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Commentary

LaDonna Pavetti and her coauthors have described an interesting study in several carefully and logically chosen sites. The goal of the study is "exploratory" and descriptive—to see what role "intermediaries" are playing as the story of welfare reform unfolds. Such studies can be thought of as a special type of process-implementation study, a research genre that has enjoyed a renaissance in the welfare reform era. Process-implementation studies are valuable for specifying what the "treatment" is and thus help to unpack the "black-box" process between policy and product.

We seek to place this study in a broader context. As it stands, the study focuses on what is occurring with the welfare department as well as on the type of services that have been devolved to intermediary organizations. Howard Becker's classic essay "Whose Side Are We On?" (1967) admonished scholars to look at a given problem from all points of view. The paper takes the point of view of the local welfare department, but the intermediaries themselves and the clients that must rely on such intermediaries for services also deserve some interest. Thus, the story is only one-third told.

Enlarging our scope to encompass the agency and client points of view takes us somewhat out of the welfare reform context and into the larger world of low-income families and the various public and private institutions that attempt to serve them. To illustrate why such points of view might be of interest to those who make or study policy for the poor, we draw on three sources: an ethnographic study of two large multiservice nonprofits (NPs) conducted in the early 1990s (Edin and Lein 1998); a longitudinal study (with two rounds of interviews conducted between 1998 and 2000 under the auspices of Manpower Demonstration Research Corporation) of thirty nonprofits in a single, large metropolitan area that serve welfare clients;[1] and a small exploratory study of the prospective clients of these same nonprofits (Kissane 2001). We deem these studies of nonprofits and their actual and prospective clients relevant because most intermediary agencies identified by Pavetti and her colleagues were nonprofits.

Some of the NPs we refer to in these studies were the types of intermediary agencies that Pavetti et al. studied: they had a contract with the welfare department or another entity that controlled welfare dollars, such as welfare-to-work. Other NPs received welfare dollars more indirectly through reimbursement for services rendered (such as child-care or support services). Finally, some of our NPs received no welfare or other government monies, but some had considered doing so.

What's Happening with the Agencies

Welfare reformers hoped that nonprofit social services agencies would work together to weave a private safety net to partly

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replace the public safety net they were dismantling. Although this expectation caused considerable scholarly debate (for example, see De Vita [1999]; Diaz et al. [1996]; Smith [1999]), it caused surprisingly little public debate. To the extent that policymakers and the general public are relying on these agencies to provide a sort of private safety net as the public safety net shrinks, the health and financial well-being of such agencies should be of concern.

The various NPs that we and our colleagues have studied have expressed many concerns over the eroding public safety net and their actual or prospective role in substituting their services for the ones the government used to provide. As part of the Urban Change study, data from NPs in four cities show that NPs have largely not taken on the mantle imposed on them by welfare reform's architects and have few plans for meeting the demands that time limits or other aspects of welfare reform might impose (Fink and Widom 2001). Our Philadelphia NPs, which also participated in the above study, have reacted similarly. Some have taken on government contracts or have received welfare dollars for services rendered to welfare clients. Yet even if they receive no government money, all of our NPs serve welfare clients, and as we have talked to the directors and observed the daily operations of some agencies, we have identified several ways in which welfare reform might be affecting them.

1. *Change of Function*. Scholars have long argued that nonprofits that take on government contracts might profoundly change in ways that might not serve the interests of their clients (Lipsky and Smith 1989-90; Lipsky and Smith 1995; Smith 1999). Our example of this phenomenon is drawn from an NP that received a government contract for the first time (see Edin and Lein [1998]). Although the contract was not with the welfare department, the example below illustrates the pressures that government contracts of any kind may place on a small grassroots nonprofit.

   At the beginning of Laura Lein's study of several nonprofits in the early 1990s, "All Service" accepted federal support to provide meals for eligible neighborhood children.[2] In order to comply with the program guidelines of the funder, the agency had to guarantee that only children under seventeen would receive the meals. While the children were fed in a fenced-in, outdoor pavilion, other community members occasionally gathered outside the facility to watch the meal in progress. In this Mexican-American community, children are expected to follow social norms of mutual exchange and offer food to other people who wished it. Thus, agency volunteers soon found themselves intervening to prevent children from sharing their food with other people they knew. The staff quickly realized that they were spending valuable time and energy on a regulatory activity that neither helped the children nor expressed their own values. In the end, they gave up the contract in order to regain control over their program management.

   Our second example of how NPs may alter their function is more directly relevant to the welfare reform context. The example is drawn from the longitudinal study of thirty nonprofit social service agencies in Philadelphia, all of which serve welfare clients. One complaint sometimes voiced by directors is that "all the dollars" were going to programs that took a "work-first" approach.[3] Agencies feared that they would not secure, or would risk losing, funding if they did not offer "rapid immersion" or incorporate job readiness into their current programs. Some of these NPs had long offered job-placement programs for welfare clients, but these programs generally were focused more on employability (that is, education, training, mental health, soft skills, supportive services) than on rapid immersion into the labor force. Some lost their funding in the mid-1990s, prior to our first round of interviews. At least two directors suspected that this was the result of a work-first bias on the part of their funders. One director of a job-placement program described the trend in funding as follows, "Agencies are in a pickle because the funders are all 'jobs, jobs, jobs' . . . that's all they want from the social services. But we know that more needs to be done than just that. You need to juggle the stuff that we already do [like basic education] with the jobs stuff." Another director reflected, "[I tell the staff,] 'let's move these people.' But are we really doing a service [just shoving them out]? And we don't want to—and we really can't because we are a small agency and because we are a community [agency] and because our staff is representative of the community, there is a lot more empathy to what the real issues are. I find the staff truly, truly struggling with these issues." Pavetti et al. find some of the same forces at work (see also De Vita [1999]; Smith [1999]).

2. *The Paper Trail*. Some directors in the longitudinal study of nonprofits complained about what they viewed as the ruination of the organizational culture that occurs when NPs begin to rely on government dollars. One director of a grassroots agency pointed to several other NPs that "used to be smaller, social service/advocacy organizations in the neighborhood," but had become "bureaucratic nightmares themselves" and are now "arms of the department of public welfare." The agencies that had taken on such contracts talked at length about the added accountability and paperwork burdens they now faced. More bureaucracy means higher overhead costs, and unless a nonprofit has funding that allows for cross-subsidization of programs or specifically for overhead (both of which are increasingly rare), nonprofits are left financially vulnerable, a topic we turn to next.

3. *Show Me the Money.* Another complaint voiced by agency personnel in the longitudinal study of nonprofits—particularly those that have actually had contracts with the welfare department or received welfare-to-work dollars—relates to the financial risk involved in serving as an intermediary agency. Pavetti et al. report that "the most common payment structures" in their study "are cost reimbursement, where organizations are paid for the costs they incur, or pay-for-performance, where organizations are paid based on their accomplishments." Many of the reimbursement contracts also had performance incentive structures built in and/or performance criteria that had to be recorded for evaluation purposes.

   Both cost-reimbursement and performance-based contracts require NPs, which are often on a shoestring budget (Urban Institute 1983), to take huge financial risks. Agencies with either type of contract faced a similar problem: getting clients. Pavetti et al. also find that the number of clients referred to intermediaries is often unpredictable. Theoretically, clients are supposed to come from the welfare department, via caseworker referral. One director we interviewed whose agency had a performance-based contract waited eight months before seeing a single client for the program. Because of bad past experiences with other such contracts, she had decided not to hire any program staff until the clients had actually arrived. Though her prudence probably saved the agency from financial disaster, she believes that clients may have suffered from her wariness because when they did arrive, she had no trained staff to meet them.

   Reasons for the lack of caseworker referrals remain mysterious, both to the NPs and to us, and we were fascinated to see that the Pavetti et al. sample reports similar problems. The problem could lie with the caseworkers, with the intermediaries, or with potential clients, for reasons we speak directly to below. One can well imagine that overworked caseworkers might have little time to keep track of which agencies are offering services when and which clients are eligible. However, Pavetti et al. find that even when the welfare department did make referrals, the clients would only show up and enroll in the program about half the time. Furthermore, when nonprofits do manage to get clients, clients do not always "perform" to the standards of the contract. One director we interviewed pointed out the obvious financial difficulty this imposed on the agency—an agency cannot base staff pay solely on client performance.

   Even for reimbursement-based programs, like those that Pavetti et al.'s respondents most often described, the process of securing a contract and establishing a program nearly always required large up-front investments that NPs feared may not be recouped for a long period of time. One director of a very large agency told us that they had applied for a performance-based contract funded by welfare-to-work. The agency was awarded the contract, but after talking with other NPs that had received such contracts, it turned down the money. The director said, "I was so glad that we turned it down, because it sounded like it was a nightmare. . . . I talked to a number of other agencies and they all had such nightmare stories, I decided this is crazy. [We would have to pay staff] and we wouldn't get the money until people were in jobs for three months, six months, a year." She went on to complain that, "the department of welfare was supposed to be feeding us the clients and they weren't feeding the clients to these other agencies, so I decided that it just wasn't worth it for us to do it. Even though the department of welfare swore that this was changing—that they were really going to feed the clients—[I didn't believe them]. Even afterwards, I was talking to people and they were still having a hard time getting the clients." She concluded, "I didn't feel I could jeopardize the organization by taking that contract. [The start-up capital comes from us] and then [we'd have to] hope that we'd get reimbursed."

   A director of another large nonprofit said that a performance-based contract requires a large volume of clients to remain solvent, and if the flow of referrals is low or unpredictable and/or other problems occur, there is a lot of "anger and bad feeling between the vendor and the contracting agent."

   Even agencies providing support services reported that the slow and often Byzantine process of getting reimbursed could cause great fiscal strain. One executive director of an agency that provides child care (among other services) said, "We cannot continue to hemorrhage from not receiving the payments" from the welfare department for the children in its child-care center. "The welfare department always finds a way to screw things up. We are still in the black and we can't go through another year like this . . . it could close this agency and ones like it."

The Client Point of View

Pavetti et al. readily acknowledge that the intermediaries expect that only half of the individuals referred to them will actually come into their programs. This is especially notable given the often severe consequences attached to not attending the programs (such as sanctioning). While a client-based study is beyond the scope of the current paper, other studies hint at what might be going on here. We and our colleagues have been involved in two such studies (Edin and Lein 1998; Kissane 2001), and we refer to them here to speculate about what might be going on in the minds and lives of clients who must increasingly turn to intermediaries to get the services they might have formerly gotten directly from the welfare department. Edin and Lein (1998) study two community

organizations (one of which is the aforementioned All Service) and interview clients as well as agency personnel. In taking into account both points of view, they find that policies that were rational for the agency were often irrational from the client point of view. In both agencies, fiscal constraints, the demands of funders, and agency personnel's need to feel that they were "doing a good job" conspired to create a set of policies that Edin and Lein dubbed "targeting," "rationing," and "investing."

In their early years, both agencies had provided a diverse array of services in their communities. Over time, however, one agency ("Community Cooperative") began to feel increased pressure to target one or two programs rather than provide a broad range of services.[4] This decision provided it with a clear mission, which both pleased its funders and satisfied its own need to feel good about the work it was doing. The agency also increasingly rationed the amount of services any one client could receive, allowing it to serve a larger number of community members and thereby increasing its perceived "effectiveness" in the eyes of funders.

While such targeting and rationing strategies were rational procedures for the agency to adopt, such actions looked different from the client point of view. First, targeting meant that clients who had needs in multiple domains (for example, help paying for both food and prescription drugs) had to utilize a number of agencies, each of which targeted a specific domain. Second, rationing meant that clients often had to approach several agencies to meet their needs even in a single domain (such as food). The third practice—investing—consisted of targeting discretionary resources to those clients viewed as more likely to "succeed" and less likely to return for additional services. Investing, while rational from the agency point of view (agencies could claim a higher "success rate"), meant that the most able clients could command a lion's share of the agency's discretionary resources, while the least able (and most needy) could not access these resources.

While the targeting, rationing, and investing strategies of NPs may dissuade some potential clients from using social services, other factors may also play a role in nonparticipation. Kissane (2001) finds that although none of the Philadelphia agencies limited their services to particular racial or ethnic groups, they did tend to serve one ethnic or racial group more frequently. Members of other racial or ethnic groups living in a certain section of the city associated high stigma in utilizing the services of an agency that was not identified with their racial or ethnic group or that was identified with other types of "undesirables" (such as the homeless). Respondents told Kissane that they preferred using services with clientele that were "more normal" and "more like" themselves. Often, stigma was high enough to keep these women from claiming any available services. This was particularly true if the agency was located in a neighborhood that was perceived to be "unsafe" or the "territory" of another racial or ethnic group. Respondents who talked about such agencies said that it would be "too dangerous" to make use of the services offered, and that they would likely be mugged or molested.

Ironically, these same respondents did not express similar fears about going to the welfare office, also located in a "dangerous" area, nor did concerns over the "types" of people using welfare dissuade them from getting welfare themselves. Kissane's respondents also reported that they felt more stigma when utilizing certain nongovernmental services than those provided directly through the welfare department. Such reluctance often meant that these potential clients had unmet needs. It is possible that similar forces (stigma, racial or ethnic identification, location) may affect the willingness of welfare recipients to utilize programs offered by intermediaries, and they may partly explain the problems in client flow that Pavetti et al. have identified. Both the Edin and Lein and the Kissane findings suggest that the use of intermediaries might prove problematic from the client point of view, even if the policies such intermediaries implement are rational and well-meaning.

Conclusion

What lessons do we draw from considering, however speculatively, the points of view of the nonprofit agencies themselves and of the potential and actual clients of such agencies? First, contracting with the welfare department may significantly alter the function of nonprofits, influence their fiscal well-being, and create huge administrative demands for which they may not be compensated. Agencies that experience such demands might well get out of the business of welfare reform altogether, and other agencies that might have been considering such a role may choose not to participate based on the experiences of those who have. Alternatively, some agencies that manage to make welfare contracts work for themselves might find that they have significantly altered their function, sometimes to the detriment of clients. Second, clients who are sent to such agencies to receive the assistance they formerly received at the welfare department might, for reasons outlined above, have to utilize several services (thus increasing clients' transaction costs significantly) to meet all of their needs. Third, if stigma, racial or ethnic identification, or fears about the agency's location prove to be more salient in the case of intermediates than for the welfare office itself, increased use of intermediaries might mean that fewer eligible clients will receive assistance.

Endnotes

1. The longitudinal nonprofit data used in this paper were collected as part of Manpower Demonstration Research Corporation's Project on Devolution and Urban Change. We would like to thank Gordon Berlin, Barbara Goldman, our many funders, and our collaborators for their support of this work. We also thank Laura Lein for her comments.

2. All Service is a pseudonym.

3. Interestingly, the dollars they were referring to were not only public, but private as well. Apparently, even private funders have caught the work-first fever (perhaps in response to what they feel is an unassailable mandate by the public sector).

4. Community Cooperative is a pseudonym.

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