public contract managers tended to place greater value on visible organizational factors and managerial strategies that would able to be garnered in the organization, whereas private contract managers were more likely to value invisible, relational factors that may cost more in the long run.

Indeed, the overall findings of the semi-structured interviews confirmed a link between better management and better performance in a more practical and contractual context. In recognition of the reality that contract relationships implicitly entail making a commitment between two parties in favor of public interests, this research found evidence that changing organizational structure and culture in local government agencies, investing more in professional personnel with expertise, institutionalizing new policies and rules to ensure a fair bidding process, implementing a comprehensive monitoring system, evaluating contractor performance

based on both qualitative and quantitative values, supporting small business vendors, and building trust between public contract managers and private contractors are fundamental components for successful and effective financial management and performance of local government contracts.

It is important to note several limitations of this study that can inform future research. First of all, due to a very small sample relative to the population of contracting officials in the state of New Jersey, the results analyzed here are not entirely generalizable to all potential contracting out practices. Admittedly, municipalities may have somewhat different rules about contracts that go beyond state law in practice. Thus, further investigation with additional interviews is needed to find newer insights and deeper practical points to achieve effective contract financial management. Besides, although single state studies seem to be common, the findings may not apply universally to all local governments in other states or other levels of government. In this respect, the results of this study need to be further validated in other settings. Moreover, given the case that interview participants were mostly inclined to respond to questions in ways that cast themselves in a negative light, it is difficult to exclude the possibility that the perceptions of both public contract managers and private counterparts are inflated by an implicit motivation to make themselves look good or bad, depending on selective, retrospective memory and recollections of particular past events. For this reason, the resulting interpretation of interviews must be treated with great caution. Lastly, although this study basically assumes that the recommendations above could lead to improved financial effectiveness of government contracts, it might ignore some challenges associated with each recommendation (e.g., the costs for competing for contracts, monitoring and reporting costs, and timely remuneration issue). Given this, future research should aim to continue to discover points that have been overlooked

in this study. Another approach using focus group interviews across service areas, content analysis of written documentation provided by local agencies, and surveys and in-person interviews with clients who received contracted goods and services to ask their perceptions (e.g., satisfaction, complaint, and suggestions) would be of considerable interest.

Notwithstanding these limitations, this study enriches the literature from another angle by comparing how contract managers in each sector view the current government contracting out process and its financial performance. Unlike prior studies, using the qualitative data analysis, it draws upon an integrated multi-respondent, multi-organizational perspective in which the respondents have at least some shared experiences and are aware of the operating contract process and related institutional arrangements. Given its sampling challenges, this research appears to reaffirm observations made in the existing contracting out literature dealing with principal-agent theory, transaction cost theory, and stewardship theory (e.g., Amirkhanyan et al., 2007; Brown & Potoski, 2003b, 2005; Fernandez, 2007, 2009; Girth, 2012; Van Slyke, 2007). In addition, it provides practical recommendations for local government agencies and policy makers in terms of helping them to manage contracts effectively and achieve desired financial performance, especially those that lack sufficient staff and time to manage contracts, struggle to award new services to unknown contractors, or those managing (monitoring) contractors whose services have been contracted in the past but had weak performance records. Furthermore, based on insights into the thoughts of those involved in contracting with public entities, this study is expected to call for continued inquiry by formulating specific contracting-related research questions for additional research. For example, the barriers to small contractor access to public contracts seem as an especially promising topic given the responses documented above.

This study appears to be one of only a few scholarly attempts to gain more scrutiny about more practical and strategic ways in which local government agencies can exercise effective financial management and reduce the incidence of financial corruption in the use of public funds throughout the contracting process. Overall, for many financially and ethically low performing governments, despite the growth of contingent contracting out efforts, the findings of this research will be helpful to gauge the right direction for contract success in the specific context of effective financial management.

Notes

1. As the main subject of interest, public contract managers included chief financial officers, public purchasing officials, public purchasing specialists such as qualified purchasing agents, acting township clerks, and acting directors and administrators who are working in departments of purchasing, procurement, and finance (in the absence of purchasing or procurement department) of each local government (counties and municipalities including cities, boroughs and townships).
2. In the case of public contract managers, the majority of interviewees were male (67%), average working years for contracting out in their agencies turned out 15 years, and they held executive-level administrative positions within their respective organizations. On the other hand, the majority of the private contractors including for-profit and nonprofit workers who were interviewed were female (56%) and their average working experience on government contracting was approximately 10 years. Most of them held middle-level and executive-level administrative positions within their current organizations. More specifically, while interviewees who are working in nonprofit organizations included 60 % of female and 40% of male and their average working years was about 8.5 years, those who are working in for-profit organizations turned out the same percentages of female (50%) and male (50%) and they have worked in current organizations for about 14 years on average.
3. Braun and Clarke (2006) recommended six steps in thematic analysis: (1) step 1: data familiarization; (2) step 2: generating initial codes; (3) step 3: searching for themes; (4) step 4: reviewing themes; (5) step 5: defining and naming themes; and (6) step 6: producing the report. Available at <http://blog.qsrinternational.com/organise-the-messiness-of-qualitative-analysis-demonstrating-the-audit-trail-in-nvivo/>. [Retrieved July 28, 2014].

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Table 1. Characteristics of Interview Participants

Selected Characteristics	Public Contract Managers (Government)	Private Contract Managers (Contractor)
Gender		
Male	67%	44%
Female	33%	56%
Tenure	15 Years	10 Years
Position (Job Title)		
Front-line Worker	-	-
Administrative Personnel	-	-
Middle-level Manager	27%	40%
Executive Officer	64%	50%
Department Head/CEO	9%	10%

Note. Tenure stands for average years that a respondent has worked with government contracts in his or her current organization.

Table 2. Characteristics of Interviewees from the Private Sector

Selected Characteristics	Private Contract Managers (Contractors)
<i>Service Areas of Current Organization</i>	
Public Safety	9.1%
Health and Human Services	36.3%
Education	9.1%
Public Works ^a	18.2%
IT Services	9.1%
Social Services ^b	18.2%
<i>Type of Contractor (Ownership)</i>	
Nonprofit organization	55%
For-profit organization	45%

Notes. ^a These areas include construction, plumbing, and electrical services; ^b These areas largely include children and families and military and veterans affairs.

Figure 1. Summary of Interview Findings