Received: 12 October 2021 | Revised: 4 February 2022 | Accepted: 8 February 2022

DOI: 10.1111/1467-8500.12540

RESEARCH ARTICLE

WILEY

How an intermediary model manages the tension between low contractibility and probity when outsourcing human services

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Funding information
Open access publishing facilitated by University of Technology Sydney, as part of the Wiley–University of Technology Sydney agreement via the Council of Australian University Librarians.

Abstract

Human services, such as social supports and health care, have low contractibility; services are difficult to specify and measure, and difficult to manage when delivered by a third party. Services can and do fail, resulting in the inefficient use of public resources and potential harm to clients. This article develops a conceptual framing using transaction cost economics (TCE) theory to understand why human services are difficult to contract, and management control theory to understand how services might be managed. This identifies a potential tension between how low contractible services are managed when probity requirements are high. This is explored using a qualitative case study of an intermediary model of outsourcing, focusing on one of 31 Primary Health Networks tasked to commission primary health care under contract to the Australian Government. This study explains how design choices, making use of controls available in different organisational contexts across the intermediary model, overcame the tension between low contractibility and probity. This study adds to our understanding of the TCE characteristic of probity. A greater understanding of why this intermediary model

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works has the potential to help policy makers and service managers improve the way human services are outsourced.

KEYWORDS
human services, primary health networks, public sector outsourcing, TCE theory

1 | INTRODUCTION

Australian public sector organisations (PSOs) have increasingly looked to the market to deliver human services on its behalf. Human services, such as social supports and health care, are outsourced not just in pursuit of efficiencies available through market competition; other providers may be more flexible, have better relationships with the community, or have staff with the appropriate skills (APSC, 2013). The outsourcing of human services is not new (Sturgess et al., 2016) but has grown in significance following the advent of new public management in the 1990s, reforms which sought to increase the efficiency and effectiveness of the public sector (Hood, 1995; Verbeeten & Speklé, 2015). The Australian Institute of Health and Welfare (AIHW) estimated, for the period 2008–2009, 59% of total expenditure on welfare services in Australia was administered by other parties (AIHW, 2015, p. 37), a figure that is likely to have increased as outsourcing continues to be promoted (Productivity Commission, 2010, 2011, 2016, 2019).

Many human services have low contractibility—that is they are difficult to specify and measure, making them difficult to contract over (manage) when outsourced to a third party. Managed well, services are high quality, equitable and efficient, enable social and economic participation and are accountable and responsive in terms of delivering program outcomes (Productivity Commission, 2016, p. 11). Managed poorly, services can lead to significant failings (social and economic) including short- and long-term harm, even fatalities, and represent a failure by government to meet its fundamental obligations.

Failures have been reported across different types of human services, including employment (Burns, 2019; Considine et al., 2020; Karp, 2019; Sasse et al., 2019), disability (Long, 2019) and justice (Queensland Government, 2018; Sasse et al., 2019; Sturgess et al., 2016; Vujkovic, 2019), often because of difficulties in specifying and managing services. Failures may also arise from opportunistic behaviour; providers may target clients who require less support (‘creaming’) or underservice clients who have high levels of support (‘parking’) (Carter & Whitworth, 2014; Considine et al., 2011; Considine & O’Sullivan, 2014; Dickinson, 2016; Eikenberry & Kluver, 2004; Greer et al., 2018; Hasenfeld & Garrow, 2012). Failures have also resulted in significant harm to and in some cases loss of life of clients, as well as harm to staff (ABC News, 2020; Australian Government, 2017). How human services are contracted therefore remains an important area to study.

Transaction cost economics (TCE) is often used in inter-organisational studies to build understanding of the costs (hazards) of contracting and to inform how activities may be organised to minimise transaction costs (Williamson, 1985). TCE theory suggests human services have low contractibility due to asset specificity, uncertainty and frequency of the transaction; the way services are organised and controlled by PSOs is likely to be further complicated by probity (Williamson, 1999).

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Management control choices—ranging from design, to governance structures (contract), to individual contractual controls, and ongoing oversight—allow the coordination of inter-organisational activities that may otherwise be problematic (Williamson, 1999). Controls used may depend on the nature of the activity (transaction characteristics) as well as the operational context (i.e. control choices available). For example, PSOs are largely bureaucratic organisations, with expectations of integrity, accountability to both government and the public and probity (Speklé & Verbeeten, 2014; Williamson, 1999).

Low contractible services are suited to relational controls which are designed to be flexible and collaborative, adjusting to new information as it becomes available (Johansson & Siverbo, 2011). Unlike bureaucratic or formal controls, relational controls are often informal mechanisms which include intensive interaction, information sharing, informal organisation and an open commitment by parties to the objective of the contract, and may change over the duration of the contract reflecting changes in information asymmetry (Johansson & Siverbo, 2011). However, relational controls are unlikely to be available to PSOs as they fail to meet probity requirements (Ditillo et al., 2015). Using an empirical study, this paper seeks to explain 'how PSOs can organise and control the outsourcing of low contractible human services, using an intermediary model to resolve the tension between low contractibility and probity'.

A qualitative case study of primary healthcare coordination in Australia informs the study. The case organisation (the intermediary) is one of 31 Primary Health Networks (PHNs) commissioning primary health care under contract to the Australian Government. Strengths-based inquiry was used to collect data to explain why this intermediary model works, using data from an extensive desk top review, interviews and observations, gathered over an 18-month period. The findings of this study explain how design choices, tailored to the controls available in different organisational settings in this intermediary model, manage the tension between low contractibility and probity in the case setting.

This article first develops the conceptual framing, identifying the transaction characteristics likely to be present and the control strategies likely to be used in this setting once the decision to outsource has been made. This is followed by the research methods. The results and implications sections identify two very different contracting relations that make up the intermediary model, and explain how this resolves the tension between low contractibility and probity in this setting. In addition, the data add to our understanding of the TCE characteristic of probity and how different aspects of probity may be satisfied. The article concludes by identifying contributions to both theory and practice, limitations and opportunities for further research.

2 | CONCEPTUAL FRAMING

2.1 | Transaction characteristics driving the low contractibility of human services

TCE theory provides a mechanism to examine the efficiency of organisation, and in particular the cost (hazards) of contracting, providing an explanation of why an activity may be difficult to contract over (Williamson, 1979, 1985). TCE theory assumes contracting hazards will occur, because of human nature—specifically, bounded rationality and opportunism. TCE theory recognises that 'rationality is bounded'; people and organisations, including public servants and PSOs, may be intendedly rational (therefore economising), but limitedly so based on their cognitive competence, making contracts incomplete due to the prohibitive cost of anticipating

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every eventuality (Williamson, 1985, p. 45). *Opportunism* (self-interest seeking with guile) is a strategic behaviour that maximises outcomes for an individual or an organisation (Simon, 1997; Williamson, 1979, 1985); examples include 'adverse selection, moral hazard, shirking, [and] sub-goal pursuit' (Williamson, 2000, p. 601). As noted above, opportunism is evident in human services outsourcing through behaviours such as 'creaming' and 'parking'. Opportunism may be minimised where parties have similar strategic objectives or values (Brown et al., 2006; Considine, 2003; Kettner & Martin, 1990; Williamson, 2000). Governance structures (contracts) are used to minimise bounded rationality and safeguard against opportunism, the extent of which is determined by the transaction characteristics present; specifically, asset specificity, uncertainty, frequency and probity (Williamson, 1985, p. xiii).

Asset specificity is the investment in specific assets (physical and human capital) that cannot be redeployed (Williamson, 1979, 1985). In human services, asset specificity is likely to relate to both human capital and physical capital. Asset specificity may lead to hold-up, may be affected by frequency (of renewal) and can affect both the buyer and supplier. High asset specificity can also create bilateral dependence (Johansson & Siverbo, 2011; Williamson, 1998). Over time, markets in activities with high asset specificity may be become smaller, reduced to participants with greater knowledge or bilateral dependency from prior transactions—what Williamson (1985) calls 'fundamental transformation'.

Uncertainty relates to the ease at which something can be measured, as well as disturbances to the transaction (Williamson, 1971, 1981, 2008). Human services are inherently difficult to specify and measure; knowledge of the transformation process is often low, needs may change, tasks are complex and outcomes are hard to measure and attribute (Bai et al., 2010; Barretta & Busco, 2011; Johansson & Siverbo, 2011; Speklé & Verbeeten, 2014). Flexibility is often key to a service's success; this makes contracts difficult to prescribe and preplanning virtually impossible (Birnberg & Gandhi, 1976). Outcomes may range from detectable changes (e.g. a reduction in recidivism; Zmudzki et al., 2017), to un-attributable changes (Bewley et al., 2016), to undetectable changes, to services being ineffective or causing harm—particularly when poorly specified and monitored (Sasse et al., 2019). The success of a service may be perceived differently at different times by those who outsource, deliver or receive human services (Shergold, 2004). Human services are also affected by disturbances arising from changes in policy and funding, other socio-economic factors and need.

Frequency relates to whether contracts are one-off, occasional or recurrent, resulting in set-up costs and reputation effects (Williamson, 1979). Frequency is related to uncertainty in that frequency is often driven by funding cycles. Frequency can be a control choice (e.g. where uncertainty is high) but also a hazard by creating instability for both parties and impacting staff retention (McEntee et al., 2021). Where transactions recur, set-up costs are shared across the transactions, and lead to better reputation effects for both parties (Williamson, 1999).

Probity is a later addition to TCE theory and relates to the integrity of the transaction, limiting the way other transaction characteristics are potentially resolved (Williamson, 1999). As Williamson highlights: 'transactions to which public sector governance is assigned pose added complications' (Williamson, 1998, pp. 45–46), requiring PSOs to maintain the integrity of the transaction and limit the use of incentives (considered to undermine probity). Of all the TCE attributes, probity is the least understood—acknowledged by Williamson (1999) as being 'vague' and lacking 'operationality' (p. 338). Although not exclusive to PSOs—we would expect all organisations to display integrity—probity is often a legislated governance requirement affecting all PSO operations (IFAC & CIPFA, 2014). Probity is satisfied using bureaucratic controls that demonstrate equitable, transparent and accountable behaviours (Department of Finance, 2020; IFAC & CIPFA,

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2014; Stafford & Stapleton, 2017). In this setting, probity is likely to manifest through detailed and transparent procurement processes, and represents business as usual for PSOs (Department of Finance, 2020; Ritter et al., 2014).

2.2 | Ways to organise low contractible services

TCE theory suggests human services have low contractibility due to asset specificity, uncertainty and frequency of the transaction; the way services are organised and controlled by PSOs is likely to be further complicated by probity. TCE theory suggests the use of governance structures (contracts) to minimise bounded rationality while safeguarding against opportunism. Contracts provide transparency to both parties as to what is required and how the arrangement will be managed (Narayanan et al., 2007); what Bentham identified as hope (of reward) and fear (of punishment) (Sturgess et al., 2016). Contracts are likely to vary in form, from 'discrete market exchange' through to 'centralised hierarchical organisation', with varying levels of specificity, depending on the nature of the transaction and the cost of contracting (Williamson, 1985). All contracts are likely to be incomplete due to the prohibitive cost of anticipating every eventuality (bounded rationality); therefore, contracts must include mechanisms (controls) to identify and manage residual hazards (Allen et al., 2016; Barnard, 1938; Myrdal & von Hayek, 1974; Williamson, 1985, 2000).

Management control scholars have used TCE theory to identify archetypes of control, dependent on the transaction characteristics present. Using empirical studies in for-profit settings, scholars show that where activities have high contractibility, that is where transaction hazards are low, controls can be left to market competition whereby the threat of replacement is sufficient to minimise opportunism (van der Meer-Kooistra & Vosselman, 2000). Where markets are absent, or hazards exist but are able to be managed through contracts, governance choices may be more prescriptive or bureaucratic in nature (van der Meer-Kooistra & Vosselman, 2000). Conversely, where activities have low contractibility, that is where transaction hazards are high, the activity is difficult to specify and measure, and there is a high level of dependency between parties (i.e. asset specificity is high), more trust-based or relational types of control are required (van der Meer-Kooistra & Vosselman, 2000).

Relational contracting may therefore be able to accommodate the complexities of low contractible human services by establishing goals and allowing flexibility in how they are met, with oversight provided by regular interaction between parties (Bovaird, 2016; Brown et al., 2006; Butcher & Dalton, 2014; Johansson & Siverbo, 2011; Sturgess et al., 2016). However, relational contracts and controls are not always suited to public sector settings as they are seen to by-pass formal control hierarchies common in bureaucratic organisations (Ditillo et al., 2015; Narayanan et al., 2007). PSOs are more likely to use bureaucratic, highly documented and formal mechanisms of control to minimise risk, irrespective of the contractibility of the activity (Considine et al., 2011). This reflects the probity requirements in this setting.

Given human services are expected to have low contractibility, and PSOs are likely to be limited in their choice of controls to manage low contractible activities, an empirical study is used to explain 'how PSOs can organise and control the outsourcing of low contractible human services, using an intermediary model to resolve the tension between low contractibility and probity'.

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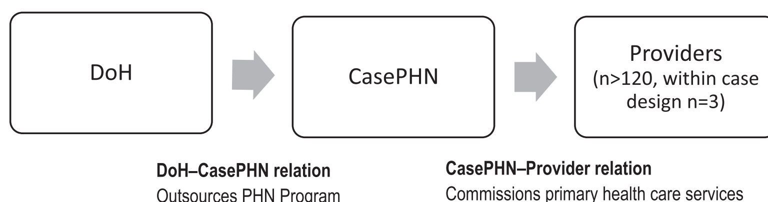

FIGURE 1 Overview of the outsourcing arrangement that bounds the case study

3 | METHODS

A post-positivist methodology with abductive reasoning was used to describe and infer the best explanation from the empirical data, using a qualitative single case study method (Blaikie, 2000). The case study organisation was selected using theoretical and purposive sampling, identifying an intermediary organisation that contracted face-to-face human services, of sufficient size and duration, that appeared to be working well.

The context for this study was the Primary Health Network (PHN) Program, funded by the Australian Government Department of Health (DoH). The program was established on 1 July 2015, and funds 31 PHNs to, among other things, commission primary healthcare services (including mental health, alcohol and other drug treatment, health screening and care coordination services) on behalf of DoH for distinct geographic areas (UNSW et al., 2018). The PHN Program was subject to an independent evaluation which reported positive progress in implementing the model (UNSW et al., 2018); the program has since been expanded to fund additional services, suggesting confidence in the model.

The case study was bounded by a single PHN (the CasePHN[1]), operated by an independent incorporated entity established to deliver the PHN Program, and focused on the commissioning activities required under the contract (Creswell, 2003), shown in Figure 1. Given the number of services managed ($n > 120$), a within case design was used to examine three services that were considered by the CasePHN to have been managed well across the contracting process. The study commenced in 2019, at which time the PHN Program had been running for 3½ years. The research was approved by UTS Human Research Ethics Committee.

For abductive reasoning to be effective, the case organisation needs to be an active participant in the research (Blaikie, 2000). The CasePHN provided full support under a research agreement, and provided access to staff and the office (to allow for observations). The Executive team was actively engaged throughout the study, from designing the study to validating findings and research outputs. Both the organisation and individual participants provided informed consent. DoH declined to participate in an interview but provided written responses to queries arising from the document review.

The boundary of the case provided the inclusion criteria for data collection. Data were collected in relation to both contract relations, using a document review, interviews and observations. Data were collected from February 2019 to November 2020 across several phases (preparation, establishment, familiarisation, planning, data collection and analysis and validation). Individuals from

[1] CasePHN is used to retain the anonymity of the case organisation. Similarly, the number of contracts managed and the amount of funding allocated have been rounded to protect the identity of the organisation. To ensure anonymity, interview participants are identified by participant group only.

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TABLE 1 Interviews by organisation

	Interviews (*n*)	Interviewees (*n*)[a]
CasePHN		
Executives	11	5
Managers	13	9
Officers	12	11
Providers	5	5
Stakeholders		
Researchers	2	1
Consultants	3	3
Non-government organisations (NGOs) including peak bodies	2	2
Multiple organisations	1	1
Total	49	37

[a]Variations due to joint interviews and multiple interviews, either as part of the abductive process or due to interruptions.

DoH, the CasePHN and Providers involved in either relation with the CasePHN were purposely invited to participate in the study.

A total of 49 interviews were conducted, ranging from 16 to 119 minutes in duration (summarised in Table 1 below). Participants from the CasePHN included the Executive, managers and officers from different business units relating to the planning, contracting and management of services. Additional stakeholders were invited to participate who had working knowledge of the PHN Program, including researchers, consultants and peak bodies. Interviews were conducted using a discussion guide which explored the informant's role, organisational governance, the commissioning process and how each contract relation was managed (Appendix A).

Twenty-nine days were spent observing the organisation, which included attending contract management meetings and internal meetings. Data also included correspondence with DoH. The document review included public documents and controlled documents about the operating context, the PHN Program, the CasePHN's commissioning activities and the two contract relations. Sources of data are denoted in italics in the results section (e.g. *CasePHN*, *Observations*).

All data (interview transcripts, field notes, observations, documentation) were coded in NVivo using an incremental design based on the data source, contract relation and the stage of contracting (contact, contract and control). The conceptual framing was then used to identify transaction characteristics and how they were managed across the outsourcing process as the program matured—including how this differed across the relations. Particular focus was then given to how probity and low contractibility were each managed, and how the tension between them was resolved.

4 | RESULTS

4.1 | The PHN commissioning process

This study focused on the commissioning role of PHNs (presented in Figure 2), which involves identifying health priorities for the local population (Needs Assessment), identifying gaps in

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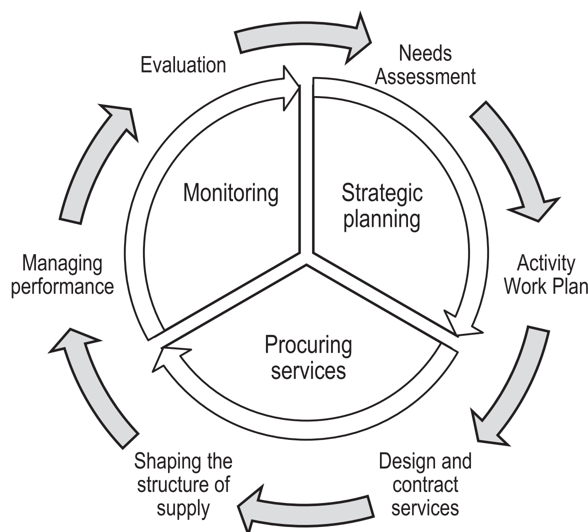

FIGURE 2 The PHN commissioning cycle

service delivery and prioritising those needs (Activity Work Plan) and commissioning services to meet those needs (DoH, 2016).

The commissioning process was established in the DoH–CasePHN contract and associated DoH guidance, implemented through funding schedules attached to the contract which specified the scope and duration of the funding, and any specific service requirements. At the time fieldwork was conducted, the CasePHN was subject to nine schedules of varying duration, each requiring an Activity Work Plan and 6- and 12-month reports against each plan. In 2019–2020, the CasePHN managed over 120 contracts for services, valued at over $35 million. As the CasePHN noted:

> We don't get money to do other things — we have to do it well. And so consequently, I think that kind of existential threat means that we take [commissioning] very seriously and we do it well and we're doing it increasingly better. (*CasePHN*)

4.2 | Confirming the low contractibility of services and high probity requirements

Data highlight the low contractibility of primary healthcare services. Services had 'high asset specificity', evidenced by the impact of short funding schedules and short lead times on staff retention and consequently activities delivered by both the CasePHN and service providers (*CasePHN*). The PHN Program itself was also associated with 'high uncertainty' due to the novelty of the program, incomplete and changing specification and reductions to overall operational funding (UNSW et al., 2018) and to operational funding for specific schedules (*CasePHN*). At the same time, compliance costs remained constant, and in some cases increased due to changes in reporting requirements. Uncertainty was also associated with the difficulty in specifying services, and measuring and attributing outcomes—complicated by delays between interventions and expected outcomes. There were also disturbances affecting DoH, PHNs, providers and clients; this was evident at the start of the COVID-19 pandemic which affected service need, service delivery and contract oversight (*Observations*). *Frequency* was driven by the DoH–CasePHN relation. Specifically,

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the frequency at which the contract and activity funding schedules were issued and renewed, and the cost incurred in arranging new activities. Funding schedules varied from 6 months to 3 years in duration (replaced in 2019 with 3-year rolling schedules; *CasePHN*). Contract duration and late issue or renewal created ongoing uncertainty; schedules were issued/renewed with as little as 3-day notice (*CasePHN*).

> When there's less than 6 months left [on the contract] … staff start to leave. …The longer you leave it, the more they start leaving, the bigger the dip is. And then as soon as you re-fund them, then it takes probably an equal time plus about 50% to get back up to where you were before they started losing staff. … So by delaying [renewal], what you're doing is you're reducing the impact of this program on the health of Australian people. (*CasePHN*)

Frequent renewals also created 'bottlenecks' in workflow and inhibited the smooth delivery of the program across both contracting relations (*Observations*).

Data also highlighted how low contractibility was further complicated by probity. The design and operation of the PHN Program had been largely transparent and subject to external review (*Document Review*, *Stakeholder*). Probity was particularly high in the DoH–CasePHN relation; highly bureaucratic controls included detailed specification, reporting and approval requirements across short time periods (6 and 12 months); the absence of financial incentives; and the exclusion of relational controls wherever possible (*CasePHN*).

> …it's all done by email. Sometimes we would get a phone conversation before the email to say, we need to clarify this, or I'm seeking further information on this. And then follow it up by email. (*CasePHN*)

Even for this study, DoH preferred to communicate in writing rather than participate in an interview. Although the CasePHN used similar procurement processes and contract requirements to those used by DoH—demonstrating sequential dependence (Dekker, 2004), reducing risk and satisfying probity requirements around financial decisions (*CasePHN*)—the contract schedules in the CasePHN–Provider relation were open to some negotiation where the provider met the requirements of the original approach to market (*CasePHN*). The CasePHN also differed from DoH in that it actively supported the implementation of new services by Providers; the CasePHN used a combination of bureaucratic controls which specified the program requirements and performance indicators, and relational controls which included regular interaction, information sharing and a commitment to support and promote the new service being established.

4.3 | How the tension is resolved

The tension between low contractibility and probity was resolved through a series of design choices which form the basis of the intermediary model. First, the 'governance choices for the PHN Program established two contract relations' (see Figure 1). The DoH–CasePHN relation concerns the organisation and management of a program—an activity that is easy to specify and control (relative to primary care services). The relation was bureaucratic, focusing on the identification of primary healthcare needs and priorities (reported in Needs Assessments and Activity Work Plans) and reporting progress against those plans. Funding schedules specified further program

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requirements with varying levels of specificity, from highly detailed predetermined programs, to providing PHNs with the flexibility to commission services to meet national and local objectives (Bates et al., n.d.). The relationship was largely managed at arm's length and interaction between parties was minimal. Information was provided to all (rather than individual) PHNs via scripted briefings. In response, the CasePHN organised regular meetings with DoH to provide information to reduce uncertainty and manage the PHNs risk under the contract.

> …it was initiated by us. It's not contract management, it is an information exchange. (*CasePHN*)

In contrast, the CasePHN–Provider relation was characterised by the commissioning of primary healthcare services. Although bureaucratic processes underpinned the commissioning cycle and each contract requirement, relational controls were used to supplement—not replace—bureaucratic controls where uncertainty was high (*CasePHN, Provider*). The CasePHN used bureaucratic controls to establish the parameters of the contract (including deliverables, reporting, payments), whereas relational controls were used to enable the contract's success in the presence of high uncertainty, with the CasePHN really wanting 'the provider to succeed' (*CasePHN*). This was considered particularly important for complex services 'in the early days of the contract' as the service was established (*Provider*). Relational controls included regular contact with providers and site visits. This encouraged information sharing beyond the requirements of the contract (*CasePHN*); ensured risks were identified and managed as early as possible (*CasePHN*); allowed key performance indicators (KPIs) and targets to be refined collaboratively as services became established and the client group became better understood (*CasePHN*); and allowed contracts to become 'more effective' rather than fail (*Provider*). As one Provider said:

> It's a learning process for both of us. It's not something that we're going to get right straight away; it takes a bit of work, but I feel after a couple of years, we're getting pretty close. (*Provider*).

Second, the 'operational design of the PHN Program' allows probity and low contractibility to both be managed. The commissioning process provides transparency, accountability and legitimacy, and is bureaucratic in terms of its key steps and outputs. The CasePHN works with experts in the region to identify and prioritise needs, and plan how to best meet those needs, and therefore starts to address issues arising from the low contractibility of primary healthcare services (*CasePHN*, *Stakeholder*). The PHNs' broader role to 'support and improve the quality of general practice and to organise primary healthcare into a system' (*Stakeholder*) means that commissioning was not carried out in isolation; the CasePHN was able to promote pathways to new services established (*Provider*) and understand their impact on the community (*CasePHN*). Although the annual review cycle created by conditions of funding caused uncertainty, it also offered opportunities to review contracting arrangements and seek improvements.

Third, the 'characteristics of the PHN' appeared key to managing low contractibility. In part, this could be attributed to the program requirements—specifically the form, governance and scale of PHNs, and the expertise of staff (DoH, 2016). The CasePHN had the expertise across the organisation to coordinate the PHN Program. Further, the CasePHN is not a PSO and therefore was able to use a combination of bureaucratic controls (satisfying the probity requirements of the DoH–CasePHN relation) and relational controls to identify and manage ongoing uncertainties in services contracted. The CasePHN, staffed by clinicians and population health experts, was

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driven by a culture of continual improvement in primary health care which stems from its clinical governance. Staff at both the CasePHN and providers were highly motivated, shared common objectives and had a good understanding of what successful services look like (*CasePHN*).

> So what it means is that they will be much more willing to talk to you if things start to go not to plan. And genuinely, they ask for advice on stuff; I wouldn't imagine those sorts of conversations would happen if say [a contract administrator] were the contact person. (*CasePHN*)

This also highlighted an emerging tension as some in the CasePHN were pushing for monitoring to be undertaken by administrators rather than content experts to reduce the cost of compliance monitoring (*CasePHN*). Although this may have offered ways to achieve the operational savings required under amendments to the DoH–CasePHN funding schedules, CasePHN staff were concerned that this would undermine the success of the relational controls that enabled successful delivery of complex services and, if used, should be limited to contracts that had high contractibility—activities that were easy to specify and measure.

The CasePHN also recognised that good relationships enabled trust and collaboration (*CasePHN*, *Provider*, *Stakeholder*), not just with providers but also with other stakeholders in the region (*CasePHN*). This enabling approach was critical as the program was being established (*CasePHN*).

> I think the value add that we provide is the relational stuff. I think again, the continuous quality improvement is something I think all PHNs have in common. And the other thing is the importance of relationships. (*CasePHN*)

Strong relationships and open dialogue, often facilitated by site visits by CasePHN staff who had either clinical or population health expertise, led to performance issues being disclosed or identified early; this may not have been the case using bureaucratic controls alone or without the expertise demonstrated by staff (*CasePHN*). The level of engagement varied by clinical stream, by contract, the maturity of services and reflected the level of risk (*CasePHN, Provider*). One provider added:

> We do lots of risk management within our [service] and we can kind of see the risks as they're coming up and I am always very open with [the CasePHN] about that. (*Provider*)

Providers were supportive of the relational approach to contracting and could see its benefits (*Provider*). Open dialogue also led to renegotiations of KPIs to resolve issues as services were established and matured (*CasePHN*).

Finally, the PHN Program included mechanisms to manage disturbances (uncertainty), allowing DoH to add new funding schedules to the contract as new health needs emerged (DoH, 2016). For example, this allowed DoH to introduce new initiatives and resources at the start of the COVID-19 pandemic which capitalised on the strong relationships PHNs had with stakeholders and providers and enabled a fast response to the pandemic, whether that be distributing PPE to primary care services or identifying potential partners and locations for testing centres (*Observations*; Nankervis et al., 2020).

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4.4 | Additional insights about probity

Probity, although often a legislated government requirement, is poorly understood (*Stakeholder*). One stakeholder suggested probity requirements themselves should be subject to review.

> …what we often see occur is that you get very excessive probity situations which aren't reflective of that risk and are completely inappropriate. … **you've got to have proportional probity that reflects the risk of the issue that you're trying to manage in the first place**. (*Stakeholder*)

This study provided several insights about probity and how it was managed across the two contracting relations.

Data indicated probity originated from both the contracting party and the organisational context. Probity requirements transferred with the activity being contracted, from DoH to the CasePHN and onto providers, through program design and contract requirements. Probity also originated from sources outside of the contract, such as Clinical Frameworks (*CasePHN, Provider*).

Data also differentiated between two types of probity—financial and social. *Financial probity*, relating to the allocation of funds, remained relatively constant, with variations reflecting procurement thresholds. Financial probity originated from the source of funding, and in this case transferred to other parties with the funds. Financial probity is managed through the procurement process: requirements (including budget) are specified in the contact stage; value for money, defined as 'a function of cost, risk and quality', is assessed at the contract phase; and then monitored through the reporting of outcomes, contract and control phases where requirements are specified, financial acquittals and audited financial statements (*CasePHN*). Financial probity was managed using bureaucratic controls to the exclusion of relational controls, shown in Table 2 below.

Social probity relates to the public sector's responsibility to ensure the safe and effective delivery (quality and stewardship) of services, arising from both the organisational context and the type of service being contracted. Social probity appeared to be higher when contracting specific services (e.g. supporting people with severe mental ill-health) and for particularly vulnerable populations (e.g. children, the elderly and people with disability). This was evident in contract schedules which specified requirements to ensure services were delivered safely, effectively and equitably (Table 3). Social probity was largely satisfied with bureaucratic controls, such as through the provision of clinical frameworks and clinical supervision, models of service and reporting of service outcomes (e.g. assessments on entry and exit from a program; *Provider*, *CasePHN*). However, the CasePHN tailored the controls to each service in consultation with key stakeholders (e.g. co-design at the commencement of the procurement process) and the provider (both through the procurement of the service and through ongoing management), and ongoing management was supported by relational controls when bureaucratic controls alone were insufficient (*Observations*). The CasePHN worked closely with providers when new services were being established to ensure services were safe and 'recovery oriented', or where outcome measures were difficult to specify and needed to be adjusted as new information became available (*Observations*, *CasePHN*, *Providers*).

This suggests there are different sources and dimensions of probity.

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TABLE 2 Evidence of how financial probity was managed across both relations

Relation	Design	Contact, partner selection	Contract	Control	Review
DoH–CasePHN	Designed in consultation with key parties, therefore providing information to the market. Transparent policy and guidelines around procurement and performance reporting.	Bureaucratic (transparent and equitable) procurement process, adjusted to scale of transaction.	Transparent, equitable selection process. Standardised agreement. Clear financial monitoring and control, including budget allocations and reporting requirements.	Intermediary required to submit plans of how funds will be spent and report against plans. End of financial year, required to submit audited financial statements showing acquittal of funds.	Review process resulted in provision of templates for financial reporting, and online portal to submit plans and progress reports.
CasePHN–Provider	Not permitted to deliver services directly to avoid conflict of interest. Transparent and inclusive commissioning cycle. Activity Work Plans published providing clear signal to market.	As above. Market engagement to increase participation and collaboration. Partner selection includes independent panel members.	As above, with some negotiation of contract schedules.	As above.	Policies and procedures continually reviewed. Clear review process and reporting (both financial and non-financial outcomes).

Source: Summarised from case study data (document review, interviews and observations).

5 | IMPLICATIONS

This study extends scholarly knowledge about public sector outsourcing. The study describes an intermediary model that enables PSOs to organise and control the outsourcing of low contractible services by moderating the tension between probity and low contractibility. The study also allows further conceptual specification of the transaction characteristic of probity by explaining the sources and dimensions of probity, how they vary across the outsourcing process, and how they may be managed.

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TABLE 3 Evidence of how social probity was managed across both relations

Relation	Design	Contact, partner selection	Contract	Control	Review
DoH–CasePHN	Establishes commissioning cycle and requirement to engage stakeholders.		Bureaucratic controls establish requirements of the commissioning cycle.	Rely on independent experts to evaluate program and deliverables (e.g. Needs Assessments and Activity Work Plans).	Independent evaluation of the program and services.
CasePHN–Provider	Strategic planning at a regional scale with stakeholders. Co-design at service level with broad range of stakeholders, including consumers.	Include independent experts (clients, clinicians) in awarding contract to increase likelihood client needs will be met.	For each contract, develop measures, targets and reporting, and how the relation will be managed.	Bureaucratic (boundary controls). Relational controls used to support bureaucratic controls where contractibility is low and bureaucratic controls are insufficient.	Evaluation of services. Evaluation of commissioning processes. Continual improvement of commissioning cycle and KPIs.

Source: Summarised from case study data (documents, interviews and observations).

5.1 | Understanding the intermediary model

The PHN Program established an intermediary model; the PSO outsources a program to an intermediary, who then commissions primary healthcare services based on local needs (Figure 1). This model is different to simple dyadic (two-party) relations and supply chain relations (strings of dyadic relations). This is a *triadic* relation, established 'to change the pattern created through dyadic exchanges' (Podemska-Mikluch & Wagner, 2013, p. 182). The economics literature differentiates between two forms of triadic relations: 'triadic-by-assertion', where a third party *inserts* themselves into a dyadic relation for its own benefit; and 'triadic-by-invitation', where a party is *invited* into a dyadic relationship by one or more parties to help facilitate the relationship (Podemska-Mikluch & Wagner, 2013). Both suggest the original dyadic relationship is pre-existing. Other literatures describe triadic participants as match-makers, driven by profit (Howard et al., 2016). The triadic model observed in this study is different in that the relation (and the nature of the triadic partner) was established by design to facilitate the delivery of the program before the program commenced. Therefore, the intermediary model is 'triadic-by-design'.

The triadic-by-design model changes the nature the activity contracted by the PSO (from services to program) and therefore increases the contractibility of the first arrangement, allowing the PSO to continue to rely on bureaucratic controls to manage the program. The model changes the boundary conditions where the low contractible services are managed (from PSO to non-PSO),

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one less constrained by probity, without changing the nature of the services delivered. This results in greater control alignment in each relation. Although other models, such as prime provider models, have been criticised for decreasing the accountability of government for services delivered (Australian Government, 2017; Bovaird, 2016; Gallet et al., 2015), this model requires the intermediary to provide ongoing oversight of contracts and report back to the PSO.

The triadic-by-design model is not without risk—particularly to the intermediary (the CasePHN). The intermediary is almost entirely reliant on the contract for funding. Being a relatively new organisation established for the purpose of delivering the program, it has no financial buffer to ensure continuity of staff should contract funds be delayed. There is evidence of reciprocal interdependence between the CasePHN and providers—the CasePHN can only meet its contractual obligations when the provider delivers (Dekker, 2004). From DoH's perspective, this may strengthen the model and reduce the risk of hold-up. However, this model also means that the funder may lose sight of what they are funding (potentially increasing the risk of hold up). DoH manages this risk by high levels of specification and reporting. From the CasePHN's perspective, it is critical to ensure providers deliver to meet the PHN's own contractual obligations. The CasePHN minimises risk across the commissioning process from identifying needs, to designing requirements, to selecting partners and to monitoring and enabling the delivery of the contract through a combination of bureaucratic and relational controls. That has the effect of Providers perceiving the relationship as a 'partnership' rather than 'just a funding body'; if something is not working, Providers feel they can 'have a conversation about what we need to do to change it' (*Provider*). Over time, it is likely that the CasePHN does more to minimise the risk of services not being delivered; for example, by retaining providers and/or services that are working well (*CasePHN*). In minimising risk, this may mean that some needs go unmet.

CasePHN staff are conscious of the boundaries of relationships with providers and ultimately hold the provider accountable for delivery (*CasePHN*, *Provider*). This reflects the literature which suggests the relation between bureaucratic and relational controls can be complementary (Donada & Nogatchewsky, 2006) while also being a potential source of conflict by sending mixed messages to parties (Johansson & Siverbo, 2011). When combining bureaucratic and relational controls, contract managers must ensure the benefits of both are realised (Dekker, 2004), particularly when they are at risk of circumventing formal hierarchies of control (Carlsson-Wall et al., 2011). Therefore, in addition to relational controls, internal systems flagged issues of non-compliance with bureaucratic controls (such as KPIs or other reporting) and provided organisational transparency to monitoring. However, with strong relationships based on a deep understanding of the services provided, CasePHN staff were often already aware of any issues and in a process of resolving them to bring performance back on track (*CasePHN*, *Observations*). For example, one Provider, in discussion with the CasePHN, was able to address underperformance by adjusting services to provide group sessions while people were on waitlists individual services (*CasePHN*). Where relationships were poor, or interaction identified other issues that were not subject to reporting (e.g. 'the culture is really bad, staff are not feeling supported, there's a lot of turnover', *CasePHN*), this provided an early warning sign that a provider was at risk of underperforming and action was required. This demonstrates bureaucratic controls *combined* with relational controls provide benefits in achieving the desired outcomes (Bates et al., n.d.).

This is not the first study to report on increasing the contractibility of an outsourcing arrangement. Contractibility can increase over time as information asymmetry declines and as tasks become routinised (Considine, Lewis, & O'Sullivan, 2011). Contractibility may also be increased artificially. Bracci and Llewellyn (2012) investigate increasing the accountability (and therefore contractibility) of human services by moving from 'people changing' to 'people processing' in

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the provision of social supports. However, they find a people processing approach results in narrowing 'the scope of accountability to cost-efficiency measures' and ignores service effectiveness (Bracci & Llewellyn, 2012, p. 827). The intermediary model described in this study increases contractibility *without* changing the nature of services delivered. This study also extends the work of Podemska-Mikluch and Wagner (2013) by identifying a third form of triadic governance, that of triadic-by-design.

5.2 | Developing the conceptual specification of probity

In TCE theory, probity has a different role relative to other transaction characteristics, affecting the control choices available to ensure decisions are accountable and there are no conflicts of interest (Williamson, 1999). Consideration of probity and stewardship in the literature to date has largely focused on fiscal accountability and transparent processes, and implies probity arises from the context in which the transaction originates (Allen et al., 2016; Butcher & Gilchrist, 2016; Da Veiga & Major et al., 2019; Department of Finance, 2020; Gregory, 1999). Fedland (2004), in the context of public military contracting, suggests probity can vary depending on the loyalty required (arising from the context) as well as the nature of the activity. This suggests that probity arises from beyond the organisational context and also relates to the nature of the activity contracted.

Consistent with Fedland (2004), this study suggests that probity is not a bland bureaucratic requirement, but is more nuanced in relation to the source of probity and the activity, each affecting how probity requirements are satisfied. Probity arises from the context (source of contracting) and the activity (clinical governance requirements), and has two dimensions—financial and social. Financial probity is not new; scholars who refer to probity only appear to recognise its fiduciary dimension (Spurgeon & Hicks, 2003). The social dimension adds to the conceptual specification of probity and reflects the stewardship role of government and its social accountability (Almquist et al., 2013). Both dimensions of probity observed are accountable to stakeholders in different ways, and are not necessarily valued or treated equally by policy makers, funders, service providers and clients over time.

The explanation of the different sources and dimensions of probity allows scholars and practitioners to identify what drives control choices and how probity may be satisfied, potentially avoiding unnecessary costs arising from 'blanket' probity arrangements as well as minimising risk from not managing different types of probity. Although trade-offs are common when considering the costs and benefits of control choices (Williamson, 1985), the data also suggest financial probity has greater influence over control strategies than other transaction attributes in public sector settings, and determine the context for which all other control choices are made. For the PSO, financial probity drives control choices to the extent that relational controls are avoided irrespective of the low contractibility of the arrangement. Again, this highlights the different value placed on different dimensions of probity by different parties.

This further conceptualisation of probity contributes to both the TCE literature (Williamson, 1999) and the inter-organisational management control literature examining public sector outsourcing (Cristofoli et al., 2010; Johansson & Siverbo, 2018). This detailed explanation of the sources and dimensions of probity may also help practitioners understand that although a blanket approach may satisfy financial probity requirements, it is unlikely to satisfy social probity requirements which require tailored controls.

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6 | CONCLUSIONS

Human services are economically and socially important, critical to the well-being of the most vulnerable people in our community, yet difficult to specify, deliver and manage. Because the rise of new public management, governments around the world have increasingly outsourced the delivery of human services. Their low contractibility, paired with the highly bureaucratic nature of PSOs, makes services difficult to contract to third parties. This has been evidenced in a number of high-profile failures and multiple public inquiries.

This study uses TCE theory to understand why human services are difficult to contract over, and the added complications posed by probity requirements in public sector settings. Although the management control literature suggests relational controls suit activities of low contractibility, relational controls fail to satisfy probity requirements. Drawing on a case study of an intermediary model of outsourcing, where DoH outsources the delivery of the PHN Program to intermediaries (PHNs), and how it is implemented by one PHN, this study confirms the hazards predicted by TCE theory and describes how they are resolved through design choices in this setting. This demonstrates PSOs can be creative in how they manage low contractible outsourced human services in an environment where probity requirements dominate.

In addition to explaining how this model works, this study makes two contributions. First, this study extends both the economics literature (Podemska-Mikluch & Wagner, 2013) and the public administration literature by identifying an alternative model of outsourcing—*triadic-by-design*—which changes the contractibility of the arrangement and resolves the tension between low contractibility and probity in this setting. Rather than change the nature of the final activity, the model is designed to include an intermediary to facilitate the commissioning of services, changing the nature of what is contracted over directly by the PSO and changing the context in which low contractible services are contracted over to one not limited by bureaucratic controls.

Second, scholars have largely ignored the TCE attribute of probity. This study provides further specification of probity, extending Williamson's original work, differentiating between the sources of probity (party to the transaction and context) and types of probity (financial and social) and how they may be demonstrated across the outsourcing process. Financial probity leads to a reliance on bureaucratic controls and the exclusion of relational controls, even in environments of low contractibility. Different types of probity are accountable to stakeholders in different ways and are not necessarily valued or treated equally. Probity is not a single dimensional transaction characteristic but more nuanced than previously assumed—in particular, social probity requires more tailored controls. By highlighting the different sources and types of probity, it becomes easier to recognise where and when probity arises in a transaction, and how it might be best managed.

The insights provided by this study can be considered by PSOs when organising the delivery or outsourcing of human services. Understanding what probity requires, and prevents, will allow PSOs to make informed choices that address different transaction characteristics present. Relational controls are effective in supplementing bureaucratic controls and mitigating and managing low contractibility, particularly when implemented by staff with content expertise; however, they require time and resources to implement and should be used appropriately. This is unlikely to be the only model used by PSOs to outsource activities of low contractibility. The insights provided in this study may help identify other models, or be used to develop new models, that are able to resolve the tension between low contractibility and probity and improve the delivery of safe, effective and efficient human services.

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There are a number of limitations to the study, and the potential to extend the study. First, the study focused on what was working well. Although this suited the research question, additional understanding may be provided by examining what is not working well. Second, the CasePHN is one type of organisation delivering the PHN Program—others exist, including combinations of providers, non-profits, universities, PSOs and peak bodies (UNSW et al., 2018). This study could therefore be replicated in another organisation delivering the PHN Program which may have different governance (and probity) requirements. Third, this model is just one form of outsourcing used by PSOs in Australia. There is scope to apply the methodology used in this study to examine other forms of outsourcing. Finally, consideration could be given to the cost effectiveness of this intermediary model.

ACKNOWLEDGEMENTS

The fieldwork for this study was conducted as part of a PhD candidature supported by Australian Government Research Training Program. The author wishes to acknowledge the case study organisation and all participants in the study; the supervision and support provided at UTS Business School by Prof. David Brown, Dr. Nicole Sutton and Dr. Rina Dhillon; and feedback from colleagues at UNSW (Prof. Karen Fisher, Dr. Ben Harris-Roxas, Prof. Ilan Katz), UTS (Dr. Michael Wright) and Monash University (Dr. Paul Thambar) on early drafts of this article.

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CONFLICT OF INTEREST

The author declares no conflict of interest.

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How to cite this article: Bates, S. (2022). How an intermediary model manages the tension between low contractibility and probity when outsourcing human services. *Australian Journal of Public Administration*, *81,* 589–610. https://doi.org/10.1111/1467-8500.12540

APPENDIX A
INTERVIEW GUIDE

Interviews took the form of open discussions guided by a series of questions (in bold) and prompts as needed.

What is your role in the organisation and how long have you been in that role?
What is the governance structure of the [organisation/CasePHN]?

- What is the structure of the [organisation] and its goals?
- What is the relationship between [DoH/CasePHN or CasePHN/Provider] and how is it managed? (contact, contract, control, review)
- How does the relationship between [organisations] work in practice?

What is the commissioning [procurement] process?

- What is the process from start to finish? (contact, contract, control, review)
- Who is responsible for the process within the [organisation]?
- What is the commissioning process? (from identifying need to contract completion)
- [How does the CasePHN implement the requirements of DoH when commissioning services?]
- How are contracts managed day-to-day?
- What documents (policies, procedures) govern the process?
- Is there an opportunity to observe all or part of the process?

In relation to managing contracted services between [DoH/CasePHN or CasePHN/Provider]: How was the [service] contracted/commissioned? How is the service being managed?

- What is the service being contracted/commissioned?
- Who at the [funding organisation] was or is involved in contracting/commissioning this service (from going to market through to day-to-day control)?
- How was the contract tailored to the specific service?
- What risks were identified? (type of activity, partner, experience with partner, form/duration of contract, level of specification, governance/monitoring requirements)
- How were the risks managed in the agreement?
- How are the risks managed on a day-to-day basis? (formal/informal controls)
- Does the arrangement include outcome measures?
- What are the resource implications for the [funding organisation]?
- What is working well?
- What is not working well?

What additional controls does [the funder] use to manage services?

- What is the difference between what DoH requires, what the CasePHN requires, and practice?

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