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Lessons in green-space management

Lindholst, Andrej Christian; Bogetoft, Peter

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MANAGERIAL CHALLENGES IN PUBLIC SERVICE CONTRACTING: LESSONS IN GREEN-SPACE MANAGEMENT

Andrej Christian Lindholst, University of Copenhagen, Denmark.

Peter Bogetoft, Copenhagen Business School, Denmark.

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Abstract

In this article, we address a series of interrelated issues in the managerial challenge of public service contracting. This is done by prompting ten issues within four objectives and highlighting their relevance and potential interrelatedness in effective contract management. In contrast to prevalent piecemeal and theoretically one-dimensional approaches, the objectives and issues constitute a holistic framework that advances a comprehensive and pragmatic understanding of contracting processes. We advocate that the framework qualifies further in-depth explorations that may generate new insights, themes and questions for research in public service contracting. We identify and exemplify the framework by combining insights from different theoretical perspectives with empirical evidence through an iterative process. The evidence is educed as a set of observed and self-reported stories in a cross-national sample of 15 cases of contracting-out services in urban green-space management.

Keywords

Case study, contract management, public management, public service contracting, urban green-space management

INTRODUCTION

Procurement policies and contracting-out have over the last decades been implemented in public sectors worldwide with the aim of driving out perceived inefficiencies in traditional public service provision (Lane 2000). Congenial with a transactional perspective on contracts (Macneil 1980), the embedded 'standard' approach to contracting-out in reform policies has by and large reduced the question of contract management to the four tenets of specification, pricing, monitoring, and eventual enforcement of service provisions. The formal conditions for so-called 'successful' contracting-out have been identified by Sappington and Stiglitz (1987), Hart *et al.* (1997) and Domberger and Jensen (1997) among others through applications of standard economic analysis. Congruently, Kettl's (1993) 'smart buyer' maxim for the contract manager, which prompted the need to know what to buy (i.e. specification), who to buy from (i.e. pricing), and what has been bought (i.e. monitoring), is illustrative of how the standard approach has addressed the implied challenge for managers. The adequacy of the standard approach and economic analysis as a way of understanding the practices of contract management is now called into question by several more recent, but still partial contributions, including:

- The evidence of mediocre performance in public service contracting (Hodge 2000) and the incomplete understanding of its causes (Jensen and Stonecash 2005).
- The questioning of competition as the only motivational driver for efficient performance (Besley and Ghatak 2003).
- The introduction of new approaches to public procurement and contracting-out that in turn call for a new understanding of the public sector's market relations (Bovaird 2004; 2006) and a shift

in research focus from pricing and competition towards collaboration and competence (Entwistle and Martin 2005).

- The importance of focusing on organizational requirements and conditions for managing contracting processes (Brown and Potoski 2003; O'Flynn and Alford 2008).
- The identification of the importance of trust (Davis and Walker 1997) and relational aspects (Fernandez 2007) for contractual performance in the public sector.

We are therefore left with a range of new and partial insights that dissolves the adequacy of the standard approach, but are still in need of more comprehensive frameworks. Brown *et al.* (2006) offered one such framework for contract management by integrating aspects related to values, the institutions (or instruments) of the contract, and market structure. However, these aspects are incorporated into the standard approach. Hence, there still remains a challenge of developing comprehensible frameworks that takes the range of newer insights into account.

With a view to improve further our understanding of the managerial challenges in public service contracting, we present a holistic framework made up of four objectives and ten critical and potential interrelated issues. In developing the framework we draw upon a range of theoretical perspectives and a set of stories educed in a sample of 15 cases of contracting-out in urban green-space management. In contrast to prevalent piecemeal or theoretically one-dimensional approaches, the framework advances a comprehensive and pragmatic understanding of the particular issues that are in play and are considered as challenges at the level of practical management.

Following the argumentation of Numagami (1998) on using cases in management studies, the primary purpose of our study was not to establish external validity in a broader universe (e.g. predict and estimate the significance of particular objectives and issues), but to qualify and encourage a reader to reflect and make greater sense of the particularities and complexities of public

service contracting (improved heuristics). In the subsequent sections we present the process of developing the framework, the selection and collection of case material, and demonstrate the relevance of the framework through the set of stories educed in our case material. Finally, we discuss the broader implications and potential applications of the framework.

The standard and new alternatives

In the transactional analysis of organization and management economics (Milgrom and Roberts 1992), effective economic exchange can be regarded as having three objectives: coordination, motivation, and minimizing transaction costs. These objectives can be applied to analysis of contracts as well. In its specific context, a contract must specify questions related to the ‘what’, ‘when’, ‘where’, and ‘how’ of an exchange (coordinate), ensure that the parties will keep contractual obligations (motivate), and minimize costs related to coordination and motivation. Bogetoft and Olesen (2004) have in this perspective developed a framework for contract analysis and subsequent design.

However, explanations of behaviour in organizations and markets, whether rooted in neoclassic economics or in the new institutional economics, have been forcefully criticized as ‘seriously incomplete’ by Simon (1991, p. 42, see also Williamson 2000). Similarly, Springdale and Mador (2004, p. 69) criticized purely economic approaches for understanding privatization processes in the public sector as ‘incomplete’. In particular, they point out the neglect of the ‘cultural, contextual, and organizational settings’. In an applied perspective, Walker (2000) noted that the narrow (micro-)economic approach is prone to generate inappropriate managerial advice with sub-optimal contracting outcomes and negative welfare effects as a result, if it is imposed upon real-life situations.

In line with these criticisms, we complemented the framework by Bogetoft and Olesen (2004) with a range of alternative theories. In particular, the transactional outset was supplemented with insights from: 1) competence- and resource-based views on organization, 2) relational contract theory and 3) psychological theories of motivation. We are content that these insights embrace the main points laid out in the newer studies of public service contracting referred to in the introduction.

Competence- (Conner and Prahalad 1996; Grant 1996) and resource-based views of organizations (Barney 1991; Barney and Zajac 1994; Barney 1996) are now widespread in management studies as an alternative to the transactional approach (Lockett *et al.* 2009). These are also sought integrated in the research agenda on public-private partnerships (Entwistle and Martin 2005). In contrast to the transactional analysis, the resource-based view is rooted in the observation that unique organizational resources are a vital component for effective economic organisation and performance. Competences can here be seen as one specific form of resource. Furthermore, transactional and competency/resource-based analyses are complementary as they are able to supplement and fertilize each other (Williamson 1999). Along this line of thought, we see competency- and resource-based perspectives as relevant for analysis in the inter-organizational context of contractual relationships. Especially, the client may need the relationship to comprise a set of idiosyncratic resources / competencies in order to achieve objectives effective and efficiently. In accordance with the assumptions on resource heterogeneity and immobility that underlie the resource-based view, these must be secured actively as they cannot be transferred through the market. Competencies and resources may be lost by inappropriate contracting policies as their presence cannot be ascertained *ex ante* by simple pricing procedures nor secured *ex post* by monitoring and enforcement.

Insights based on relational contract theory (Macneil 1980) contain a broader a priori understanding of the nature and possible range of contractual relationships and economic exchange than envisioned by standard economic theory. This perspective opens up for analysis of alternative contract ideals, the need for contextual sensitivity and prompts the importance of collaboration, communication and cognition for contractual efficacy.

Accounts of human motivations in psychology (Ryan and Deci 2000) and subsequently in some stands of economics (Frey and Jegen 2001; Fehr and Falk 2002) have emphasised a fuller range of factors than envisioned in the standard approach. Especially, motivations are dynamic in nature and driven by both extrinsic and intrinsic factors – not only a rational economic calculus of alternative outcomes as envisioned in the standard approach. In this perspective, it makes sense to move away from recommendations based on the standard principal-agent setup and include supports for intrinsic motivation (see also Walker 2000). The relevance of this broader understanding of motivation for public service contracting has been promoted by Besley and Ghatak (2003) and Jensen and Stonecash (2005).

Toward a new model

Initially, we took outset in Bogetoft and Olesen (2004) and in the course of developing a new framework we introduced stepwise themes and insights from research based on alternative theories through an iterative process. We used an iterative procedure of open coding in which theoretical themes were decomposed into a set of issues guided by the possibility to interpret the empirical material through these. In this way, the application of theoretical insights constituted a method for generating ‘richness’ (see Weick 2007) and developing an improved heuristics for comprehending our phenomena. We finally summarized the framework in ten critical and potential interrelated issues under four objectives in the managerial challenge of dealing with public service contracts.

The issues and their potential interrelatedness are depicted under their respective contractual objectives in Figure 1 in as a ‘diamond model’.

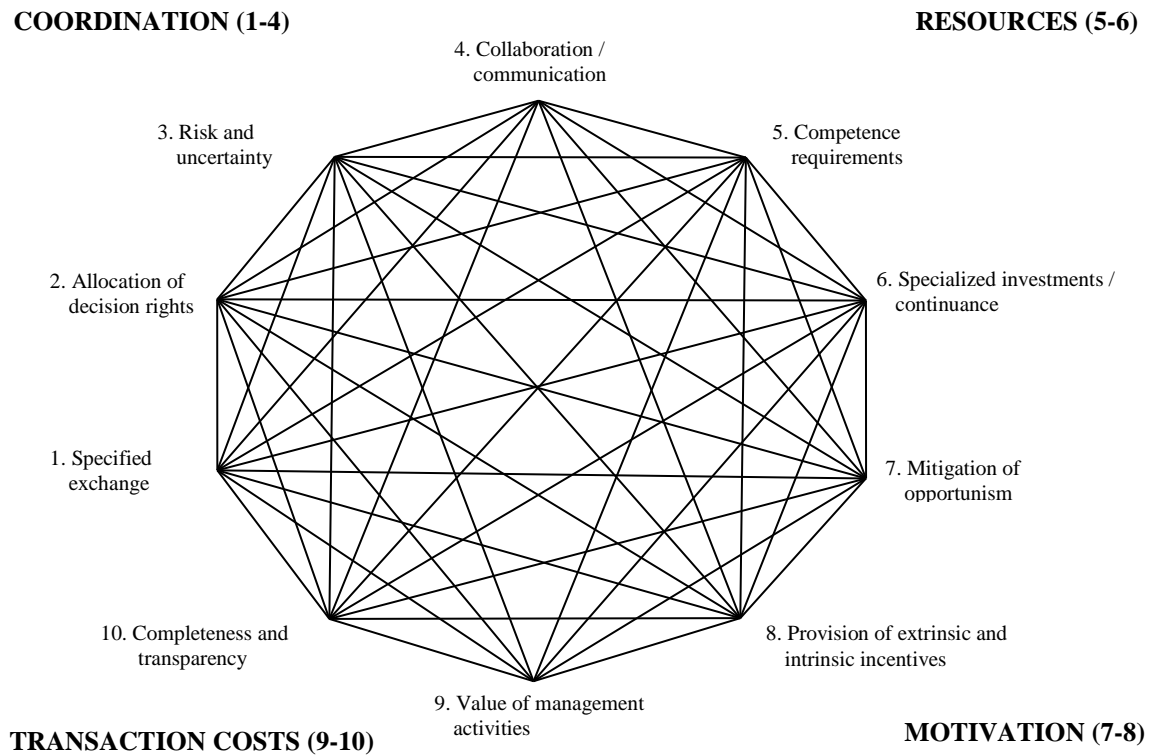


Figure 1 *A diamond model*

The diamond model may not encompass all theoretical and practical important issues. However, the framework enables a sustained critique and transformation of the standard approach. It thereby offers a new basis for conceptualizing and interpreting managerial challenges in public service contracting. It follows also that our framework is open for critiques based on interpretations rooted in alternative theoretical perspectives. Some issues may also be more or less central depending on context, attract more awareness or be less frequent in practice than others. For example the perspective of intrinsic motivations should become less salient if tasks only can be specified in ways that render these ‘uninteresting’ and ‘boring’ for contractors’ staff. This may be a matter of

technical possibilities, ethical outlook, a client's preferred mode of contracting, policy or path-dependencies within a particular context- While we contend that the four objectives are firmly rooted in the leading management literature, the ten issues may be open for reformulations,.

Following Boyne (2002), we have made the assumption that it is possible to transfer themes from private sector management to public sector management. There are reservations, such as the influx of politics on the issue of defining services/quality, the objective of the contract (Walsh 1991; Stewart and Walsh 1994) or the legal frameworks. However, we do not see such reservations as fundamental to the understanding of the managerial challenge experienced in day-to-day dealings with contractual partners; costumers in the market may change preferences as well as political peers or public clients may be equally focused on extracting value from their contractual relationships. Such differences exist mainly by degree within both private and public markets.

From a strictly analytical perspective, our framework does not seek to integrate the various elements in a synthesis. Rather, our framework may be said to represent a more humble 'pluralistic' approach. In a parallel to Williamson's review of the new institutional economics (2000), we are content that this is a rewarding strategy for overcoming ignorance in a situation where there are no obvious candidates for a unifying theory.

15 cases from green-space management

To explore the managerial challenges, we draw upon a sample of 15 cases of contracting-out in green-space management from Denmark, the United Kingdom, New Zealand, and Sweden. The material was collected in 2005-7 in cases where managers engaged in contracting-out various parts of their responsibilities. The contracts include traditional maintenance tasks as the main responsibility, but congruently with the provision of 'new' green space services (Walker 2004) they also in various degrees include parts of finance, policy, strategy, planning, development,

stakeholder involvement, and/or management. The contracts covers various types of parks and gardens, botanical gardens, waters, road sides, urban trees and forests, playgrounds, sports fields, and cemeteries. Contracting-out has been widely used in urban green-space management since the early days of New Public Management (e.g. Patterson and Pinch 1995), so green-space management as a case for research yields a comprehensive set of experiences with possible relevance for understanding public service contracting in general. For example, in line with overall trends in theory and practice in public service contracting, Lindholm (2008) found that in the context of urban green-space management the standard approach had proven initially successful in supporting contracting practices, but that new ‘relational’ aspects related to coordination, communication, motivation, and restraint of power must be addressed in order to develop contractual effectiveness further.

Cases were purposefully selected to represent the widest possible range of contract designs, i.e. a criterion of diversity was applied. With reference to the categorization of contracts elaborated by Macneil (1974; 1980; 2000), the sample was elaborated to represent contracts ranging from ‘transactional’ (or ‘discrete’) to ‘relational’ types, including various combinations. In short, a transactional contract is based on norms (and institutions) supporting a highly specified exchange of services i.e. the standard approach, while a relational contract design is based on norms (and institutions) sustaining the relationship that embeds the exchanges (specified in various degrees). In public service contracting, the standard approach has typically been associated with the transactional type, whereas partnership and collaborative approaches embedded in recent reforms have typically been associated with the relational type (e.g. Lian and Laing 2004). However, empirically, the two types should not be seen as a simple dichotomy, but as two set of norms (and institutions) that are involved to a greater or lesser degree in all contracts (e.g. Vincent-Jones 2000). In the sample, the transactional norm is manifest in ‘standard’ contract and its narrow focus on

specification, pricing, monitoring, and enforcement of service provisions. Relational norms (and institutions) are included in various 'extended' contracts integrating further aspects into the contract. These include partnership agreements, schemes for joint management and/or planning (i.e. collaboration), instruments for mediation and internal conflict resolution, investment schemes, incentive schemes, open books, strategic objectives, and various joint activities (For a review of the contractual infrastructure in the sample cases, see Lindholst 2009).

The level of management experience and a history of contracting-out were applied as secondary criteria. These criteria were supplementary to the diversity criterion in order to ensure that the material was based on qualified management experience. However, due to the relative novelty of some contract types (e.g. partnerships), some cases were included although management experience or the history of contracting-out was limited.

A minimum of two cases (complying with the diversity criterion) were selected in each of four national contexts. The cases were selected in Denmark (7), New Zealand (2), Sweden (2), and the UK (4). Out of the many 'houses' of public management reform in OECD countries (Pollitt and Bouckaert 2004), the four countries represented an informed mix of reform forerunners (UK, NZ), latecomers (DK, S), centralized (UK, NZ), decentralized (DK, S), technocratic (NZ), pragmatic (DK, S), and ideological (UK) policy approaches (see also Patterson and Pinch 1995; Massey 1997; Boyne 1999; Scott 2001; Christensen and Lægreid 2002; Bryntse and Greve 2003; Christensen and Lægreid 2007). The mix of countries broadened the potential range of managerial experiences and challenges potentially related to country-specific characteristics (e.g. a national policy regime promoting partnership approaches in the case of the UK). National experts were contacted to help identify and qualify specific cases. National experts included CABE (Commission for the Built Environment) Space in the United Kingdom, the Swedish University of Agricultural Sciences, the Centre for Forests and Landscape, the University of Copenhagen in Denmark, and UNITEC in New

Zealand. In Denmark and Sweden the identification process was additionally supported by secondary data made available in national surveys from 2005 of public park management (Forest and Landscape 2005). The secondary data contained information about contractual features (e.g. contractual objectives, partnership agreements, focus on competency, flexibility, level of collaboration) and experience with contracting-out (e.g. performance, years of contracting-out and level of contracting-out). This information helped qualify cases according to the two selection criteria. In each case, contact was established directly to the client, which in turn facilitated contact to the contractor. Two cases initially identified as relevant for inclusion in the sample were subsequently excluded due to limited access or unwillingness to participate. Confidentiality was required in most cases and the material is therefore presented in anonymous form. For each case, contract(s) and management were reviewed through research interviews (Altogether 43 interviews, with a length of 45-120 minutes per interview) and conversations with key organizational members from clients and contractors, field observations, site visits, and document analysis (contract material, specifications, procurement documents, strategy papers, performance evaluations, organizational diagrams from each case). Each interview and case review was guided by a set of questions related to context/background, contract management, and results/outcomes. Due to various constraints and limitations for collecting material (e.g. differences in access to organizational members or documents) not all cases could be studied at the same level of detail. Through the iterative process, a mix of self-reported and observed stories emerged for each case. Each story constitutes a (short) descriptive account but embeds also an idiosyncratic (as opposed to nomothetic) causal explanation for the managerial dynamics in play in the specific case. An overview of the cases and the issues they exemplify is presented in Table 1.

TABLE 1 15 cases of contracting-out in green-space management

No	Basic characteristics	Contract	Key issue	Related issues	Nature of aspects	Description of selected issues
1	DK, urban, medium sum, short history, in-house	Extended I (partnership)	5	4,9.	5÷4, 5÷9, 4÷9.	(5) Lacking expertise for building partnership incurred higher costs for running the contract.
2	NZ, urban, large sum, long history, in-house	Extended I	6 9	8,9. 4,6.	6!8, 6+9. 9+4, 9+6, 4+6.	(6) Incremental adjustment of contract length and size for optimizing investments and minimizing transaction costs.
3	UK, urban, large sum, long history, in-house	Standard	5	1,7,9.	5+7, 5+1, 5+9, 1!7.	(5) Experience with ineffective safeguards and development of 'double standards' due to low price procurement led to a focus on competence requirements.
4	DK, rural, small sum, no history, in-house	Extended II (partnership)	1 5	2,4,5,8. 1,4,7.	1+2, 1+4, 1+5, 1+8, 4+5, 5+8. 5+1, 5+4, 4+5, 4!7.	(5) Successful development of public park services by buying in expertise and close collaboration, but immature termination.
5	DK, rural, medium sum, medium history, in house	Standard	1	4,6,7,10.	1+4, 1!7, 1!10, 4+10, 7+6.	(1) Successful standard contracting based on repeated contracting, informal collaboration, and credible 'threats' of internalization.
6	S, urban, large sum, long history, market only	Standard	10	1,5,9.	10+9, 10+5, 10+1.	(10) Used a common professional outlook to sustain cost-effective contract management.
7	UK, urban, large sum, long history, market only	Extended I (partnership)	1 8	2,4. 1,2,4.	1+2, 1+4, 2+4. 8+1, 8+2, 8+4.	(8) Used a partnership approach and stakeholder involvement to motivate and engage the contractor.
8	UK, urban, large sum, long history, market only	Standard	7 9	6. 3,6,8.	7+6. 9!6, 9+8, 6÷3.	(9) Used reputation effects to mitigate opportunism and competition as a routine to minimize transaction costs.
9	DK, urban, medium sum, long history, in-house	Standard	2 7	5,7,9. 1,6,9.	2!1, 2+5, 2!7, 2+9, 5!7. 7÷1,7-6, 7÷9, 9÷1.	(2) Minimized transaction costs by decentralizing management and improving staff expertise.
10	DK, urban, large sum, long history, market only	Extended I	4 8 10	1,5,7,8,9, 10. 4. 8,9.	4!1, 4!7, 4+8, 4!9, 4+10, 5+10. 8!1, 8!4. 10÷8, 10÷9, 9÷8.	(8) Used a combination of intrinsic and extrinsic motivational drivers to improve contract management and performance.
11	DK, rural, large sum, long history, market only	Extended I (partnering)	4 5 9 10	3,7,9. 7. 1,5. 3,9.	3+4, 3!7, 4!7, 7+9. 5+7. 9÷1, 9÷5. 10÷3, 10÷9.	(4) Reduced contractor's economic risks and improved ex post adjustments of service provisions by engaging in close collaboration and the use of open books.
12	UK, urban, large sum, long history, market only	Extended I (partnership)	3 6 7	1,6,7. 4,5,8. 5,6.	3÷1, 3!7, 6÷7. 6+4, 6+5, 6+8. 7+5, 7+6, 6+5.	(7) Increased pricing of contracts in procurement by uncertainty induced by incorrect indexation and excessive use of safeguards.
13	S, urban, large sum, long history, market only	Extended II (partnership)	2	1,4,6,7.	2+1, 2+4, 2+6, 2!7.	(2) Decentralized contract management through a partnership approach based on a strategic framework and open books.
14	DK, urban, medium sum, long history, in house	Standard	1	6,7.	1!7, 6+7.	(1) Successful standard contracting based on repeated contracting, informal collaboration, and credible 'threats' of internalization.
15	NZ, urban, medium sum, long history, in-house	Standard	5	9.	5!9.	(5) Created effective use of both market and in-house providers by making a division of labour based on expertise / level of investments.

Basic characteristics describe contextual aspects, including country, presence of an in-house provider, location in a rural or urban area, the relative size of contract sum, and the client's history of contracting-out. Contract type refers to the basic contract type and whether an explicit partnership agreement is included. The list of key issues gives an overview of the issues (see Figure 1) each case exemplifies in the text. Related issues are issues related to the key issue. The nature of aspects indicate whether the relations are: negative (÷), positive (+) or mixed (!). We have provided a short description of a key issue for each case.

MANAGERIAL CHALLENGES

In the following section, we present further and demonstrate the framework as laid out in Figure 1. We argue for the relevance of the four objectives and their breakdown into a set of ten issues by highlighting theoretical arguments and by illustrating potential manifestations and relationships (trade-offs/synergies) among issues through the set of stories deduced from the case material. For each issue we firstly highlight theoretic arguments and then exemplify how this issue have been dealt with in practice. Each story refers to a main issue and a set of related issues. Each story is illustrated by a figure based on the blueprint laid out in Figure 1. Depicting the cases graphically demonstrates relations between aspects in the diamond model and enables an easy comprehension and comparison of the case material.

Issue 1: Specified exchange

Specified exchange is at the heart of contractual relationships (Macneil 1980), and one of the most important objectives of the contract is to define and coordinate the activities of the parties by specifying questions related to the ‘what’, ‘where’, ‘when’, and ‘how’ of the exchange. With reference to the popular distinction between ‘steering’ and ‘rowing’ promoted by Osborne and Gaebler (1993), the standard approach prompts a public client to define the ‘what’, ‘where’, and ‘when’, but to rely on the contractor to define the ‘how’ of the contract. Lack of coordination may lead to sub-optimizations, where contracting parties optimize their interests regardless of the outcomes for the other party or for broader stakeholders. Poor specification may also increase transaction costs due to the subsequent lack of measurability (e.g. Brown and Potoski 2005). An important aspect of coordination through specified exchange is the minimization of costs for providing services i.e. ‘production costs’. Some activities might have a higher/lower utility (or

value) for the client than others. So it makes sense to direct resources toward activities with the highest marginal utility (or lowest marginal costs). A trade-off is the additional (transaction) cost of identifying the utility of provisions and initiating change accordingly. Standard contracting in its extreme application is not open for optimizing utility, unless the costs and benefits of alternative service specifications are known with certainty ex ante. If service provisions, for example, take place in a dynamic environment, the standard approach (where the contract ex ante fully specify the services to be provided, the corresponding prices, and the conditions for exchange) runs the risk of imposing mal-adaptation costs (Williamson 1991).

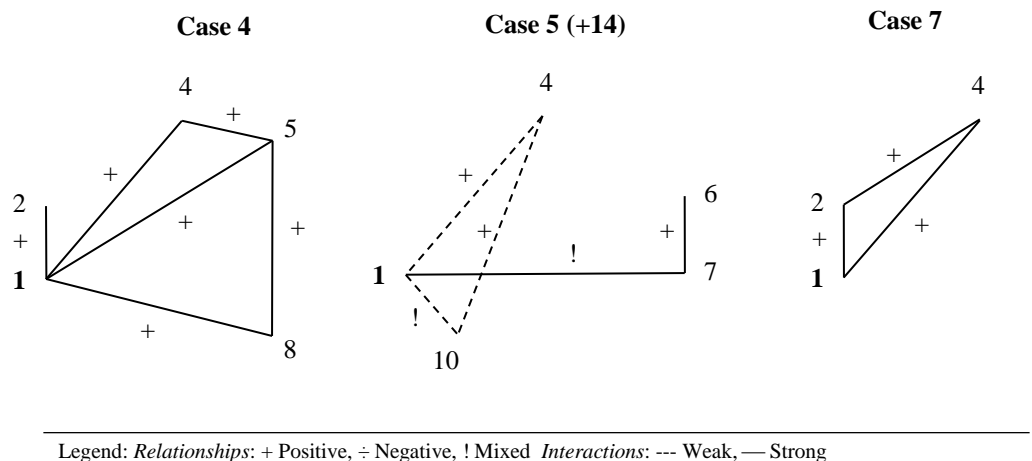


Figure 2 *Managing Issue 1*

Examples

In addition to the standard contract, two kinds of ‘extended’ contract types were identified in the sample. One type represented a continuation of the standard contract’s emphasis on service exchange specified ex ante in terms of technical standards, but with the integration of additional instruments for coordination and motivation. The second type eschewed the exchange of specified

services defined through technical standards and emphasized strategic objectives (both economic and non-economic) as focal mechanism for coordinating activities. Contracts in all 15 cases could be categorized as one of these three types, though with some individual variations (see also Lindholst 2009).

Cases 5 and 14 provided typical examples of the standard approach. The clients defined the ‘what’, ‘where’, and ‘when’ through performance- and instruction-based specifications for various green-space elements, while relying on the contractor to define the ‘how’. Payments were based on the sum of monthly quantities multiplied by unit prices. Quantities were defined as the sum of regular services and the variable quantities of requisitions. Performance was reported to be highly dependent on the accuracy and comprehensiveness of specifications. In Case 14, the client achieved this by implementing service specifications gradually (for different districts) and allowing for adjustments during the contract period. In both cases, the shift from long-standing in-house arrangements to the implementation of service specifications combined with contracting-out provided substantial net savings (reportedly within the range of 15-30%).

Formally, the contracts in Cases 5 and 14 relied on standard mechanisms for monitoring and enforcement, including a range of inspection methods, rectification notes, and payment deductions. The formal mechanisms for adjusting service provisions were based on the client’s right to regulate the level of service provision unilaterally. However, informally, adjustments were also based on ad hoc inputs and communications. In none of the cases did the client have the resources to monitor service provisions systematically. The underlying effectiveness of the contract was in both cases based on trust in the contractor’s ability to fulfil the contract (competence) and informal cooperation between the client and the contractor. In both cases, trust and trustworthiness were reported to be gradually built up by quick responses to instances of non-compliance and a development of mutual understanding of the broader conditions for providing services. Long-term concerns in the form of

expectations of repeated interaction (contracting) provided contractors with incentives to fulfil their contractual obligations in the short run. Furthermore, both cases initially combined contracting-out with in-house provisions, which meant that contractors could lose markets because of the clients' continued access to internal service provisions. However, due to poor economic performance, the in-house organization in Case 5 was abandoned and the new situation left the client relatively more vulnerable to market failures than the client in Case 14.

Case 4 provided an example of an extended approach in the context of a small rural local authority. The contract did not rely on service specification in the standard form of performance- and instruction-based measures. To define and coordinate activities, the parties agreed on a strategic framework with objectives focused on the development of services, improvement of reputation in the local community, elaboration of maintenance plans, economies of scale, rationalization in the client's organization, and investments in park services. This meant that the contractor became involved in the 'what', 'where', and 'when' as well as the 'how' of the contract, but also that the contractor had to deal with questions of 'why'. The effectiveness of the contract relied on successful motivation of strategic collaboration and engagement of complementary expertises instead of pricing and competition, i.e. motivation in day-to-day operations was spurred intrinsically by professionally challenging tasks (see also issue 8). Case 4 provided the purest example in the sample of a 'relational' partnership approach, in contrast to the standard approach exemplified by Cases 5 and 14.

Case 7 provided the most vivid example of an extended approach integrating relational and transactional aspects. The approach combined exchange based on technical service specifications with coordination through a jointly managed strategic framework. Correspondingly, contract management was split into two parts. Monitoring and enforcement were based on a random sampling system where monthly payments were dependent on extrapolation from sample results.

The second part focused on the management and development of services through a strategic framework made up of action plans, annual performance reviews, and policy partnerships with a broad range of stakeholders. The two parts of the contract were decoupled to free strategic management from the burdens of management of day-to-day operations. In cases based on the standard approach, such as cases 5 and 14, the managers were occupied mainly with activities related to day-to-day operations, leaving few resources and little time for strategic and/or policy concerns. However, the prerequisite for a cost-effective decoupling as in Case 7 was a sufficiently large organization that could dedicate and balance resources for effective management at both levels. At the same time, Case 4, as a 'black swan' (Flyvbjerg 2006), illustrated that coordination at the operational levels is not necessarily a condition for coordination at the strategic level.

Issue 2: Allocation of decision rights

A contract is centralized if the client has the authority to make most decisions and decentralized if the contractor is in charge of most decisions. The standard approach is centralized by the separation of client functions related to specifying 'what', 'where', and 'when' from contractor functions related to the 'how' of the exchange. Ideally the contract should allocate decision rights to the party that is best informed with regard to each specific activity (Bogetoft and Olesen 2004). The benefits of decentralization are: minimization of time and resources devoted to gathering and processing information, the reduction of the risk of neglecting important information, and minimization of engagement in time consuming communication/coordination activities. The drawbacks of decentralization include: increased risk of un-coordinated actions, neglect of important information, and misalignment of expectations. Motivation problems due to opportunism might occur because it is difficult to reciprocate the contractor's efforts if no contract instruments are present to enable observance and evaluation of performance. Decentralized contracts are therefore prone to moral

hazard problems and higher transaction costs. However, if trust can be developed, transaction costs can be brought down (Davis and Walker 1997; Bohnet *et al.* 2001).

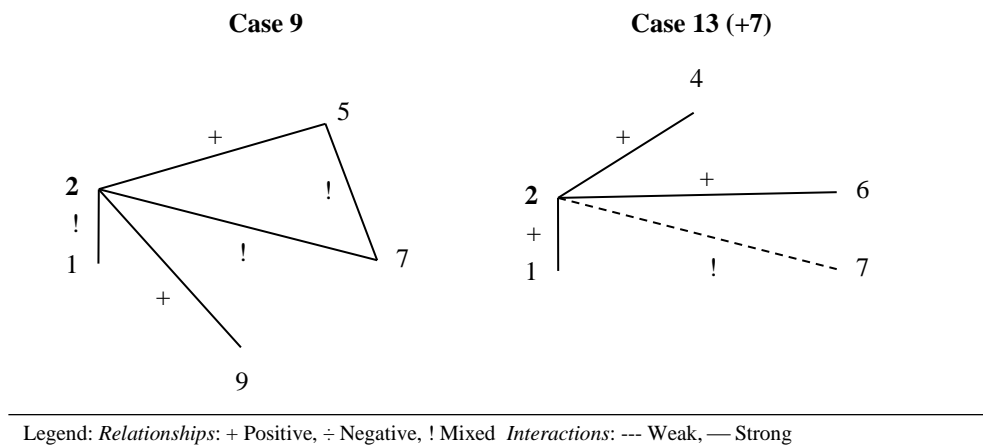


Figure 3 *Managing Issue 2*

Examples

In most cases, the client and contractor had established parallel hierarchies for managing the contractual exchange. In Case 9, management costs were brought down by relying on one common hierarchy for contract management. The contractor had no manager with overall responsibility for the contract and instead upgraded the competence of the ground staff to enable them to refer directly to the client side. This gave the client direct supervision of the contractor's ground staff, and this decentralization provided a highly adaptive arrangement. The benefits included quick responses to the client's demands while lowering overall transaction costs. A trade-off was identified due to the use of only partly dedicated staff and machinery (inputs) combined with the use of performance based service specifications. The contractor ran the risk of providing services that were not specified or priced in the contract. The safeguard employed was the upgrading of ground staff competence to enable decentralized judgments about the contractual basis for the client's demands. The downside of the arrangement included a mutual dependency between the

parties and the imposition of a continual risk of violating mutual expectations, and in the case of a dispute, it would be difficult for a third party to intervene. However, the mutual dependency also generated equity in the bargaining position of the parties. So the arrangement included a self-enforcing mechanism for mitigating opportunistic behaviour.

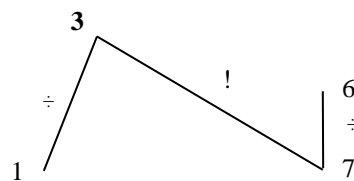
Case 13 involved a comprehensive ten-year contract based on a strategic framework including park policies, mutually agreed objectives, open books, and specifications based on the functional requirements for park services. The contractor was endowed with full responsibility for not only the ‘where’, ‘when’, and ‘how’, but was also partially involved in the ‘what’ of the contract. The rationale for decentralization was to increase the flexibility and productive use of available resources. At the same time the client was allowed to devote time and resources to planning and development. Exchange specification and collaboration in Case 13 were almost similar to Case 7 (see issue 1), but payment and involvement with the local community were organized differently. Payment in Case 13 relied on open-book principles in combination with a target price and a rent-sharing scheme, whereas Case 7 relied on a random sampling method and deduction in payments. In Case 7, the contractor was explicitly engaged in local governance (e.g. setting up ‘partnerships’ with stakeholders in the local community), whereas Case 13 contained a more traditional organization of local governance. Although both cases involved a high degree of decentralization (partnership approaches), the organization of the contractual relationship in case 13 was relatively more vulnerable to moral hazard issues due to relatively weaker safeguards.

Issue 3: Risk and uncertainty

Risk and uncertainty have many implications. In a non-strategic world it complicates decision-making and creates a need to share risk optimally. Risk and uncertainty is also one source of transaction costs (Williamson 1991) and the failure to identify and distribute these in the contract

will impede effective pricing of the contract (e.g. Romzek and Johnston 2002). In a strategic world, the economically rational contractor will balance the failure to identify and distribute risk and uncertainty with higher contract pricing (e.g. a risk premium) or set investment in production capacity below the optimal. If the contractor fails to balance the costs of risks against economic gains ex ante, he might recoup missing overheads by engaging in opportunistic behaviour (e.g. ‘shirking’ or ‘quality-shading’). In the standard approach this would require the client to embark on more detailed contracts and stronger monitoring and enforcement policies (see also Holmström 1979).

Case 12



Legend: Relationships: + Positive, ÷ Negative, ! Mixed Interactions: --- Weak, — Strong

Figure 4 *Managing issue 3*

Examples

The planning and provision of green-space maintenance was observed to be subject to various risks and uncertainties, i.e. contingencies. These included changing weather conditions, dynamics of eco-systems, changes in user patterns, poor service specifications, imposition of new policies and budget cuts, or rises in factor prices. For the contractor, the risks might also include poor service specifications, or behavioural uncertainty, such as omission of expected work levels or the arbitrary use of monitoring and enforcement instruments (Puffitt 1998). The standard coordination

mechanisms based on technical specifications allocate risk differently. Performance-based specifications generally transfer risk to the contractor (likely to increase ex ante pricing), while instruction-based specifications kept the risk in the hands of the client (likely to lower ex ante pricing).

In Case 12, faulty reference to a price index in the procurement phase increased prices of tenders significantly. The procurement material referred to a general price index and not the industry-specific index, which more closely reflected true costs. Due to differences in the composition of the two price indexes, the general price index had a historically slower annual increase rate than the industry index. The client expected that contractual payments in real prices would somehow decrease over time, but left the contractor still obliged to deliver at the same service levels. This was a miscalculation, because the incorrect indexation was perceived as an increased economic risk by bidding contractors. The pricing included a ‘risk premium’ so tenders came in higher than necessary. This was revealed in a subsequent phase, where bidders were asked to price the contracts with alternative indexes. The new prices were substantially lower due to the decreased risk of uncovered production costs. The problem of faulty indexation accumulates over time so indexation issues are relatively more severe in long-term contracts compared to short-term contracts. The problem of price indexation in Case 12 was technically easy to deal with and in practice the problem was related to an attempt to build a ‘trap’. Case 12 is also an example of a contractor’s risk of being exposed to opportunistic behaviour (issue 7), although theory mainly focuses on behavioural risks (moral hazards and adverse selection) for the client.

Issue 4: Collaboration and communication

In contracts, it is essential to overcome issues related to cognitive and communicative differences, and unforeseen contingencies (Macneil 1980). The formal setup in the standard approach does not

include effective mechanisms for handling these issues, unlike the setup of a collaborative relationship (relational governance). A collaborative relationship may be defined as a set of shared norms and mechanisms supporting flexibility, solidarity, mutuality, harmonization of conflict and forbearance from taking advantage of a bargain position. The attempt to foresee contingencies through a written contract (i.e. legal bonds) *without* the presence of a collaborative relationship may result in an even poorer performance (Cannon *et al.* 2000; Poppo and Zenger 2002). However, collaboration and communication consume time and resources and therefore bear a (transaction) cost. Collaboration is commonly entered with expectations of a return of superior value, but these expectations may be unsatisfied and collaboration may turn out to be unproductive (Madhok and Tallman 1998). In response to the general connotation of collaborative arrangements as something ‘positive’, it should also be noted that a setup of collaboration between organizations may run the risk of succumbing to inertia without creating value for the parties (e.g. Huxham and Vangen 2004) or even worse, encourage parties to remain in an underperforming relationship (Patzelt and Shepherd 2008). Although collaborative mechanisms in general are perceived as conducive to good performance, there are also conditional limits (Poppo *et al.* 2008).

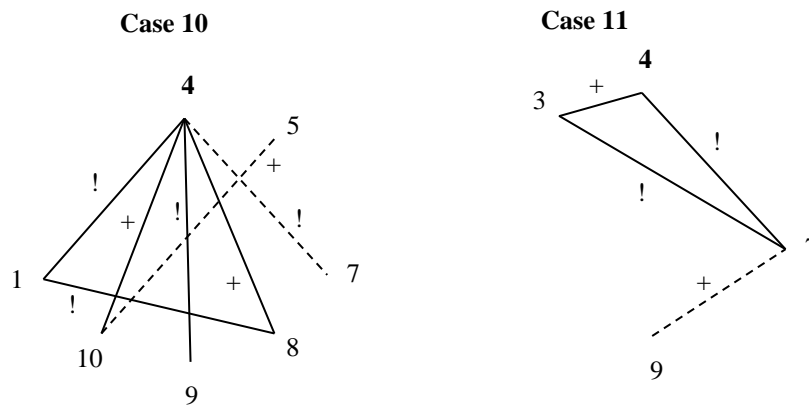
Examples

In the cases with a standard approach, adjustments were mainly made unilaterally, ad hoc and/or through informal means (see also Cases 5 and 14, Issue 1). Extended contract designs included formalized mechanisms for adjusting service provisions through collaboration.

In Case 10, the client was responsible for high-profile parks with requirements of high standards in green-space maintenance in a turbulent and demanding urban environment. This induced a need continuously to adjust service provision and take into account the ‘what’, ‘when’, ‘where’, and ‘how’ of day-to-day situations. To address these needs, the client introduced a mechanism (a performance management scheme) for formalizing engagement and motivation for flexibility in

service provision. The mechanism was based on a combination of economic rewards (tangible rewards) and psychological acknowledgement (verbal rewards) related to performance in three focal areas. A focused communication brought about an increased shared understanding of the various requirements and conditions for service provision. Among the positive outcomes, the contractor found an improved shared understanding helped avoid default and rectification notes ('enforcement') i.e. improved contractor competence. Similarly, the client avoided annoying 'dropouts' in day-to-day service provision. The mechanism was introduced in several contracts. In some contracts the mechanism was perceived as superfluous and time-consuming by both client and contractor. Compared to available alternatives (e.g. extra works) the resources allocated to manage the mechanism were evaluated as giving a relatively low return. In these cases, the managers had developed a well-working informal relationship or 'psychological contract' (e.g. Rousseau 1995) rooted in a common history of interaction. In cases lacking a well-working informal relationship, the mechanism was evaluated as giving a relatively high return. This illustrates a trade-off between resources allocated to productive versus management activities and the contextual dependencies that might determine the best solution (See also issue 9). Case 10 illustrates the need to evaluate the appropriateness of formal cooperative mechanisms against the relational and interpersonal context of the contract (see also Ring and Van De Ven 1992; Ring and Van De Ven 1994). Formalization may bring about positive outcomes, but alternatively these may be achieved effectively by informal means. However, dependency on informal mechanisms may render the contract vulnerable to changes or conflicts in the relational setup (e.g. opportunistic behaviours or change in staff). In Case 11, the client and contractor based one of their contracts on open books to ensure full flexibility for optimizing service provisions. The open-book approach included full revelation of information about production costs (contractor's information) and budgets (client's information). The approach included an ex ante guarantee for the contractor to have his overheads fully covered. So the risk of

losses due to the client's unilateral adjustments was mitigated. However, the open-book approach exposed the contractor to the risk of revelation of sensitive business information to competitors or information being misused by the client. The risks were perceived as being mitigated through a successful history of recurrent contracting which had generated a high level of mutual trust and goodwill. Through a common history, the contractor had gained status as a flexible and reliable partner. So the client would risk losing flexibility and reliability while facing increased costs for monitoring and enforcement if the trust should be broken and the relationship succumb into a strategic calculated 'game' based on self-interested behaviour (e.g. Axelrod 1984).



Legend: *Relationships*: + Positive, ÷ Negative, ! Mixed *Interactions*: --- Weak, — Strong

Figure 5 *Managing issue 4*

Issue 5: Competence requirements

While parties engage with expectations of a return of superior values, they necessarily also depend on organizational knowledge, competencies, and capacity to manage the contract (e.g. Kettl 1993; Conner and Prahalad 1996; Grant 1996; Hodgson 1998; Madhok and Tallman 1998; Romzek and Johnston 2002; Brown and Potoski 2003). Without the presence of adequate competence it would be hazardous to enter into a contractual relationship, even with the access to formal monitoring and

enforcement instruments. Eventual economic compensation through legal means are not an adequate response, because parties to a contract do not normally engage with expectations of ending up in court (Coulson 1998).

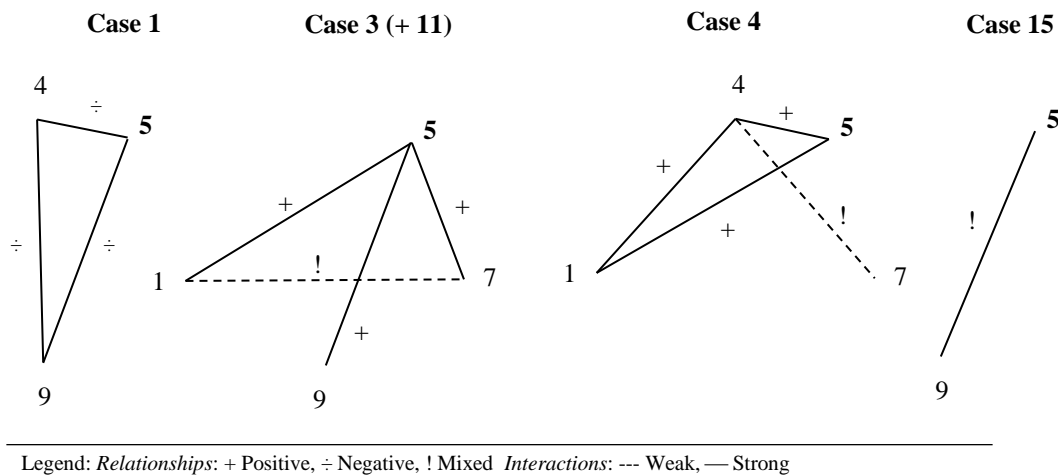


Figure 6 *Managing issue 5*

Examples

In Case 1, the client and contractor sought to set up a partnership arrangement and invoked additional costs for contract preparation and partnership formation. However, competence requirements could not subsequently be satisfied. This became manifest through poor contract performance and increased use of monitoring and enforcement. Case 1 illustrates how the objectives of a contract must match the underlying competence requirements. The contract entailed a cost for the formation of a coordination mechanism that subsequently could not generate a satisfactory return to either of the parties, and the contract was ultimately managed by a standard approach.

In Case 3, the client realised, after decades of experience, that although the contract allowed ‘corrective actions’ through default notes, rectification notes, and retentions, it was not possible to manage the contract effectively in accordance with the specification. As a result, contractual safeguards were perceived as ‘almost worthless’ in adjusting contractual performance. The client

realized that appropriate initial pricing (and thus resourcing) of the contract was a precondition for making contract management effective. Through a change in procurement policies, in which selection criteria became based on 50% price and 50% competence requirements, the client subsequently evaluated the new higher pricing as 'fair' for what was being asked for, while simultaneously allowing the contractor to do the job. This in turn reduced the former high levels of public complaints by enabling the contractor to resource the contract correctly and the client to reallocate internal resources to managing and developing services rather than chasing and correcting problems. Previously, the client had taken a pragmatic approach, coping with the situation by allowing 'double' or 'deviant' non-written standards to develop. The client explicitly acknowledged that in reality they had asked for 5 units but only paid for 4. Parallels to the issue illustrated by Case 3 were found in Case 11 where years of experience with standard contracting led to a mutual awareness of its inherent inefficiencies due to a lack of effective ex post enforcement mechanisms and poor pricing of services (encouraging opportunistic behaviour). Positive results in multiple contracts were achieved in Case 11 by introducing new policies especially focused on collaboration and competence. Results encompassed improved service levels (efficiency), avoidance of third party arbitration (which was perceived as costly in terms of time and damaging for quality of the relationship), and innovation of new technical methods.

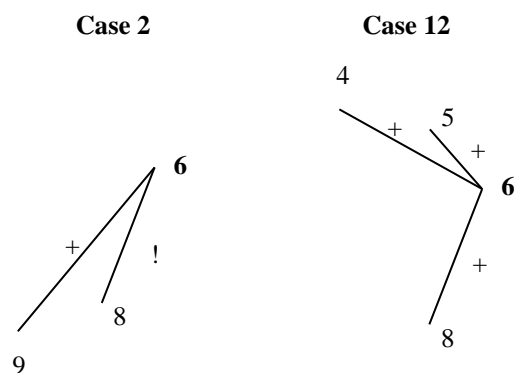
In Case 15, the client made an assessment of the cost of maintaining competence in the organization versus purchasing competence by contracting-out. The rationale was sustained by the difficulties the in-house provider had in re-allocating productive resources subsequent to a lost procurement. This meant the client ran the risk of paying twice for productive capacity. Services related to arboriculture were found to be most cost-effectively provided externally when allocated in a region with a large forestry industry. Services related to other green-space maintenance tasks were evaluated to be most cost-effectively provided internally. The case illustrates that services may

efficiently be coordinated, not through market prices, but through a comparative analysis (centralized decision-making) of competence in-house versus in the market.

In Case 4 (see also Issue 1), the client identified park services as in poor condition but lacked both management and horticultural expertise to improve the service. Moreover, the client did not have the expertise or resources to prepare and contract out park services through a standard approach either. A solution based on a simple ‘make or buy choice’ was not viable. The client found a solution by entering a strategic partnership with a business leading contractor. This gave the client access to high-level management and horticultural expertise. The partnership was based on a handful of focus areas and performance targets. In sharp contrast to the majority of contracts in the sample, pricing was not included in the formal contract. Due to improved management and horticultural competence, park services changed dramatically within a few years. The staff became dedicated (symbolized in a change from anonymous to clearly identifiable work uniforms), the use of resources improved through the implementation of rational investment plans, and as the visible output, park services improved in the eyes of the local community. However, due to an externally imposed change in the local authority structure, the partnership broke up before the results were fully realized. The contractor expected the returns from the partnership to be gained through a more flexible use of staff in the subsequent development of the partnership into a shared organization. However, these returns based on long-term expectations could not be realized. The case illustrates both the advantages and the hazards of strategic partnership arrangements. The client realized his benefits before the contractor could realize his long-term returns from the arrangement. The underlying contract of the strategic partnership was based on good intentions, but not safeguarded with credible commitments for times of hardship.

Issue 6: Specialized investments / continuance

Optimal contract pricing often requires the contractor to make specialized investments, which may come in a range of forms, such as location, human skills, or dedication and investment in production capacity. In transaction cost economics increasing levels of specialized investments (i.e. asset specificity) are seen as a trigger for moving from transactional toward more relational types of exchange arrangements (Williamson 1991). Contractual problems arise due to the potential loss of value if specialized investments need to be employed elsewhere. A party that makes a specialized investment is vulnerable to termination or alterations in the contract (e.g. reduction in contract sums). This leaves the party in a weak bargaining position once the investment has been made and leads to increased transaction costs to safeguard the contract. It may also diminish competition, because an existing contractor may gain a competitive advantage in subsequent procurements. If one party expects to lose value, specialized investments will be avoided. This is the ‘hold-up’ problem (see Hart 1995) and it works both ways. The partners must deal with this issue in order to ensure the optimal level of specialized investments.



Legend: Relationships: + Positive, - Negative, ! Mixed Interactions: --- Weak, — Strong

Figure 7 *Managing issue 6*

Examples

In general, specialized human skills in the form of knowledge of the particular green-space (e.g. growth conditions, user-patterns, prioritized areas) were perceived as important in all cases. The contractors typically estimated a time span of one or two years before they ‘knew’ the contract sufficiently to optimize resource allocation fully.

In Case 2, contracts were developed over two decades. In a series of incremental changes, an initial set of smaller short-term contracts were turned into a handful of larger long-term contracts. Long-term contracts were preferred partly to minimize the cost of direct contracting and partly to motivate contractors to undertake specialized investments and ensure continuance. The investment problem with short-term contracts was rooted in the risk of losing returns from optimal production investments if these had a longer depreciation time than the contract period. The longer contract period allowed contractors to make optimal investments. As a trade-off, the long-term contract strategy decreased competitive pressures, so the client combined the long-term contracts with comprehensive annual performance reviews to sustain a continuous focus on performance in the contracts.

Similarly, in Case 12, two large standard contracts were abandoned and a long-term partnership contract was devised to motivate the contractor to pursue strategic objectives related to investment and the development of park services. Based on experience with the standard contract, the client had come to the conclusion that there were no incentives for the contractor to engage in development of services in the short run. In support of this policy, the client increased the focus on collaboration and competence requirements.

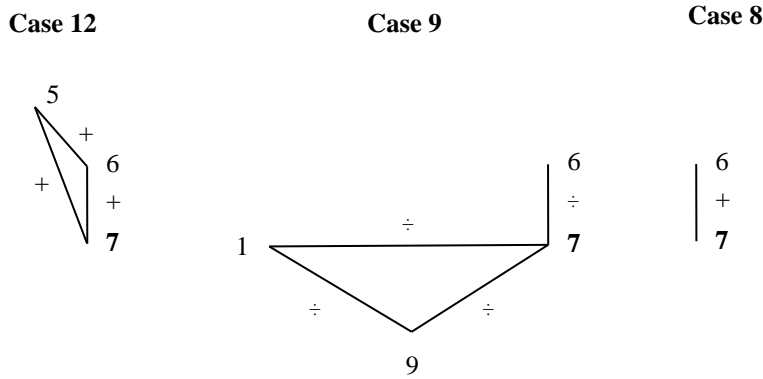
Issue 7: Opportunism

The primary motivation for a contractor to enter into a contract is an expected economic outcome greater than the second-best reservation value of assets ('superior value'). In this perspective, a contractor is understood as a set of rational decisions based on evaluations of the economic outcome of various activities. A contractor motivated by extrinsic incentives may also behave opportunistically, i.e. take advantage of situations where it is beneficial by so doing, including by the calculated effort of lying, cheating, misleading, confusing, or distorting information (Williamson 1985). Standard principal-agent theory (Jensen and Meckling 1976; Fama and Jensen 1983), stresses the use of monitoring and enforcement mechanisms to mitigate opportunistic behaviour. Opportunism may be of both pre- and post-contractual kinds (e.g. problems of adverse selection and moral hazards). Contract- and bid-rigging are special types of fraud where insiders in the client's and/or contractor's organization collude in order to skim a contract, e.g. ex ante by irregular procurement procedures or ex post by renegotiation of contract terms (e.g. Porter and Zona 1993; Silverstone and Davia 2005).

Examples

In case 9, the client and his in-house provider engaged in collusive procurement practices. The client accepted tender prices for five contracts from the in-house provider which were priced at a level approximately one third below the nearest competitor in an elsewhere highly competitive market and the contracts were won back from different private contractors. With the new in-house contractor in place the client's staff experienced a massive drop in maintenance levels. Recourse to contractual enforcement or effective collaborative means for improving performance was not available due to political and top-management decisions. After a couple of years with poor performance, and un-successful political attempts to restructure the in-house organization, the

decision was finally taken to terminate the in-house organization due to a huge and continuous economic deficit.



Legend: Relationships: + Positive, ÷ Negative, ! Mixed Interactions: --- Weak, — Strong

Figure 8 *Managing issue 7*

In Case 8, the client made deliberative use of reputation effects to mitigate opportunism. While some clients preferred the contractor fully to represent the client, in Case 8 the client preferred clear public identification of the contractor. In the context of a relatively small community, the client made deliberative use of local and regionally-based contractors whose overall status and prospects for doing business depended (partially) on their reputation in the local community. The intended logic was that, if reputation matters for the contractor the deliberate use of it would constitute effective mitigation of opportunistic inclinations.

Excessive reliance on enforcement mechanisms may also bear a tangible price. In Case 12, the client included an initial retention policy of withholding about 5% of total monthly payments for a period of time. However, the contractor estimated the retention policy as a risk to the cash flow. Reducing the retention to 2% allowed the contractor to dedicate additional site-based staff to the contract and thus add value to the contract in accordance with the client’s preferences. Compared with seasonal or non-dedicated staff, site-based staff is associated with higher value in green-space management. The example illustrates a trade-off between the inclusion of options for mitigating

opportunism and options that maximize the allocation of productive resources and increase available competencies.

Issue 8: Extrinsic and intrinsic motivations

In addition to behaviour motivated by extrinsic incentives, motivation may also be intrinsic to an agent. Intrinsic motivation for performing a task may come from an inner psychological satisfaction based on moral commitment ('relatedness'), adherence to professional values ('competencies'), and/or a sense of autonomy ('self-determination'). Moral commitment or professional values may also encourage a contractor to keep contractual promises even without sufficient monitoring and/or enforcement mechanisms in a contract. So a party to a contract who possesses a degree of intrinsic motivation may be regarded as relatively more trustworthy (e.g. Bohnet *et al.* 2001). In addition, the interplay of extrinsic and intrinsic motivations is vital for the efficacy of management in various settings. In particular, extrinsic incentives may affect task performance either (excessively) negatively or positively through either 'crowding out' or 'crowding in' effects on intrinsic motivation (Frey and Jegen 2001). E.g. unilateral monitoring and enforcement instruments that violate a 'psychological contract' may impede performance by crowding out intrinsic motivation and thus increase the costs needed for monitoring and enforcement.

Examples

In Case 10, (see Issue 4) two additional reactions emerged among the contractors on the introduction of performance management. One group perceived the scheme as supportive for their engagement in a non-calculative way, while a second group perceived the scheme as a simple extension of the exchange relationship. The first group positively welcomed (in various degrees) the opportunity to achieve both tangible and verbal rewards as an opportunity to receive acknowledgement for efforts and as support for their performance. The second group returned a

negative attitude and an increased focus on negotiations – a something for something – in the relationship. Hence flexibility and information exchange that formerly were perceived as a part of the daily interactions became a part of the exchange relationship associated with expectations of monetary rewards.

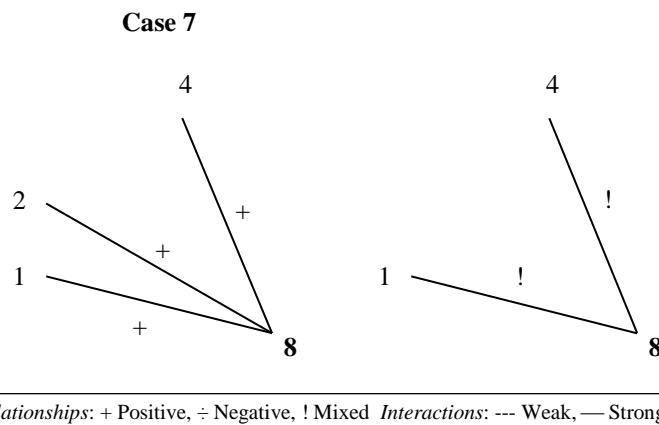


Figure 9 *Managing issue 8*

In Case 7, the client engaged and motivated their contractor by involving them in local community activity, the formulation of a shared purpose, and the pursuit of strategic objectives. The client expected the contractor to engage directly with the local community and initiate activities. In particular, this included the formation of policy partnerships with other public authorities and community organizations. In this way, the client and the contractor brought about increased awareness of the role of green-space in the local community and were subsequently able to attract more resources for community based projects. This approach also transformed the nature of the contractor’s work from the provision of horticultural services into the provision of community services. From the viewpoint of motivation, the contractor now had an interest in preserving a good service not only in the eyes of the client but also in the eyes of the public. The contractor’s staff

reported that engagement with the community increased the willingness to undertake work beneficial for park services, but not paid for directly by the contract.

Issue 9: Value of management activities

Transaction costs can be broadly understood as the costs associated with coordinating and motivating economic exchange. In an encompassing way, Ouchi (1980) defined these costs as: ‘any activity which is engaged in to satisfy each party to an exchange that the value given and received is in accordance with his or her expectations’. Ouchi’s definition draws attention to the necessity of engaging in activities (i.e. for coordination and motivation) that seek to minimize uncertainty about the equity in the exchange of values. Before parties enter a contract, ex ante costs of contracting arise from the activities of preparing and making the contract. After the parties have entered the contract ex post costs arise from activities related to running, monitoring, and perhaps enforcing the contract. As the main rule, these costs should be kept down because they do not directly contribute with productive value. On the other hand, these activities may generate the information required for effective coordination of activities and the adaptation of the contract to unforeseen contingencies (see also Issue 4).

Examples

In addition to aligning the contract length with optimal investment periods (Issue 6), the client in Case 2 also minimized the relative size of pre-contractual costs by increasing the length and size of contracts. In this way, the cost of preparing and initiating a contract was distributed over a longer time period. The information generated through increased communication and annual performance reviews also allowed for more flexible service provisions within the contractual period. Compared to Case 2, the client in Case 8 took the opposite approach to minimizing costs related to preparing and setting up contracts by utilizing many small and short-term engagements. In Case 8,

procurement became internalized as a routine in the organization (Nelson and Winter 1985) and transaction costs were reduced in this way. This approach also allowed a high degree of competitive pressures to drive efficiency. The trade-off with this approach is that the imposed risk for the contractor of losing value from specialized investments will stop him from making investments. The risk in this case was partly mitigated by a relatively high chance of the reward of a new contract (re-current contracting) and a policy for the use of direct supervision. Taken together, Cases 2 and 8 constitute examples of the differences in dynamics that drive strategies for efficient contracting in particular contexts.

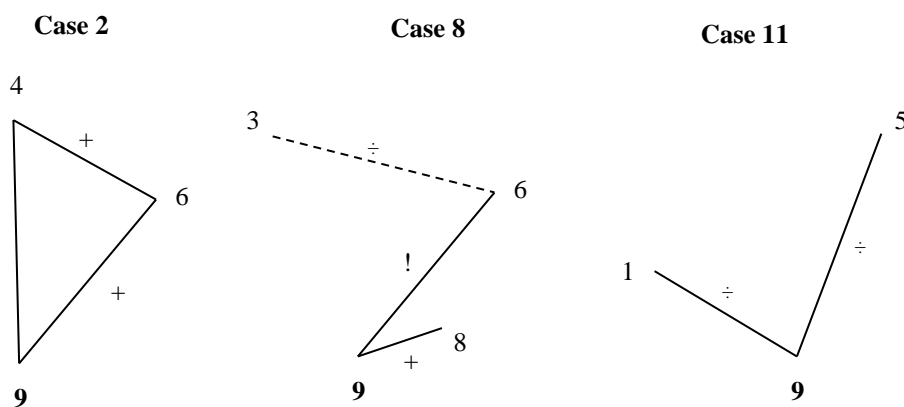


Figure 10 *Managing issue 9*

In Case 11, the client bundled a range of different technical services into larger and more composite contracts. The aim was to minimize the client's transaction costs for procurement and management of a greater number of smaller contracts. However, since very few contractors in the market had expertise to manage such large contracts, competition was effectively halted and the agency received very few tenders for the contracts. Examination of the tenders also showed that if the contract had been divided into smaller contracts with different contractors, the contract price for

each technically separable service would have been substantially lower. Centralizing management into one contract therefore came at a cost.

Issue 10: Completeness and transparency ('comprehensibility')

In contract theory, detailed contracts, i.e. 'complete contracts' (including monitoring and enforcement instruments), are perceived as a way of reducing the risk of opportunism and handling uncertainty arising from contingencies. In good collaborative relationships, completeness may also function as a mechanism for explicating initial expectations in the promotion of further contractual cooperation and performance (Poppo and Zenger 2002). However, some evidence shows that 'completeness' in the form of drafting detailed contracts cannot in itself compensate for a good collaborative relationship in dynamic environments (Cannon *et al.* 2000; Fernandez 2007).

Contracting parties normally intend to act rationally to satisfy their interests, but are limited in doing so due to cognitive and information constraints (i.e. bounded rationality, Simon 1955). One drawback in completeness is the excessive burden it places on managers' cognitive and information-processing capabilities. If the contract is incomprehensible, it becomes difficult for the parties to align their activities rationally. On the other hand, if the design is too simple, i.e. 'incomplete', it may leave important questions unanswered and increase the level of risk and uncertainty in the contract (Issue 3). Contributing to the condition of bounded rationality, the internal separation of purchaser and provider functions within a public organization may undermine a satisfactory specification due to the client's lack of access to the requisite knowledge embedded in the provider's organization (O'Flynn and Alford 2008).

Examples

The initial design of the performance management scheme in Case 10 (see Issues 4 and 8) was reported as too complicated to manage effectively. The scheme included too many performance

targets while at the same time allowing for allocation of only smaller economic rewards for each target. This meant that the scheme could not direct the contractors' activities effectively as they could not pursue all targets at the same time nor provide sufficient monetary rewards to make allocation of more resources attractive. As a consequence the cost of managing the initial scheme provided limited or no added value in service provisions. The scheme was subsequently redesigned with fewer performance targets and greater awards to improve focus and effectiveness.

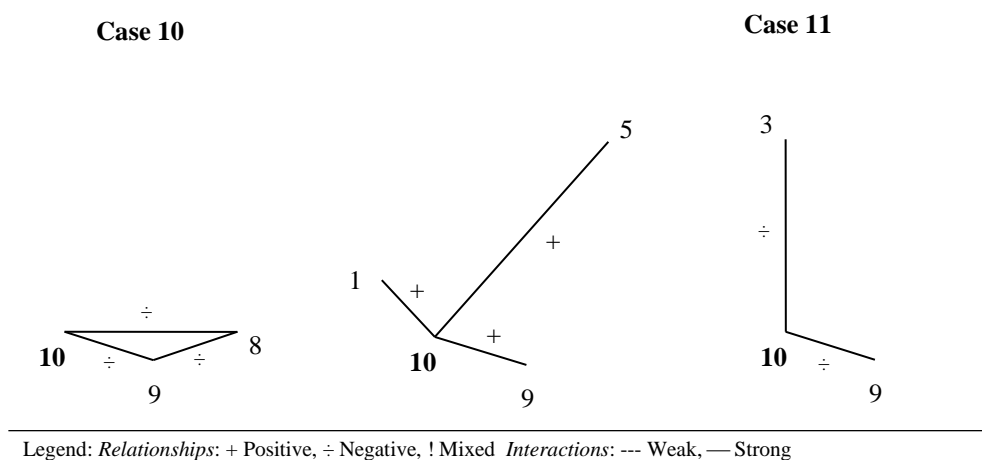


Figure 11 *Managing issue 10*

In Case 11, the client used a comprehensive scheme for evaluating contract prices under alternative scenarios. The intention was to reveal ex ante information about the ex post cost of various alternative ways of providing services. However, the complexity of the price structure became a focal point for subsequent disputes about what prices could be used to cover the alternatives. The reasoning behind the complex price structure was rational, but the perceived incomprehensibility of the price structure combined with fundamental divergence in economic interests caused conflicts. These conflicts had to be resolved through internal dispute mechanisms, which added extra costs to the running of the contract.

In Case 6, the presence of a shared professional outlook between the client and contractor increased the perceived utility of the written service specification and reduced the need for formal communication and collaboration. The shared professional outlook was achieved by employment of staff with former careers as contractors, which meant that the client gained insight into how a contractor thinks and acts. In this case, the matches of expertise generated a shared understanding and decreased the need for additional time-consuming activity for running the contract.

DISCUSSIONS

Following the argumentation of Numagami (1998) we aimed for developing an improved heuristics. By using a single task environment across cases, we allowed a reader to generate a deeper contextual understanding of the phenomenon than would be the case had we used cases from various task environments. Through the identification and exemplification of altogether four objectives and ten critical issues and potential manifestations of their interrelatedness, we have argued for a holistic framework as an alternative approach to the study of public service contracting at the level of contract management. In particular, our framework point out the myriads of relations between issues and the way these may be handled by identifying and exemplifying potential trade-offs, synergies, and dynamics between various objectives and issues.

In early ‘market and management’ reforms grounds maintenance and other ‘blue-collar jobs’ were seen as suitable for contracting-out using standard approaches based on transactional understandings of contracting (e.g. the CCT in the case of UK, Patterson and Pinch 1995; Walsh 1995) – an approach that at the extreme could be deemed most appropriate for buying pencils. Our evidence shows that the job of managing the contracting situation in green-space management is not that straightforward and requires a good deal of knowledge about objectives, instruments, and

various trade-offs and/or synergies. The challenges for clients were observed to be far greater than just writing up a standard ‘pencil’ contract for getting grass cut, trees pruned, or litter bins emptied. To a large extent, the revealed challenges and how they were dealt with across cases should be understood in their particular context. This emphasize that the appropriateness of particular management practices depends on the contextual particularities with all their complexity (more than general service characteristics), and this defines the kinds of issues that would be relatively more rewarding to deal with than others. Our analysis also revealed that contracting practices vary in the way they make use of formal instruments, interpersonal setup and contextual knowledge, and they often involve coping mechanisms that translate the formal design into a workable framework in the face of the realities of the specific situation. The client’s approach to contract management and the use of informal mechanisms can change the purpose and function of the formal mechanisms embedded in a contract design and in this way alters the purpose from a means-ends logic to that of a practice coping with challenges and using whatever ingenuity that can be brought to bear on the situation faced. This may be one of the most important conclusions drawn from the presented study.

One future step for research would be to group and categorize various contracting approaches and practices by fully integrating analysis of formal strategies and instituted practices. One perspective that might prove useful is that of the ‘practice turn’ or ‘strategy-as-practice’ advanced in management research (Jarzabkowski and Spee 2009). This perspective seeks to understand how theory and practice work at the point of implementation with the myriad of practitioners, processes, and practices that are involved in achieving a strategic purpose.

Although our framework was developed with reference to contracting-out in urban green-space management, we suggest that the framework may be used to study other public services subject to contracting-out. Analytically, our framework covers transactional as well as more relational types of contracting and the cases contain various manifestations of these types. Our framework should

therefore conceptually be able to cover other public services subject to the same types of contractual arrangements. The disclosure of variations in contracting-out in urban green-space management also shows a need to re-investigate more carefully how contracting-out is, and could be, organized for various types of public services. Especially, although services contracted out in urban green-space management may be perceived as a relatively simple technical task it does not equal to say that contracting practices are or should be corresponding simple (i.e. standard contracts). Even if one takes the proposition that the set of technical tasks subject to contracting-out in urban green-space management belongs to the simplest among all services subject to public service contracting the presented framework can be seen as a conceptual improvement vis-à-vis the standard approach rooted in the ideal of transactional contracting. If the framework makes sense for understanding contracting-out of services in urban green-space management compared to the standard framework it must – still in comparison - make even greater sense for tasks perceived as more complex. We expect that the four objectives and ten issues would be addressed differently in different task environments and/or policy contexts. Our framework therefore constitutes a qualified starting-point for structuring comparative research at a more general level into the inherent challenges across both task environments (e.g. services) and/or policy contexts (e.g. countries). Such endeavours are also expected to lead to refinements or changes in our framework as presented in this article. We advocate that the ‘pluralistic’ introduction of several insights simultaneously qualifies for further in-depth explorations that may generate new insights, themes and questions for research while opening up for advancement and test of new hypotheses.

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