

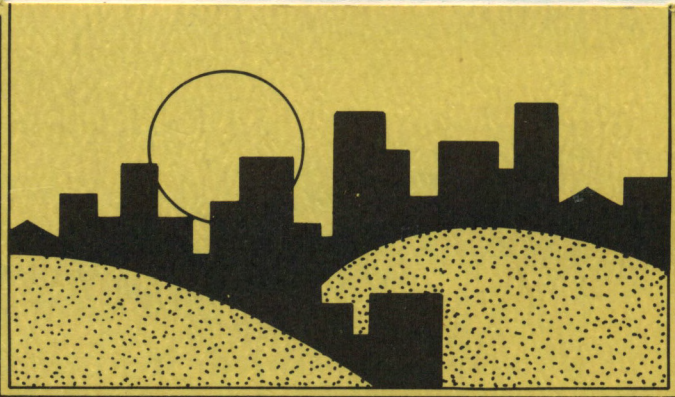
**A NOTE ON CONTRACTING AS A REGIME,
AND ITS POSSIBLE RELEVANCE
TO AUSTRALIA**

Michael Lipsky

**GOVERNMENT PROVISION
OF SOCIAL SERVICES THROUGH
NONPROFIT ORGANISATIONS**

Michael Lipsky and Steven Rathgeb Smith

URU Working Paper No. 21
February 1990



URBAN RESEARCH UNIT
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AUSTRALIAN NATIONAL UNIVERSITY

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ABSTRACT

Historically, nonprofit organisations in the United States have played a critical role in helping people in need by providing education, training, residential, counselling and in-kind and cash support. Today, contrary to popular belief, most nonprofit service organisations in the United States depend on government for over half of their revenues. The paper by Lipsky and Smith considers the implications of this relationship between government and nonprofit organisations for our understanding of the welfare state in advanced industrial countries. They argue that recently the American government has used nonprofit agencies to expand the boundaries of the welfare state in a host of service categories, from child abuse to domestic violence to homelessness. The result is a welfare state that is more expansive than would be the case if policymakers relied solely on the public sector. The paper also examines the effects of this evolving relationship on the organisational norms of nonprofit agencies. These agencies have an emphasis on particularistic responses to the individual, while the government requires an equity-based focus in which all clients are treated alike. The new funding arrangements mean increased government intrusion into the affairs of nonprofit agencies, thereby altering the character of social policy and the American welfare state.

In his paper, 'A Note on Contracting as a Regime', Michael Lipsky explores the notion of a 'contracting regime' as a set of "principles, norms, rules, and decision-making procedures around which actor expectations converge in a given issue-area." Regimes, however, are not simply collections of equal and independent entities, but instead are critically influenced by one of the participating actors. Specifically, in the contracting regime, nonprofit service organisations have changed. Nonprofit human service agencies may now be more expansive than they were able to be in the past, but they are also more tied to government and more reflective of public priorities than of the community values they represented in the past.

Lipsky then poses a series of questions about the relationship of government and nonprofit organisations in Australia. To what extent do government agencies articulate separate purposes, priorities and standards? Alternatively, to what extent do they endorse current activities of the voluntary agencies from which they purchase service? To what extent do government agencies have the capacity to articulate the service needs in their sectors? To what extent can voluntary agencies take actions outside the relationship defined by the contract to obtain public funds and achieve their purposes? To what extent does government possess the capacity to enforce contracts? He suggests that in Australia policymakers have gone far to achieve the hegemony of government over voluntary agencies in service delivery through contracting, but many believe that in selected instances there is still considerable ground to be covered.

A NOTE ON CONTRACTING AS A REGIME, AND ITS POSSIBLE RELEVANCE TO AUSTRALIA

Michael Lipsky
Massachusetts Institute of Technology

THE CONTRACTING REGIME

In the United States, government use of contracting with nonprofit agencies to achieve public purposes in social services has become widespread.¹ Traditional social welfare agencies such as the venerable family services and child welfare organisations now receive the bulk of their revenues from government contracts. Perhaps more tellingly, when public officials seek to address a new social concern they look for a private agency with which they can contract. Since the 1970s, as new social problems—teenage runaways, battered women, hunger, homelessness, AIDS hospices—have been accepted as requiring public action, policy responses have been the fiscal responsibility of government and implementation the responsibility of the voluntary sector.

We use the term 'regime' deliberately because it indicates a set of relationships that transcend simple common practice to suggest a relatively stable set of assumptions about the way the world works. As we choose to understand the term, a regime is a set of "principles, norms, rules, and decision-making

¹ The material on the contracting regime in this note is drawn from the book, currently in development, that I am writing on the subject in collaboration with Stephen Rathgeb Smith. Views and questions about the Australian case are based upon informal discussions with public officials, policy analysts, and representatives of voluntary agencies in Melbourne, Hobart, Canberra, Sydney and Brisbane, in rough order of the extensiveness of the discussions. For the most part the discussions were focused on the applicability to Australia of the model of relations between government and the voluntary sector that is presented in the paper, co-authored with Steven Smith, 'Government Provision of Social Services through Nonprofit Organizations,' which has been bound with this note as a working paper. I cannot and do not claim to have studied the Australian case extensively, but offer these thoughts in the hopes of provoking reactions and clarifications.

I am grateful to the Urban Research Unit of the Australian National University, and to Patrick Troy, for the opportunity to pursue these interests in Australia as a Visiting Scholar during the period September to December, 1989. I have benefited from conversations with many people about contracting in Australia, but especially from conversations with David Adams, Mark Lyons, and Will Sanders.

procedures around which actor expectations converge in a given issue-area.”² The concept has been developed most fully by analysts of international relations who have sought to characterise the relatively stable relationships that seem to exist, despite the absence of a single entity which could act with authority, between countries, and between countries and nongovernmental actors such as multinational corporations. The notion of regime reminds us that normal systems of interaction, with their own rules, values and sanctioned expectations, can and do emerge outside the regularised interactions that ultimately are sustained by force of law.

All actors in a regime do not operate internally on the same principles. This is surely evident in international regimes, in which directed economies and free market economies, imperial nations and colonies, can still be said to operate within regime parameters. And it is not true either for governments and voluntary organisations, which operate on different internal values and often seek different objectives, but with respect to each other still act according to expectations generated by the contracting regime.

Several additional aspects of the concept of regime are useful for our purposes as we have borrowed the term. First, regimes may be said to have normal ways of solving certain problems. Before the contracting regime became established, newly identified social problems would be confronted, if at all, by voluntary organisations which expected no assistance from government, or, as the welfare state became more firmly established, by governments which would implement programmatic responses directly. Today, in contrast, one may expect demands to address new social problems to be met by governments contracting with nonprofit agencies to implement responses. The strength of this impulse is perhaps illustrated by the current tendency of governments to see to the creation of voluntary organisations when none is apparently available with which to contract for services.

Second, the notion of regime provides a way to understand regularised interactions among entities whose actions are not ultimately structured by laws. One of our tasks is like that of theorists of international relations who needed to

² Stephen Krazner, 'Structural Causes and Regime Consequences: Regimes as Intervening Variables,' *International Organization*, 36, 2 (1982), p. 185. See, generally, pp. 185-205, and all of Volume 36, no. 2.

find a way to explain the regularised patterns of behaviour found among nation-states and non-nation entities. We seek to understand regularised patterns of behaviour among governments and community organisations when the community organisations are constructed on different principles from those of government and when community organisations are not fully responsive, indeed, are sometimes antagonistic, to governmental institutions.

Third, participants in regimes are mutually dependent and (because regimes are not ephemeral or episodic) relationships among them have a degree of continuity. Regimes are also disciplined and self-enforcing in the sense that participants in the regime can and will be sanctioned if they stray, if not by dominant participants, then by the economic, political and social realities that bring them into the regime in the first place.

As applied to the contracting regime this means that nonprofit organisations cannot act freely as if they were in some isolated market for services. Instead, they must weigh the consequences of their inclinations to dissent from expectations of government in the knowledge that their noncompliance might be consequential for their continued well-being. The mutual dependency of participants in the contracting regime helps explain why an analysis based upon compliance with regime norms through contract writing and enforcement, as suggested above, does not fully explain regime behaviours and interactions.

Fourth, regimes tend to be sponsored and ultimately directed by a relatively powerful agent. Regimes, in other words, are not simply collections of equal and independent entities but instead are critically influenced by one of the actors participating in the regime. In international relations this role is played by hegemonic nation-states, that is, by single nations whose values, language, currencies, and systems of operations are accepted by others as valid and governing of relations within the regime. In the era of contracting, this role is played by government.

As mentioned earlier, contracting between government and nonprofit organisations may be understood as a relationship involving reciprocity. But it is by no means a relationship among equals. Just as the hegemonic nation—the United States in the post-war period, or Britain at an earlier time—bends the behaviour of nominally independent nations toward its way of doing things according to its preferred economic, political and social systems, so government

influences the behaviour of independent nonprofit contractors. Like the hegemonic nation, government gradually induces other actors within the contracting regime to accept its practices and preferred policies.

To say that there is a contracting regime is not to imply that relations within the regime are static. Indeed, one would expect regime relationships to change over time in response to changing needs of the regime and new challenges to it, so long as the fundamental values that are represented in the regime are maintained.

In the contracting regime nonprofit service organisations have been changing. Under pressures to secure and maintain funding and in response to the oversight demands of government agencies, they are professionalising and becoming more business-like, but at the expense of their responsiveness to clients and the extent to which they reflect unique community values. Nonprofit human service agencies may now be more expansive than they were able to be in the past, but they are also more surely tied to government and more reflective of public priorities than of the community values they represented in the past.

THE NOTION OF THE CONTRACTING REGIME AS AN AID IN UNDERSTANDING DEVELOPMENTS IN AUSTRALIA

A contracting regime may be said to have been put into place in the United States over the last twenty years. But this does not mean that the regime is fully in place in the United States in all locations or for all social service areas in which government seeks to purchase services. In some places government capacity to enforce contracts is still low. Individual states may be disinclined to work through voluntary agencies, or the existence of voluntary agencies may be so modest that governments cannot call upon their capacity to provide services because they do not exist in any measure. Nonetheless, the notion of a contracting regime may help provide a yardstick against which to measure the degree of conformity to a normal state of affairs.

Similarly, the concept of a contracting regime may assist us in understanding the Australian case better even though great variety in the experiences of individual states and within individual service areas may preclude any overall generalisations. While recognising the difficulties of so generalising,

the following questions seem to emerge from discussions with public and private sector officials about the efficacy of contracting in Australia at the present time.

1. To what extent do government agencies articulate separate purposes, priorities and standards? Alternatively, to what extent do they endorse current activities of the voluntary agencies from which they purchase service? A mark of the contracting regime is that government is the primary actor in defining the public interest where purchased services are concerned. An effective government, of course, will work with all interested parties in trying to achieve consensus about service priorities, but for a contracting regime to be in place government must know what it wants and be willing to manipulate its spending patterns in order to achieve it.

As in the United States in an earlier era and perhaps still to some degree today, not every state government agency in every service sector in Australia seems to have been able to break away from being more of a conduit for funds than a purchaser of services. Nor, would it seem, is there always broad agreement that governments should exercise independent judgments about service directions and quality when it comes to funding voluntary agencies.

2. To what extent do government agencies have the capacity to articulate the service needs in their sectors? In some areas government agencies have changed service delivery approaches in their sectors with remarkable success. In other areas they do not even seem to command legitimacy in asserting what the public interest is. Reportedly, the very information they would need to assert the public interest is controlled by uncooperative voluntary agencies. Again, if it were the case that government could not articulate a separate conception of service, one would have to conclude that the contracting regime is incomplete.

3. To what extent can voluntary agencies take actions outside the relationship defined by the contract to obtain public funds and achieve their purposes? As service providers, voluntary agencies are likely to participate in defining public standards, but this influence must be limited to consultation and persuasion if contracts are to have any force. When voluntary agencies have separate channels to government, as is said to be the case in Victoria, at least, so that their funding does not depend upon their agreements with government agencies, the importance of the contract is obviously diminished and public

purposes with respect to service delivery will not be achieved through the contracting mechanism.

4. To what extent does government possess the capacity to enforce contracts? Governments at the start of contracting developments have typically been weak in their ability to hold contractors to agreed upon performance standards, and take time to develop such capacity. Meanwhile, contracting agencies in a sense are excused from following governmental demands if they can assume that they will not be held accountable for performance.

There is a sense in which government auditing capacity can never be equal to the task of policing the myriad voluntary agencies with which they enter into contractual relationships. This suggests a critical dimension of contracting and brings the discussion of a contracting regime full circle. As we understand it, a contracting regime does not and cannot depend upon careful checking and verification to achieve compliance with public expectations. It depends instead upon combinations of commitment and professionalism that allows the state to place dependent people in the hands of private agencies with expectations that they will be properly treated despite the fact that public agencies cannot be expected fully to monitor the providers of service.

The old, pre-regime system of simply subsidising voluntary agencies to continue their good works could not be sustained because it was and is too susceptible to particularism in client selection, inequity in service distribution, paternalism in relations with clients, and self-satisfaction in philosophical approaches. Governments have been attracted to contracting for many reasons, as we point out in the accompanying paper, but once committed to providing services through contracting will be led to undermine the service preferences of voluntary agencies in favour of service standards that conform more to public priorities. To judge from the reactions I have received in Australia to the analysis of contracting in the United States, policy-makers in Australia have gone far to achieve the hegemony of government over voluntary agencies in service delivery, but many also believe that in selected instances there is still considerable ground to be covered.

GOVERNMENT PROVISION OF SOCIAL SERVICES THROUGH NONPROFIT ORGANISATIONS¹

by

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Steven Rathgeb Smith
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INTRODUCTION

Since the early decades of the American republic, nonprofit organisations have played a critical role in helping people in need by providing education, training, residential, counseling and in-kind and cash support. Moreover, President George Bush has followed Ronald Reagan in calling upon nonprofit agencies to take the leading role in American society in addressing social problems. Their belief in the efficacy of nonprofits (President Bush's 'thousand points of light'), combined with the current political and financial constraints on government spending, suggests an even larger service role for nonprofit organisations in the future.

Nonprofit organisations invoke the images of community, voluntarism, civic dependability and neighbour-helping-neighbour that have always exerted a powerful impression on American public consciousness.² However, largely as a result of this expanded role in providing services for government, these images are at variance with the contemporary reality of nonprofit service organisations. Rather than depending mostly on private charity and volunteers, most nonprofit service organisations depend on government for over half of their revenues; for many small agencies, government support comprises their entire budget. In contrast to the traditional relationship of two independent sectors, the new relationship between government and nonprofits amounts to one of mutual dependence that is financial as well as technical; increasingly, the lines between

¹ This article has been accepted for publication in the *Political Science Quarterly*. The research was funded by the Future of the Welfare State project of The Ford Foundation. We have also drawn upon earlier research on emergency food distribution programs supported by the William H. Donner Foundation and on services for victims of crime supported by the National Institute of Mental Health. We are grateful to Paul Dimaggio, Peter Dobkin Hall, Henry Hansmann, Ira Katznelson, Ralph Kramer, Reid Lifset, Robert Morris, Alice O'Connor, and Edward T. Weaver for helpful comments on earlier drafts of this paper. For administrative and secretarial assistance, we are grateful as well to Tobie Weiner.

² Robert N. Bellah, et al., *Habits of the Heart* (New York: Harper and Row, 1985).

public and private are blurred. For instance, a recent survey of the Child Welfare League of America concluded that government support comprised, on average, 59 per cent of their member agency revenue in 1986.³ On the other hand, government relies on nonprofits to provide social services. In 1988, 15 Massachusetts state agencies were budgeted to spend over \$750 million, about 7 per cent of the state budget, to purchase from over 1,200 contractors such services as alcoholism rehabilitation, family crisis intervention, English-as-a-second-language and daycare. Overall, the state recognises 200 distinct types of social services in its purchase-of-service system.⁴ Until recently, our understanding of the development of the welfare state in advanced industrial countries assumed that the hallmark of a progressive welfare state was a large public sector that relegated the private sector to a small residual role. In this view, the United States with its smaller public sector and larger private nonprofit sector compared unfavourably. The expansion of government contracting with nonprofit agencies calls the prevailing view into question. In the recent period government has used nonprofit agencies to expand the boundaries of the welfare state in the United States in a host of service categories—from child abuse to domestic violence to homelessness. The result is a welfare state that is more expansive than would be the case if policymakers relied solely on the public sector.

It is also a welfare state which has compromised some of the values that the private voluntary sector contributes to social welfare provision. These values include the variety, independence and legitimacy of community-based agencies, and the capacity of such agencies to pursue distribution policies that tolerate responsiveness to clients over equity among clients if the two values conflict.

Broadly speaking, we reach the following conclusions about the effects of government spending in nonprofit organisations and public policy. As government funding on nonprofit organisations grows, the pressures on government officials to maintain accountability over public funds increases as well. Over time, government officials respond to increased reliance on private agencies by instituting new regulations, changing contract requirements and

³ Karin E. Malm and Penelope L. Maza, *Sources of Agency Income* (Washington, D.C.: Child Welfare League of America, 1988).

⁴ Massachusetts Senate Committee on Ways and Means, *Purchase of Service: Protecting the Promise of Community-Based Care* (Boston: Senate Committee on Ways and Means, 1986), pp 2-3. Funding for state government contracts with private nonprofit agencies is from both state and federal sources.

increasing administrative oversight. The effect is to shift the organisational norms of nonprofit agencies from their historical emphasis on being responsive to the individual to focusing more on treating all clients alike, an orientation that bears resemblance to that of government service agencies. This shift is particularly noticeable in the areas of staffing, client selection and treatment, and physical plant. Thus, government may require nonprofit agencies to hire professional staff as a condition of receiving a contract. Or government may force a contract agency to accept only client referrals from government bureaus rather than allowing contract agencies to have the flexibility to respond to all clients in need who present themselves to the agency. Government may also require a contract agency to modify its physical plant in order to meet official standards on public safety and health. Also, we will argue that government funding of nonprofit agencies transforms the management of contract agencies and the politics surrounding social service expenditure.

In sum, government spending of nonprofit agencies should not be viewed simply as 'privatisation' if this term means reducing or minimising government involvement in policy matters by turning over responsibility to private agencies and providing them with additional funds. Rather, the new public-private funding arrangement means increased government intrusion into the affairs of nonprofit agencies, thereby altering the character of social policy and the American welfare state.

Our views are based upon systematic research on the development and growth of government funding on nonprofit agencies in Massachusetts, supplemented with research in Connecticut, New Hampshire and Rhode Island. In addition, 30 case studies on nonprofit service agencies were conducted to assay the effects of government funding on these agencies and social policy in general. Our findings are also based upon previous research on food banks, shelters for the homeless and battered women, and rape crisis centres conducted for other purposes. Further, we have drawn on our experiences as members of the boards of directors of several nonprofit service agencies.⁵

⁵ Steven Rathgeb Smith, *Government, Nonprofit Agencies and the Welfare State* (unpublished doctoral dissertation, Department of Political Science, Massachusetts Institute of Technology, 1988). Steven Rathgeb Smith and Susan Freinkel, *Adjusting the Balance: Federal Policy and Victim Services* (Westport, CT: Greenwood Press, 1988). Michael Lipsky and Marc A. Thibodeau, 'Feeding the Hungry With Surplus Commodities,' *Political Science Quarterly*, 103, 2 (Summer 1988): 223-244.

THE GROWTH AND SCOPE OF THE NONPROFIT SERVICE SECTOR

Government support of nonprofit service agencies has expanded dramatically in the last 20 years.⁶ Over 50 per cent of federal social service expenditures is now devoted to nonprofit organisations; virtually none went to such sources in 1960. Advances in daycare, sheltering, counseling, employment training and protection from child abuse and neglect have all proceeded through government contracting with nonprofit service agencies. Thus, for example, when the problems of homelessness and hunger have arisen, the predominant response of government has been to launch programs through nonprofit agencies. In many states, nonprofit organisations under contract to government deliver the publicly funded services in categories such as daycare, foster care, protective services for children and adults and community programs for the mentally ill and developmentally disabled.

Government purchase of social services affects vast numbers of people. A 1986 study of the nonprofit sector in St. Louis indicated that there were over 2,500 nonprofit service organisations in the metropolitan St. Louis area. Eighty-five thousand people, or 7 per cent of the local work force, were employed in these agencies.⁷ In 1982, over 4 million people worked nationwide for private nonprofit health, social and legal service organisations.⁸ It is undoubtedly fair to say that most of these people worked for agencies whose incomes in part reflected contract revenues. In Massachusetts, service providers to government under contract employed roughly 48,000 persons,⁹ a number that compares

6 See Pacific consultants, *Title XX Purchase of Service: A Description of States' Delivery and Management Practices*, vol. 1 (Berkeley, CA: 1979); Bill Benton, et al., *Social Services Legislation vs. State Implementation* (Washington, D.C.: The Urban Institute, 1978), p. 110; Ruth Hoogland DeHoog, *Contracting Out for Human Services: Economic, Political, and Organizational Perspectives* (Albany, NY: State University of New York Press, 1984), pp. 43-46; Edward T. Weaver, *Implications of Alternative Choices To Purchase or Direct Delivery Selected Title XX Social Services*, (unpublished doctoral dissertation, School of Public Administration, University of Southern California, May 1985).

7 Metropolitan Association for Philanthropy and United Way of Greater St. Louis, *Philanthropy in Greater St. Louis* (St. Louis: 1986), p.6.

8 Gabriel Rudney, 'The Scope and Dimensions of Nonprofit Activity,' *The Nonprofit Sector: A Research Handbook*, edited by Walter W. Powell (New Haven: Yale University Press, 1987), p.57.

9 Massachusetts Council of Human Service Providers, *Confronting Effectiveness: Social Investment in Massachusetts*, Advance report, May 1988, p.10.

favourably with the number of state workers involved in human services.¹⁰ Social service agencies funded by government call upon armies of volunteers to supplement the ranks of workers and provide direction through their boards of directors. The survey of St. Louis area residents revealed that almost half of the adult population (45 per cent) of the region's 900,000 adults volunteered at least once during the year in support of area organisations.¹¹

The clients of nonprofit agencies of course make up the most important constituency of these organisations from a social services point of view. Every United Way campaign heralds the numbers of needy people its agencies serve. The report of the American Public Welfare Association that 633,000 individuals in 23 states received services under the U.S. government's Social Service Block Grant in 1988 undoubtedly understates by a considerable margin the numbers in these states served by all the agencies with some public funding.¹²

Until the 1960s, most nonprofit service organisations relied upon fees, donations, and in some cases endowment income for revenue. Government funding tended to be restricted to a few service categories and generally small-scale relative to total agency revenues. Only in selected urban areas such as New York City was government funding extensive. Typically, these public funds would be used to purchase services for a child or adult when there was popular support for service provision (for example, residential care for emotionally disturbed children) but no government capacity to provide a particular service existed. In these cases, government rarely made extensive demands on the private agencies, relying on the judgement of the agencies' administrators on important issues such as treatment and discharge.

The substantial growth of government support of nonprofit agencies has raised the concern of many observers that government funding would have

¹⁰ These figures provide a sense of the scope of the contracting phenomenon but they must be interpreted cautiously because often there is no equivalence between the scope of nonprofit agencies' activities and those activities for which government purchases services. Consider the hypothetical case of a rehabilitation centre of 20 beds employing 50 people for which government pays for half the beds and the rest are supported from other sources. The government contract supports the work of all the staff and from that point of view 50 people are affected in their work by the contract. Yet, strictly speaking, it is possibly that only 25 are paid for under the contract.

¹¹ *Philanthropy in Greater St Louis*, p.6.

¹² American Public Welfare Association (APWA), *A Statistical Summary of the Voluntary Cooperative Information System (VCIS) Social Services Block Grant (SSBG) Data for FY 1985* (Washington, D.C.: APWA, 1988), p.12.

harmful effects on the independence and overall missions of nonprofits and on their viability as autonomous, community-based agencies. The concern is not simply of academic interest. Virtually every American is likely to have contact with a nonprofit service organisation during any given year—whether it is a hospital, a community mental health clinic, a family service agency or a nursing home, to name just a few of the possibilities. These organisations serve as intermediate institutions between the individual and the state, providing a vital link for the citizen and helping to shape citizens' view of themselves and their place in society. To the extent that government extends its influence into the world of nonprofit organisations and the state, perhaps fundamentally changing the life possibilities of citizens and the role of their community organisations.

THREE TYPES OF NONPROFIT AGENCIES

Before developing our analysis, we need to make some important distinctions that recognise the diversity of nonprofit service organisations. Keeping the diversity of organisations in mind should help us avoid analytic difficulties encountered by earlier critics who tried to assess the impact of contracting on the nonprofit sector *in general*, without seeing that some kind of nonprofit organisations might be severely affected, while others might be unaffected.

One type of the traditional social service agency, the old-line service association such as the Massachusetts Society for the Prevention of Cruelty to Children, established in 1878. Founded by affluent civic leaders, these agencies typically were established many decades before the New Deal. They usually have endowments (sometimes very substantial ones), and therefore tend to be less dependent on government funds than other agencies. Often they offer many different services and programs and thus are also less dependent than other agencies on demand for any single service.

A second type of nonprofit social service organisation is the agency founded within the last twenty years directly in response to the availability of government funds for job training, mental health, and other services. An example is the Key Program, a large youth services agency established in Boston in 1973 to provide community and residential services for delinquent youth. These agencies usually derive most of their revenues from government. Often they were established by

social activists who used government funds to create an organisation dedicated to addressing their version of social reform.

A third type of organisation is the agency founded in response to unmet neighbourhood or other community needs. These may be organisations devoted to solving problems experienced as local concerns, such as homelessness, hunger or runaway youth. Or they may be established to solve problems for communities of people who are less identifiable by geography than by some other characteristic, such as shelters for battered women, respite care for the developmentally disabled, or hospices for victims of AIDS. These organisations tend to be started and staffed by volunteers or underpaid workers out of strong personal commitments to alleviate the suffering their organisations address, or to help other people realise their potential when it is otherwise thwarted by social conditions. Particularly at their start, they are typically shoestring operations built on shaky financial grounds.

Seen from the perspective of their relationship to government, these three types of organisations form a kind of continuum: at one pole there are the new community-based organisations that tend to act most like volunteer associations—non-bureaucratic and held together by the freely given commitments of its members. At the other pole, there are the organisations founded in response to the availability of government funds. These tend to be rule-bound, concerned with consistency, and highly responsive to the priorities of the government agencies whose grant programs were the occasion for their establishment and development in the first place. These distinctions are important because they suggest that different types of nonprofits are affected by government funding priorities in different ways. The most pronounced shifts and the greatest conflicts with government occur among those agencies that initially resemble government least. In contrast, where nonprofit agencies arise directly in response to the availability of public funds, the impact of contracting is less pronounced, if only for the reason that such agencies have at their inception conformed to government contracting expectations. For all these agencies, however, some degree of change is virtually inevitable as government contracting increases. As we shall see during the course of this analysis, government contracts eventually create difficult organisational dilemmas for nonprofit organisations: while contracts may allow an agency to expand services, pay their staff better salaries and move into new service areas, contracts

bring administrative and accountability demands which may conflict with an agency's mission.

THE IMPERATIVES OF SERVICE ORGANISATIONS

Public and private service organisations share many characteristics: the need to process clients through systems of eligibility and treatment, to field a staff, to be effective, and to account for financial expenditures. Also, they are expected to pursue a similar range of objectives. They are expected to be fair (equitable); to accommodate likely and unanticipated complexities (responsive); to protect the interests of sponsors in minimising costs (efficient); to be true to their mandated purposes (accountable); and to be honest (maintain fiscal integrity).

Simultaneous pursuit of a handful of objectives, however, means that the objectives are likely to come into conflict with one another. Adherence to rules may insure equity, for example, but may be pursued at the expense of responsiveness. A guidance counsellor may be fair in allocating to each advisee exactly the same amount of time, for example, but this formula would surely be counterproductive if some students needed little help and others needed special attention.

Modern governments must use universalistic criteria in client selection or develop elaborate rationales for favouring one group over another. In contrast, the different emphases of nonprofit agencies allow some nonprofit organisations to pick and choose their clients on the basis of some group characteristics, such as place of residence or ethnic background. They also allow 'creaming' to a greater degree, for example, screening out clients with the lowest educational levels, severe mental illness, or, in the case of private schools, children with handicaps who are disruptive or costly to serve. Such screening is rationalised as appropriate to the focused mission of the organisation and because these excluded or 'hardest to reach' clients are deemed to be the responsibility of the public sector.

However, government service agencies are not free from bias in client selection and treatment either, although such practices are generally unsanctioned. Workers in government agencies often discriminate against the

poor through efforts to control the demand for services despite the official policy of their agencies to serve everyone in need.¹³

In sum, nonprofit and government service organisations should not be analyzed as radically different in their approaches to clients. Rather, they should be understood as sharing the same organisational service norms, although in different measures. To understand the effects of government 'contracting out' to nonprofit organisations we therefore must start with an appreciation of the different weights that governmental and nonprofit agencies accord to organisational imperatives.

EQUITY AND RESPONSIVENESS IN GOVERNMENT AND NONPROFITS

In the distribution of social policy benefits, government is overwhelmingly driven by concerns of equity. So long as scarcity of resources requires government to make choices among claimants, policymakers will seek to impose norms of equity or at least give the appearance of fairness in resource distribution. Public officials require a rationale for public action that legitimises the fact that in the use of public resources some will be helped and others not.

Government requires not only unambiguous eligibility criteria, but also unambiguous indicators that people meet those criteria. Even if eligibility categories are clear, proof in meeting those standards must be unambiguous if benefit distributions are to be fair.¹⁴ Unambiguous indicators include age (over 65 in social security, three to 21 in special education), and prior government service (e.g. veterans status). Slightly more ambiguous but still able to meet the appearance of fairness are indicators of income and assets.

Government, to be sure, also pays attention to responsiveness. But even in some concerns over responsiveness, the primacy of equity is illustrated in the ways in which policies designed to be responsive historically have been structured to conform to norms of equity. Consider, for example, public

¹³ See Michael Lipsky, *Street Level Bureaucracy* (New York: Russell Sage, 1980), Ch.8.

¹⁴ It is no good to have clearly defined eligibility slots if evidentiary standards are slack. A residency requirement only works to insure equity among service recipients if proof of residency is required, standards of proof elaborated (a lease, an identification card, a postmarked letter), and the requirements enforced.

welfare payment rules that attempt to respond to unique family circumstances and differences in work-related expenses, housing costs and assets. To achieve responsiveness within the strictures of equity, welfare agencies have developed policies that recognise differences but are articulated in increasingly elaborate formal rules.

Nonprofit service agencies weigh equity and responsiveness differently than government. Indeed, the traditional nonprofit organisations were distinguished from providers of public benefits precisely because they were particularistic in their choice of clients. We are reminded of this particularism by the names of many of these agencies that have come down through the years: The Catholic Charitable Bureau, and the Jewish Family and Children's Bureau in Boston, for example.

Consistent with this particularism, nonprofit agencies are less concerned that government in serving all clients within a specific target group; instead, nonprofits focus on serving clients compatible with the agency's service mission. For example, shelters for battered women tend to conceptualise their role as offering an important service alternative to traditional health and welfare organisations for some women. Government, in contrast, prefers that all agencies providing counseling services to abused women provide similar service so that a minimum standard of equivalent care should prevail across all agencies. Furthermore, there is much less need for independent verification and much more trust of clients' testimony in private, nonprofit agencies than in government. Nonprofit agencies consequently invite criticism from government officials that service is being provided inefficiently or inequitably.

These general tendencies of nonprofit agencies lead to two different responses to clients that sometimes leads to conflicts with government agencies. First, if people say they are hungry, or homeless, or recently assaulted and fearful for their safety, nonprofit organisations are inclined to accept such testimony as sufficient. Government officials, upholding the equity requirement, cannot tolerate such an accepting attitude.

To be sure, nonprofit organisations recognise potential problems arising out of a generous intake policy. If challenged, nonprofit organisations deal with the possibility that some people will take advantage, or become 'freeloaders', in several ways. First, they may acknowledge that there are costs to increasing the

accuracy of program targeting, but calculate that they will accept a small degree of 'advantage-taking' because the cost of reducing 'advantage-taking' would be too high in organisational effort and morale. Second, they may defend their policies by pointing to the rationing impact on clients of certain barriers to seeking aid. Entry into the orbit of a homeless shelter, for example, may mean losing privacy, or agreeing to accept counseling, taking a make-work job, giving up one's weapon, or exposing oneself to a religious message. Third, they may act to reduce the accessibility of services, by raising the eligibility threshold for those who would take unfair advantage, or even cutting back services if too many untargeted clients begin to appear. Rather than directly confront clients who seemed to be freeloaders, for example, a mobile van feeding the homeless in Boston simply moved to a new location when too many people who did not appear to be homeless (but may have been hungry) began to line up for a free meal.

A second response of nonprofit agencies to clients is to reject clients deemed incompatible with their service mission or restrict their intake to clients within their primary mission area. The former may lead to 'creaming' with, say, the very poor or severely disabled referred to other programs. The latter may lead to a focus on a specific community (e.g., co-religionists), even though citizens in other communities may need service. Either situation can lead to charges by government officials that nonprofit agencies are not providing service to the 'neediest' clients, who unambiguously are deemed 'deserving'.

EXPLAINING THE PRIMACY OF RESPONSIVENESS

The primacy of responsiveness over equity in private, nonprofit agencies follows from their origins, the people who work for them, and their structure of accountability. Many nonprofit social service providers tend to be neighbourhood or community based. Workers or volunteers in these agencies are more likely than government workers to know individual clients, their families, and their circumstances. Moreover, it is a strength of such organisations that their workers are presumed to be interested in claimants as individuals even if they do not actually know them. For example, a shelter for battered women may be staffed by other women who empathise with the victim's plight and want to make her feel safe through personal contact. Thus they are inclined to know people seeking help in a holistic way. Unlike government

administrators of rule-bound eligibility standards, providers in private service agencies resist reducing clients to their bureaucratically relevant characteristics.

Supporting these propositions is the voluntary nature of personnel in nonprofit organisations. When workers cannot be presumed to be motivated by bureaucratic incentives, other mechanisms to insure worker conformity to organisational tasks must operate. Such mechanisms include providing workers with a sense of well-being derived from valuing their work and convincing them of its importance, and supporting workers' desire to give expression to altruistic impulses. It also means that, if the organisation depends upon them for labour, volunteers and workers who are not primarily motivated by income considerations have a certain power in the organisation. (It also follows that as agencies 'outgrow' their dependence on volunteers they will not have to cater so much to their implicit demands).

Voluntarism in nonprofit agencies takes many forms. The newer agencies are often founded by social activists, sometimes based in religious communities, who are committed to solving certain social problems, sometimes at great personal sacrifice. They may receive no pay for their efforts and work unusually long hours. Many shelters for battered women, for example, were founded by volunteer women who had a particular vision of addressing the problem of spouse abuse.

Aside from agency founders, social service agencies are often staffed by volunteers (possibly former clients) whose work is given at least in part in exchange for the feeling of well-being they get from helping in the organisation. For some who work in nonprofit organisations, the transactions between providers and clients themselves may be the point of their involvement in work that otherwise seems hopeless. People volunteer or work for low pay in drug treatment storefronts, foodbanks and legal advice centres not because they expect fully to solve the problems these agencies address, but because they find altruistic behaviour rewarding.

In the more established agencies, professional staff members often work for low salaries by comparison to what they could earn in government or elsewhere. In Massachusetts, for example, salary disparities between the private and the public sector for direct care positions are said to range from 12 to 29 per cent. Thus many workers in nonprofit agencies must be considered at least in part

volunteers, who take at least some of their compensation in non-monetary form.¹⁵

In addition, emergency services are likely to be governed by volunteer boards consisting of community activists or leaders playing traditional civic roles as supporters of nonprofit agencies. Such people may be relatively single-minded in their willingness to pursue the interest of their organisation's clients without regard for competing organisational interests.

Board members of traditional agencies, for example, in the past regularly permitted their organisations to make up deficits by spending the endowment, believing that they were trustees for needs that had to be met. (They were also surprisingly tolerant of management that incurred annual losses). Board members of younger agencies may have come out of a social movement environment in which they too, perhaps even more aggressively, may be willing to support their agencies in pursuing responsive client policies.

SIGNIFICANCE OF DIFFERENCE BETWEEN GOVERNMENT AND NONPROFITS

Several corollaries that find their way into actual practice follow from these differences in orientations between government and private, nonprofit agencies. First, in contrast to government, nonprofit agencies are more tolerant of client selection procedures that are not based upon rigid standards of equity—both in client selection by staff and client self-selection. Nonprofit organisations are more willing to say that they can help some people and not others.

Private agencies are also more comfortable with self-selection. They act as if first-come, first-served is an adequate decision rule when resources are scarce and need is great. If they apply rationing mechanisms to discourage people who perhaps are less needy, the mechanism tend to be advisory rather than definitive.

¹⁵ The gap in salaries between public and private workers is a matter of growing concern within the nonprofit community. In Massachusetts, this concern has led to ongoing political action to gain legislative approval for salary upgrading to correct disparities. See 'More Salary Upgrading Issues', *The Provider*, 8, 6 (June 1987), p. 5.

Second, nonprofit agencies strive to be responsive to individual clients, even at the expense of other policy objectives. Government agencies, though, try to spread resources evenly over affected populations. For example, many child welfare advocates have complained over the years that the long-term involvement of some nonprofit agencies with their clients led to inappropriate, excessive treatment of many children, both in residential centres and foster care. It also meant that there were fewer resources available to a burgeoning client population. In the 1980s, government control of the purse strings and a reaction against long-term treatment has produced new policies aimed at limiting the length of time children spend in residential centres and foster care.

Third, public and private agencies to a degree are both likely to define agency clients in terms of their ability to be effective with them. But government agencies are more likely to define the scope of the client population primarily to achieve greater consistency with equity, rather than the ability of the agency to be effective. This tendency is noticeable in at least two distinct instances.

In one instance, government will define unrealistically large catchment areas that, while providing formal 'coverage' for all, cannot because of distances reasonably serve many of the people in the areas. This situation commonly occurs with homeless shelters, mental health services and food distribution centres in many rural and other underserved areas.

In another instance, government will seek to narrow eligibility criteria, for example, by lowering income limits, or imposing more severe distress requirements, in order to be able to serve a greater proportion of those people in the pool. Thus, government will appear to assist a larger proportion of those clients defined as eligible to receive assistance under the policy.

By contrast, nonprofit agencies are more likely than government to prefer a relatively large pool of potential clients, primarily because it allows a nonprofit agency to manage its client selection process in a way that is consistent with its sense of mission. Thus, a large pool of potential clients for shelters for battered women means that the shelters will be able to serve women deemed responsive to their particular treatment orientation. And, shelters will be in a stronger position to reject individuals who may be perceived as potentially disruptive. This situation is particularly true of various residential programs: group care

for children, emergency shelters for adolescents and shelters for battered women and the homeless.

There is also a financial consideration involved in the preference for a large client pool. Since most nonprofit agencies are of modest size and severely undercapitalised, a small pool of potential clients may be insufficient to guarantee a steady stream of clients—and hence revenue—into the agency, producing major financial and organisational strains on the agency.

The differences between government and nonprofit agencies regarding the appropriate size of a nonprofit agency's client pool is evident in the recent political conflict over participation in the Women, Infants and Children Supplemental Nutrition Program (WIC). Federal officials have strived to target aid to the poorest and most distressed women and children; nonprofit WIC distributors have wanted to retain a more expansive definition of eligibility. It is also evident in the assignment of public daycare slots to welfare recipients. In the program to distribute surplus agricultural products to the hungry, federal officials sought to persuade states to restrict eligibility to families with lower incomes so that a higher proportion of eligibles would receive free cheese and butter.

There are important political considerations in conflicts over the size of the client pool. If one's objectives include maintaining pressure on public authorities to act more vigorously with respect to a target population it makes sense to support an expansive conception of the needy group. The larger the numbers of people who cannot receive help from a program for which they qualify, the more pressing the claim that not enough resources are being applied to a recognised problem, particularly if need cannot strictly be defined by income. This is why it is disingenuous for public officials to maintain that their interest in restricting eligibility to the 'truly needy' in any program is based solely on their desire for more effective targeting. To limit program eligibility criteria is simultaneously to reduce political pressures to expand program resources to meet the need.

GROWTH OF GOVERNMENT CONTRACTING WITH NONPROFIT AGENCIES

Despite the differences in organisational norms between government and the nonprofit sector, government officials are utilising nonprofit agencies to deliver public services at an unprecedented rate. Let us now take a brief look at the advantages public officials believe accrue government that may attract them to contracting with nonprofit agencies. These reasons have varied in importance to public officials over the period that contracting has been ascendant.

1. Government agencies can respond to emerging service needs more quickly and effectively by contracting than by mounting new efforts utilising public employees and public agencies.
2. Public officials can purchase specialised services that would be difficult to find or develop within government ranks.
3. By using nonprofit agencies, public officials recognise that they can change program direction with relative impunity, and can cut back on services more easily than they could if public employees were involved.
4. Government agencies can take advantage of the legitimacy already won for program initiatives of private organisations while avoiding the political costs that would be associated with attempting to usurp their role.
5. In contracting, government shifts the political and financial risks of providing service at least in part onto the nonprofit sector.

Beyond these pragmatic reasons for encouraging contracting, other motives for contracting appear to operate as well. In particular, contracting for services is viewed by some analysts as a way to shift resources and responsibilities to the private sector, thereby reducing the role of government in public policy and halting the post-war rise in government's size and influence. This would be accomplished because of two additional advantages often thought to accompany contracting.

6. Government will save money, because competition among agencies bidding for government contracts will result in efficiencies spurred by competition.

7. Government will save money because nonprofit contractors tend to pay lower wages and employ volunteers, allowing government to contract at low prices.

As a result of these aspects of contracting many analysts believe a new dynamic will arise in which public services will be sustained at a high level of quality by competition in the private market.¹⁶ This view is in error. It is based upon a model of independent buyers and sellers when in reality, as we have suggested, the world of government and service providers is one of mutual dependency. It is faulty because it is inherently difficult to hold human service providers accountable for the quality of performance outcomes. Hence, improvements in service quality and increased savings while holding quality constant are unlikely to be achieved in contracting for human services.

Moreover, this view neglects recognition of the political interests that form around government's new way of doing business and the new clients of government (the nonprofits) that are created by contracting activities and are thus in a position to make demands. Contracting is not simply an administrative procedure that changes the mode of service delivery from public to nonprofit (or 'forprofit'). Rather, it fundamentally alters the politics of public service delivery. Over time, this new politics brings issues of equity, and issues of community autonomy, to the fore.

CONSEQUENCES FOR NONPROFIT SERVICE ORGANISATIONS

Critics of government contracting often express concern that nonprofits may compromise their original service mission in the process of responding to government priorities.¹⁷ However, it should be noted that government

¹⁶ Many public choice economists subscribe to this view. Their arguments are reviewed by Dehoog, p.7. Also, see Peter F. Drucker, *The Age of Discontinuity* (New York: Harper & Row, 1969), Ch.10.

¹⁷ See Nathan Glazier, 'Towards a Self-Service Society', *The Public Interest* 70 (Winter 183): 63-90. This view is disputed, among others, by Ralph M. Kramer, 'Voluntary Agencies and Personal Social Services', *The Nonprofit Sector*, pp. 240-257

contracting requirements may alter nonprofit agencies' approaches to services and clients even if their goals are entirely compatible with those of government. In essence, they may be forced to conform to standards imposed by contracting policy at the expense of their homegrown notions of what constitutes effective service delivery.

In the following section, we discuss the tradeoffs between government demands for accountability and nonprofits' conceptions of effective services in terms of three areas: staffing, clientele and program, and facilities. Two caveats apply to these generalisations. First, the extent to which nonprofits will find government accountability demands onerous is likely to vary depending upon whether the agencies had previously been independent of government influence, as suggested above in our discussion of three types of nonprofit agencies. Second, while we focus on conflicts between governmental and private conceptions of service we do not mean to imply that the contracting parties are invariably in conflict or always troubled by differences in perspectives. Rather, our essay is intended to highlight inherent conflicts under contracting difficulties, and the places where differences in perspective are most likely to result in compromising requirements for the nonprofit sector.

Staffing

The people who arise to establish and direct community organisations are often not the people government officials regards as most appropriate to lead the organisations with which they contract. For example, shelters for battered women and rape crisis centres, developed and directed by nonprofessional feminist activists, have been encouraged and sometimes required to hire human service professionals as a condition of funding. Public officials have considered the founders of the shelters too ideologically oriented and insufficiently trained to meet what they regard as the therapeutic and coping needs of shelter clients. Emergency housing shelters also have been pressured to add (and, indeed, sometimes welcomed) social workers to their staffs.

If these examples illustrate government concerns over accountability, other staffing requirements demonstrate the press of efficiency considerations. In recent years, many mental health centres, job-training programs and child welfare services, have been forced to lay off professional staff as state and federal officials reduced funding support.

At times, these reductions were required simply because of insufficient government funds. However, government officials also have forced layoffs because they charge that nonprofit agencies did not need as many staff members to provide quality service. For example, a traditional child welfare agency had obtained a government contract in the 1970s to provide protective services. In the early 1980s, state officials gave the agency the choice of either terminating the contract or reducing the degree of its staff's involvement with clients. The agency decided to give up the contract and has struggled financially ever since. Other agencies subjected to the same pressures accepted the state's conditions and changed their service profiles.

In the requirement to hire social workers or psychologists, staff upgrading results. In the case of staff layoffs, deprofessionalisation occurs, as workers are less able to use their own judgement in responding to clients' needs. Both cases illustrate the imposition of governmentally-derived requirements on private nonprofit agencies. They also highlight that government is interested in obtaining minimum standards of care: in the case of new agencies such as shelters established through nonprofessional auspices, government seeks to establish minimum care standards through professionalisation; in traditional agencies with high levels of professional care, government concerns with higher productivity leads to a reduction in professional standards.

Clientele and Program

One way in which these pressures for equity and accountability are particularly felt is in government's concern over the apparent open-endedness of enrollment in some community services. Thus government agencies are likely to pressure emergency service providers: to establish or clarify and elaborate eligibility standards; to establish or improve, and enforce, eligibility verification and enforcement; to restrict the amount of service any single recipient can obtain.

These propositions can be illustrated with reference to the federal surplus commodity distribution program. In 1982, when the program was just getting started, it emphasised giving away as much food as possible through networks of private agencies, which first had to be located and then persuaded to participate. However, when the program was cut back sharply a year later in response to food retailers' complaints that the program was hurting their sales, the federal Food and Nutrition Service (FNS) began to worry that the mismatch between the

number of people eligible to receive food and the amount of food available would become too great. Accordingly, it promulgated regulations which required states to establish more precise and restrictive eligibility guidelines, and it started procedures to insure that those guidelines were being followed. The FNS later proposed regulations that would further tighten the loose verification procedures of the food banks and soup kitchens.

It is evident that in developing policy for nonprofit contractors, governments often see the contract for services as a resource by which it can achieve ancillary service goals. Government seeks not only to provide services in general, but to improve its performance in other aspects of its activities. Thus, the Massachusetts Department of Social Services (DSS) reduced the number of contracts that permitted agencies to take referrals from any source (known as open referral contracts) and instead required the agencies to take referrals only from DSS staff (known as closed referrals contracts). The state did the same with its daycare slots to support its employment and training programs for welfare recipients, and restricted the use of some of its subsidised housing vouchers to support its policies to reduce homelessness.

In the interest of equity, government standards push nonprofit agencies to broaden their client mix. Thus, battered women's shelters have been required to expand their catchment areas and to take clients from different racial and ethnic communities. A community agency in Boston which was established to serve a predominantly hispanic community in the early 1970s now serves clients from the entire Boston area.

Increasingly, government also imposes various limitations on the actual treatment provided by a contract agency. Battered women's shelters have been required to limit the amount of time women can stay in the shelters, although the shelters prefer to allow women to stay until they are deemed able to act independently.

Similar pressures are felt by old-line agencies whose traditional policies and practice of family social service encouraged working with the family until it was judged to be stable and well, or well-enough, adjusted. Government contracts, however, require the agencies to limit (say, to a year) the amount of time any single family receives counseling from a caseworker. While this shift prevents