



Note from IRP Director Tim Smeeding:

Welcome to Fast Focus No. 1. We are introducing this new, electronic-only supplement to keep you up-to-date on our latest poverty research between issues of Focus. These single-topic briefs will be produced occasionally and feature summaries of important IRP conferences, publications, and events. There will be no overlap of articles in Fast Focus and Focus. The content in each publication will be distinct but complementary. As this is a “green” initiative, we will not be printing or mailing hard copies of Fast Focus. However, each issue will be available on IRP’s Web site (www.irp.wisc.edu/publications/fastfocus.htm) in a printable format.

In this first Fast Focus we deal with an increasingly important issue in antipoverty efforts: their delivery by nongovernmental agents, including nonprofit (and often faith-based) agencies, as well as by for-profit agencies. IRP held a unique conference in Madison in summer 2008 on this topic. In this short Fast Focus essay, Carolyn Heinrich, Associate Director of IRP, summarizes the proceedings (to be published by the Journal of Public Administration Research and Theory in 2009). She also focuses on the papers on social service delivery presented there: affordable housing, child welfare services, and mental health. The conference drafts of these papers are accessible on the IRP Web site at <http://www.irp.wisc.edu/newsevents/conferences/stateofagents.htm>.

We hope you will find this and future issues of Fast Focus to be of interest. Look for Fast Focus No. 2 on measuring the role of faith in the outcomes of social service programs.

As always, I am pleased to hear your feedback on Fast Focus or any other aspect of our organization.

December 2008

A state of agents? Third-party governance and implications for human services and their delivery

Carolyn Heinrich

Carolyn Heinrich is Director of the La Follette School of Public Affairs, Associate Director of Research and Training at the Institute for Research on Poverty, Professor of Public Affairs, Affiliated Professor of Economics, and a Regina Loughlin Scholar at the University of Wisconsin–Madison.

For nearly three decades, scholars and practitioners have expressed concern about a steady, long-term transformation of human-service delivery and administration away from direct provision by government to third parties. As a result, author-

ity over the provision of aid has devolved and public service delivery has become decentralized. In *The Shadow Government*, Daniel Guttman and Barry Willner were among the first to call attention to the “invisible bureaucracy” of private, for-profit, and nonprofit firms that contracted with the federal government to deliver public services, and they were among the first to question the resulting changes in the government’s approach to carrying out its activities and responsibilities.¹ Lester Salamon’s early work described how the basic “tools” of government action were changing owing to the growth of “third-party” government or “quasi-government” entities such as networks and other hybrid or collaborative arrangements. Salamon was particularly concerned about the U.S.

welfare state, which he declared “is not run by the state at all, but by a host of nongovernmental ‘third parties.’”²

The research that has followed has only recently started to examine some of the deeper questions about the magnitude and consequences of these changes, including their implications for basic democratic principles and policy objectives, equity in access to public goods and services, responsiveness to citizens, accountability to elected officials, transparency and efficiency in service provision, and effectiveness in service outcomes for the poor and disadvantaged.

The goal of the Institute for Research on Poverty (IRP) conference “A State of Agents? Third-Party Governance and Implications for Human Services” was to bring empirical evidence to bear on the debate and also to explore some of the focal questions about the use of third parties and alternative-governance forms to implement public policy and deliver social services. For example, do empirical studies confirm that government control and democratic responsiveness are compromised as a result of these changes? Is the public sector devolving into a “state of agents,” where government authority is widely dispersed and accountability to the public is weak? Or is the nature of government today simply a new configuration (with more players) of the same checks-and-balances and federalism “games” that have endured in one form or another since the founding of the American state?

Although the conference emphasized empirical scrutiny of these important issues and questions, another goal of this effort was to consider new theoretical frames or paradigms for research in this area. For example, are there recent advances in theories or models, such as social network theory, that are helping us to better understand the nature of these changing governance mechanisms and their implications for government performance and effectiveness of service delivery for the needy? In what ways might principal-agent theory—the dominant framework through which researchers have investigated the structures and arrangements that government uses to direct and control its work—evolve to accommodate its application to increasingly complex governance regimes and relationships, particularly in the context of social service delivery to the disadvantaged and needy?

Key arguments and open questions

A review of the literature suggests at least basic agreement that third-party entities are playing increasingly central roles, and that how the government arranges for them to perform their roles has critical implications for what is accomplished and how it is accomplished. However, in considering the extent to which formal government institutions—with legitimacy and support from (and responsibility to) the electorate for their actions—are able to retain control and uphold obligations to citizens in complex governance arrangements involving multiple, third-party actors, a number of unsettled questions arise. For example, in what circumstances, or with what type of third-party involvement, and at what level of

government do we observe a loosening (or loss) of government control to be most problematic? Is it the weakening of federal control due to lengthening chains of delegation and increasing distance (political and physical) between the origins of government activity and the point of service delivery that is most troublesome? Or has greater cause for alarm come from the devolution of federal government responsibilities *in combination with* new vulnerabilities at the state and local levels, where discretion and control are also more widely dispersed and management capacity is more likely to be “hollowed-out” by extensive contracting or the deferral of responsibility for service provision to networks of nongovernmental providers? In discussing two aspects of what they call “the hollow state,” H. Brinton Milward and Keith Provan consider: Does the devolution of authority to third parties erode the government’s capability both to continue to manage and to maintain the capacity to take back tasks that have devolved?³ And how many links can be added in a chain of funding and authority (between the source and the use of funds) before public purpose and accountability are lost? In their work on mental health, for example, Milward and Provan often find as many as four funding links between the source and use of public funds, and several of those links are often nongovernmental.

Salamon expressed serious concern about the “imperfect” control that federal managers have over third-party government and the “blurring of sector lines” that has occurred as devolution has progressed.⁴ Yet as Carolyn Heinrich, Carolyn Hill, and Laurence Lynn Jr. note, there is little evidence that there has *ever* been a tight link between government authority, activity, and outcomes or anything close to perfect control.⁵ It is more likely that in addition to the growing use of alternative governance arrangements, increasing attention to accountability for results over the last two decades has exposed weak linkages that were overlooked when a primary focus of management and oversight responsibilities (and public concern) was that bureaucracies comply with authoritative mandates.

Nonetheless, there are irrefutable consequences associated with government’s sharing or transfer of power and discretion (granted in the law) to agents of the state, and an expanding body of work documents the potential for both beneficial and harmful results. Among the developments seen as constructive, both researchers and policymakers have pointed to new opportunities to promote experimentation and innovations in program design and implementation through the devolution of responsibility to lower government levels and a more diverse array of hybrid and nongovernmental providers. A familiar related argument is that state or local governments and their nongovernmental partners are better able to discern and accommodate the diverse preferences, values, and needs among citizens and also to facilitate new channels for citizen participation in social services delivery.

On the other hand, one of the trade-offs most commonly discussed in the literature is the one between the flexibility, innovation, and diversity of evolving governance forms and

the constitutional values of transparency and accountability that are associated with traditional bureaucratic structures and their central control mechanisms. As Sheila Seuss Kennedy put it, “political efforts to keep government responsible and accountable—politically, fiscally, and constitutionally—depend on the ability to *identify* government and to recognize when the state has acted.”⁶ An even graver concern may be what she shows to be an intentional use of alternative governance mechanisms to evade “due process scrutiny” and government responsibility for policy actions. In general, scholars agree that a decided shift away from emphasis on hierarchical (tight, rule-based, supervisor-subordinate relationships) and legal (compliance-oriented, external oversight) approaches to accountability and toward looser professional and political mechanisms has occurred with greater deference to third parties guided by professional norms and working within broader parameters that reflect expectations for responsiveness to stakeholders and for performance outcomes. Indeed, measuring the performance of government agencies that rely largely on third parties to carry out their core functions and responsibilities is one of the central challenges in public management today, particularly in the area of social services delivery.

Overview of conference contributions

This brief discussion has brought attention to only a few of the many important questions that researchers are pursuing, or for which further empirical investigation is essential to advance debates about the consequences of expanding third-party, quasi-governmental, and nongovernmental involvement in the design, management, and implementation of public policy. We now describe some of the specific contributions of this conference to these efforts to improve our understanding of third-party governance and its implications. The papers presented at the conference covered a broad range of governance and policy topics, including contracting, networks and other management tools and structures, collaboration and democratic governance, with applications as diverse as national security, education and social welfare services delivery. In this overview, we present key insights and findings from three of the papers that focus on social services delivery (affordable housing, foster care and family services, and mental health), areas that have been subject to some of the greatest growth in third-party involvement and for which there is also profound concern about the impacts of governance changes on vulnerable citizens.

Conference paper contributions and findings

Increasing affordable housing

In their paper on “The Role of Private Agents in Affordable Housing Policy,” Elizabeth Graddy and Raphael Bostic describe how high-profile failures in federally funded affordable housing construction brought an end to subsidized production programs in the 1970s and opened the door for the use of multiple policy instruments to encourage private developers (businesses and nonprofits) to produce affordable

housing. This transformation in affordable housing policy, combined with a devolution of authority for implementation from the federal government to lower levels of government, has been carried out primarily via three policy instruments: the formal transfer of housing policy control from the federal government to the state and local governments through block grants; the increasing use of housing vouchers that allow recipients to access the private housing market; and the provision for tax credits that promote the production of low-income rental housing. The objective of Graddy and Bostic’s research is to explore the consequences of these policy changes for public authority, responsibility, accountability, and effectiveness in affordable housing policy in the United States. They conduct a comparative case study of two states, Massachusetts and New Jersey, that have adopted different governance processes and structures in the production of affordable housing. They also empirically explore how differences in incentives and governance processes lead to different affordable housing outcomes and assess the implications of the increased reliance on private actors in the implementation of affordable housing policy.

In their case analysis, Graddy and Bostic find differences along key policy dimensions in Massachusetts and New Jersey, including the extent of state government support for affordable housing development. They suggest that New Jersey has less continuous political support because its framework was initiated by judicial action. In contrast, legislative action drove the Massachusetts framework, which established a clear standard of 10 percent for the amount of each jurisdiction’s housing stock that should be affordable to lower-income households. In New Jersey, the standard is set by the state and incorporates projections of economic and demographic trends, which they argue are more likely to result in affordable housing production that matches citizen need.

Using administrative data from the Departments of Housing and Community Development in these states, Graddy and Bostic tracked the development of affordable housing units and compared changes in affordable housing shares in these states over time. Recognizing that implementation was largely left to local governments, which had little incentive to meet federal or regional goals, they investigated the extent to which state governance structures mitigated the tendency toward under-provision of affordable housing.

In Massachusetts, they showed that cities with 1997 affordable housing shares of less than 8 percent showed considerable increases in the supply of affordable housing between 1997 and 2008, while cities with shares greater than 12 percent actually saw their affordable housing share decline on average during the same period. Cities with 1997 shares around the 10 percent threshold saw relatively minor changes in their affordable shares. This pattern of results is consistent with the view that Massachusetts cities and developers were very attentive to the 10 percent threshold. In New Jersey, over 22 percent of the state’s jurisdictions met their obligations as identified by the Council on Affordable

Housing (COAH), and the average jurisdiction met about 60 percent of its fair share obligation. However, this overall average masked extremes; nearly half of New Jersey's jurisdictions met less than 25 percent of their obligation, while more than one-third met 75 percent or more of their obligation. Both states were similar in that a large proportion of jurisdictions in each appeared to produce and supply almost no affordable housing, in spite of the explicit structures that both had established to avoid this outcome.

Graddy and Bostic conclude that coherent statewide plans, whether generated by the judiciary or the legislature, can effectively overcome local resistance to affordable housing development, and both plans likely fostered improvements in meeting the goal of affordable housing for all households. In many states, however, there is no mechanism for enforcement by regional or state level authorities to ensure the local production of affordable units and no tracking of the production of these units at the state level. They suggest that this decentralized approach to affordable housing policy oversight not only generates little information with which to assess compliance, but also likely perpetuates under-provision of affordable housing.

Improving child welfare outcomes

In "Governance in Motion: Service Provision and Child Welfare Outcomes in a Performance-Based, Managed Care Contracting Environment," Bowen McBeath and William Meezan describe how policymakers and public managers have sought to reorganize child welfare programs to improve performance, in reaction to claims that they are unnecessarily inefficient, inflexible, and unresponsive to child and family needs. Since the passage of the Adoption and Safe Families Act in 1997 and performance-focused state laws, child welfare systems have been pressured to identify innovative service models that move foster children out of state custody efficiently, without compromising their safety or well-being. Performance in child welfare systems has been traditionally measured by tracking the proportion of foster youth who are successfully placed and retained in permanent placements, such as reunification with their biological families or adoption. Placement with relatives (i.e., kinship care) has recently been included in many state child welfare performance metrics, although evidence suggests that children in kinship care receive fewer needed services and remain in foster care longer than reunified children.

In light of heightened expectations for child welfare system performance, public managers have embraced various forms of privatization under the assumption that private child welfare agencies will serve children and families more effectively and efficiently than public bureaucracies, particularly if they are required to compete with other private providers to secure public contracts. Public managers have embedded performance- and cost-related criteria into the purchase of service contracts, and some states have received federal Title IV-E waivers to implement managed care demonstrations in order to improve child welfare program outcomes. The net

effect of this emphasis on privatization and performance-based contracting has been to give child welfare agencies financial incentives to serve foster youth and their families in a manner that increases their likelihood of attaining permanency within preset time periods.

McBeath and Meezan identify three mechanisms through which public or nonprofit organizations might affect child welfare outcomes in market-based environments: the technical and task environment surrounding frontline service provision (including staff structures and interorganizational relationships); the actual services provided by frontline caseworkers to children and families over their foster care stay; and service intensity (i.e., service provision per day in care). In an empirical analysis of a sample of 175 foster children and families that were served by six nonprofit child welfare agencies in Wayne County (Detroit), Michigan, from 2001 to 2004 (through a performance-based, managed care reimbursement contract with the state), they examine the relationship between each of these three mechanisms and child welfare outcomes. Data on these foster youth and families are integrated with data gathered in a set of 42 telephone interviews with administrators and supervisors from study agencies that identify changes in agencies' foster care technical and task environments that were made during the transition to the performance-based, managed care contracting environment. They construct measures of the amount, type, and intensity of services that agencies provided each foster child and family while in care; and changes in interdepartmental case coordination, staff training, and clinical staff levels, as well as other control variables. The four outcomes of each foster child they focus on (as experienced by the end of the study) are: reunification (return to biological parent/s); kinship care (placement with a licensed relative caregiver); termination of (biological) parental rights; and adoption.

McBeath and Meezan find significant differences in the intensity with which nearly all services were provided, with greater service-related resources (e.g., the development of parent-child visitation schedules and increased caseworker-child-parent interactions) expended to reunify children with biological parents than to achieve other outcomes. As they note, reunification is generally considered the optimal placement outcome for most foster children and their parents and is usually the first option caseworkers consider in permanency planning. At the same time, they observe that some types of services were provided despite having no effect on permanency outcomes. It is in these service areas that the economic benefits of performance-based and managed care initiatives were clearest. Additionally, they determine that foster children served by agencies that had trained staff to expedite permanency planning for clients were less likely to be reunified with their parents and more likely to be placed with relative caregivers. Some agencies trained their staff to locate potential relative placements within the first 30 days of a child's entry into foster care and, where possible, place youth in kinship homes. While all agencies were under similar financial pressures to place foster children quickly into approved placements, agencies emphasizing this "kin-

ship search and placement” function may have formalized a simple strategy to moderate financial risk and reduce service-related costs. They characterize this as a performance paradox, in which agencies under performance pressures (via the performance-based, managed care contracting regime) choose service technologies and pressure caseworkers to serve clients in ways that negatively affect client outcomes and, over time, organizational and system performance.

Governing mental health networks

In the final conference paper that we preview in this article, “Governance and Collaboration: An Evolutionary Study of Two Mental Health Networks,” Brinton Milward, Keith Provan, and Amy Fish conduct a comparative analysis of the evolution of two community mental health networks that have contracts with the State of Arizona. Although both operate under the same set of rules, one is governed by a for-profit firm that both produces services directly and buys them from a network of nonprofit agencies, and the other is managed by a community-based nonprofit that contracts with four separate nonprofit networks to offer services. As they explain, a monopsony (demand from a sole source) was created in Arizona to give authority to private entities (under contract) to act in the name of the state, where government rarely appears other than as the funder of these services. They show how money flows from federal, state, and county sources into these systems, governed by a for-profit firm in one county and a community-based nonprofit in the other. From the perspective of clients, the state does not play any role once eligibility has been determined.

In treating individuals with serious mental illness, Milward, Provan, and Fish note that a continuum of care—in which patients are served in various domains, from medication and therapy to vocational rehabilitation and housing—is considered to be more effectively provided through a wide variety of agencies that collaborate through an integrated network of care providers. A primary question they address in their study is: Does whether a network is governed by a for-profit or a nonprofit entity affect decision making in the provision of these services? It is commonly assumed that nonprofit organizations (not beholden to shareholders) are more likely to provide better care with a larger range of services because they are not under pressure to supply a return on investment. If, in fact, nonprofits are more likely to reinvest excess funds into service delivery, one would expect there to be a difference in quality of service provision between a nonprofit-governed network and a for-profit led network.

Milward, Provan, and Fish use social network analysis to examine these two county systems at two points in time, comparing the more mature of the two networks to the newer one and the for-profit governed system to the not-for-profit managed system. They find that while there was a distinct difference in contracting behavior between the two networks, the informal relationships in each resembled one other. Both networks matured over time, with the number of ties, formal and informal, increasing. However, one strong

difference between the two networks was the degree of network centralization in their referral networks; network centralization increased by 80 percent in the not-for-profit managed system, whereas it decreased by 57 percent in the for-profit led network.

Although data on client outcomes were limited and not directly comparable across the two networks, some comparison of outcomes was possible. These data revealed that while overall quality was modest, both networks experienced improvement in outcomes as the network matured. In addition, there was some evidence that the for-profit governed network received, on average, higher quality scores across all domains from its clientele.

In general, Milward, Provan, and Fish find that both networks are made up of a similar mix of organizations from each sector (for-profit and nonprofit) and are well-managed; this was not a case of a “state of agents” run amok. They also conclude that isomorphic pressures likely lead nonsectarian, nonprofit organizations (competing in a market economy with for-profit organizations) to behave like for-profits, and that the sector of the governing organization plays a mostly insignificant role in the provision of quality services.

Concluding thoughts

In each of the three research efforts discussed above, it is clear that government exercises very limited oversight of “agents of the state”—whether for-profit or nonprofit providers—that conduct the primary work of government in housing, child welfare, and mental health service provision. Yet the organizational structures and incentives that governments establish to promote service quality, efficiency, and effectiveness appear to weigh heavily on service outcomes. In other words, even if they are not engaging directly in service provision, governments play a far more vital role than just funding the services. And government managers cannot expect the competitive market and its third-party entities to just work their “magic” in improving service outcomes without government input.

As public pressures for performance accountability have increased, public managers have introduced performance- and cost-related criteria into purchase of service contracts and fee-for-service agreements, sometimes (as in the case of child welfare) with unintended and harmful consequences. The research described here, as well as in other papers presented at the conference, suggests that governments also cannot simply rely on assumed benevolent, quality-of-service motives of the nonprofit sector to ensure that citizen or client interests are being promoted and protected. Government mechanisms for enforcement and oversight of the public interest by regional, state-, and local-level authorities have often been weak or too far removed from the point of service delivery, but as in the case of affordable housing, they may still make a difference in promoting basic public values such

as equity in access to public goods and services and accountability and responsiveness to citizens for service outcomes.

We view the studies presented at this conference as exemplars of leading research that is making theoretical and empirical contributions to the study of third-party governance. The full set of conference papers will be forthcoming in a special issue of the *Journal of Public Administration Research and Theory*. We hope that this brief summary will encourage new and continuing empirical investigations in this area—especially in the context of social services delivery to the needy where IRP has a central and continuing interest. Clearly, this type of research is only possible with cooperation between researchers and those in government who manage the programs, as it requires deep knowledge of policies and programs and their complex governance structures and incentives to produce new and valuable insights for improving government outcomes. ■

¹D. Guttman and B. Willner, *The Shadow Government* (New York: Pantheon Books, 1976).

²L. Salamon, *Beyond Privatization: The Tools of Government Action* (Washington, DC: The Urban Institute Press, 1989), p. xv.

³H. B. Milward and K. G. Provan, "Governing the Hollow State," *Journal of Public Administration Research and Theory* 10 (2000):359–79.

⁴Salamon, *Beyond Privatization*, p. 11.

⁵C. J. Heinrich, C. J. Hill, and L. E. Lynn Jr., "Governance as an Organizing Theme for Empirical Research," in *The Art of Governance: Analyzing Management and Administration*, eds. L. E. Lynn Jr. and P. W. Ingraham (Washington, DC: Georgetown University Press, 2004), pp. 3–19.

⁶S. S. Kennedy, "Holding 'Governance' Accountable: Third-Party Government in a Limited State," *The Independent Review* XI, No. 1(2006): 67–77.

Fast Focus is a single-topic brief put out several times a year and distributed electronically (only) by the

Institute for Research on Poverty
1180 Observatory Drive
3412 Social Science Building
University of Wisconsin
Madison, Wisconsin 53706
(608) 262-6358
Fax (608) 265-3119

The Institute is a nonprofit, nonpartisan, university-based research center. As such it takes no stand on public policy issues. Any opinions expressed in its publications are those of the authors and not of the Institute.

The purpose of *Fast Focus* is to provide supplemental coverage of poverty-related research, events, and issues between issues of *Focus*, and to acquaint a large audience with the work of the Institute by means of short essays. Full texts of *Fast Focus*, *Focus*, IRP Discussion Papers, and Special Reports are available on the IRP Web site at www.irp.wisc.edu.

Fast Focus is free of charge, although contributions to the UW Foundation–IRP General Fund sent to the above address in support of *Fast Focus* are encouraged.

Edited by Deborah Johnson.

Copyright © 2008 by the Regents of the University of Wisconsin System on behalf of the Institute for Research on Poverty. All rights reserved.

If you received this issue from someone else and would like to receive e-mail notification and an abstract of future issues of Fast Focus, send a message to irpfocusalert-request@ssc.wisc.edu with the subject line "Subscribe."

This publication was supported with a grant from the U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, grant number 3 U01 PE000003-06S1. The opinions and conclusions expressed herein are solely those of the author(s) and should not be construed as representing the opinions or policy of any agency of the federal government.