NGOs and Government:
Implications for Democracy, Citizenship, and Public Administration

By

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Throughout the world, governments have been restructuring their public services due to several trends including fiscal pressure, globalization, changing ideas regarding public management, citizen pressure for improved service quality and efficiency, and new demands for inclusion by previously excluded groups and individuals (Kettl, 1998; Behn, 2001). A central component of this transformation of the public services in many countries has been a substantial increase in government contracting with nonprofit and for-profit organizations to provide needed public services. Governments now routinely contract for many essential public services: sanitation, maintenance, transportation, health care, and social services. This chapter focuses on one major part of this overall trend toward contracting: the emergence in the last 40 years of widespread contracting between the public sector and non-governmental organizations (NGOs). These organizations play critical roles in the delivery of a wide array of services including: humanitarian assistance, mental health, workforce development, community and economic development, child care, emergency assistance, child protection, drug treatment, and home health care.

NGOs are particularly attractive to governments in the current political environment. As part of the “New Public Management”, governments are pressed to cut costs and be more responsive and flexible in the provision of services. Citizens are also demanding greater voice in the administration and implementation of services. Thus, NGOs with their community connections, volunteer participation and greater program flexibility seem to be a particularly good strategy to achieve multiple contemporary public management objectives. NGOs for their part are attracted to providing government services under contract by the possibility of additional resources and the potential to have a wider impact on pressing social problems.

But the sharp rise in contracting raises many knotty and difficult public management issues including the proper accountability for public funds, the contract selection decision, cooptation of community organizations by government, mission drift, and infrastructure development. Moreover, extensive contracting between government and nonprofits also raises
very important, urgent policy concerns that are central to democracy: what happens to the political role of NGOs when they contract with government? Can NGOs help build social capital? Can the many new community organizations facilitate the integration of socially excluded groups into mainstream society? How does the increased reliance on NGOs funded by government affect citizenship, broadly defined?

The remainder of this paper focuses upon these complex management and policy questions. The next section provides an overview and historical perspective on government contracting with NGOs. The subsequent section offers a conceptual framework to understand the relationship between government and NGOs in the contracting relationship. The next section is focused on the management and policy challenges posed by contracting. The fifth section details the implications for citizenship of the greater reliance on NGOs for public service delivery. The conclusion discusses contracting in the context of current trends in public management and the implications of these trends on the users of public services and the citizenry more generally.

**Trends in the Government-Nonprofit Relationship**

Before proceeding further, it is useful to discuss the nettlesome definition issues posed by this chapter. NGOs is a term that has come into wide usage in the last 25 years. Hulme and Edwards (1997) use the term to refer to “intermediary organizations engaged in funding or offering other forms of support to communities and other organizations that seek to promote development” (p. 21). They make a distinction between NGOs and grass-roots organizations (GROs) that rely upon a membership. Examples include neighborhood associations, social clubs, and many types of self-help groups. In the literature, GROs are also called community-based organizations (CBOs) to distinguish them from larger more professionalized organizations. This distinction between NGOs and CBOs/GROs is particularly common in field of development. In
this context, NGOs refer to a wide variety of intermediary service organizations that are nonprofit but do not have a membership base in the community.

Other scholars define NGOs more broadly, to include any nonprofit organization including membership and service based organizations (Lindenberg and Bryant, 2001; Simmons, 1997). Distinctions are then made between different types of NGOs such as development NGOs (DNGOs); northern NGOs such as Save the Children and CARE based in northern OECD countries and southern NGOs with headquarters in southern, generally poorer countries (Also, see Lewis and Wallace, 2000; Edwards and Fowler, 2002; Fowler, 1997; 2000). Transnational NGOs involved in advocacy such as Amnesty International, Greenpeace, and the World Wildlife Fund have also received worldwide attention particularly in connections with controversial policy issues such as global warming, debt relief, land mines, and free trade (Simmons, 1997; Keck and Sikkink, 1998). In the United States, the term nonprofit is generally used to refer to intermediary voluntary organizations providing services to the citizenry with NGO referring to nonprofit organizations that have a non-US focus. In the UK, a similar distinction exists between voluntary organization and NGOs (See, Harris and Rochester, 2001). For purposes of this paper, we will use the term NGO to refer to a broad and diverse range of nonprofit organizations including large transnational organizations such as CARE as well as local nonprofit organizations providing services to the homeless. This usage of NGO fits well given the international focus of the paper. Moreover, as Simmons (1997) notes, the definition of a NGO is less important than focusing on what they do.

**Historical Perspectives on NGOs and Contracting**

Government funding of NGOs has a long history in many countries. In the United States, some of the oldest NGOs in the country such as Massachusetts General Hospital and Harvard University received government funding in the colonial period (Smith and Lipsky, 1993;
Salamon, 1987). In many continental European countries including the Netherlands and Germany, NGOs have received substantial public funding starting in the 19th century (Burger and Veldeer, 2001; James, 1987). But these continental countries tend to be the exceptions. In the United States and many other countries, though, public funding of NGOs remained very restricted and limited throughout the 19th and into the 20th century (Smith and Lipsky, 1993). During this period, most NGOs were small and dependent upon modest private donations and client fees. Further, those agencies that did receive public funds were not in a contractual relationship with government. Instead, government provided small scale subsidies such as per diem payments to cover some of the cost of service by a NGO. The relationship was quite informal and little accountability for the expenditure of public funds existed, partly because the amount of money was quite small.

But the growth of the welfare state in advanced industrial countries in the mid to late 20th century brought important changes to the government-NGO relationship. In the US, Australia, New Zealand, Canada, and Western Europe, the increasing scale of the welfare state meant a sharp increase in the extent of public funding of NGOs. In these countries, NGOs grew in tandem with the growth of the state (See for example, Smith and Lipsky, 1993; Lundstrom and Svedberg, 2003; Gutch, 1992; James, 1987). But to be sure, differences existed. In the UK and Sweden for instance, most public social welfare services were delivered by local government with NGOs, supplementing statutory provision and filling specific service niches (Gutch, 1992; Lundstrom and Svedberg, 2003). In the Netherlands and Germany, most social welfare services were actually provided by NGOs with public funds (Burger and Veldeer, 2001; Bode, 2003). In the US, the situation was quite different. Public social welfare services were provided primarily by local government and were quite limited in nature. And the voluntary sector was quite small and narrow in scope. In the 1960s, public funding of NGOs grew sharply with the growth of the national government’s role in social policy.
One commonality across these countries was the relative absence of formal contracts and market competition in the relationship between government and NGOs. Government funded NGOs through subsidies, grants, and per diem payments. These funds were typically not subject to competitive bidding and were not accompanied by extensive regulations, rules and accountability measures (Smith and Lipsky, 1993; Gutch, 1992). Once a NGO received funding, it could usually depend upon continued funding, unless severe cutbacks in public spending were required.

The shifts to formal contracting between NGOs and government began in the 1970s and then quickened in pace and extensiveness in the 1980s and 1990s. Fiscal pressure in many countries prompted governments to explore ways to reduce public spending and the growth of statutory services. Contracting with NGOs offered the hope of lower costs. Also, conservative governments came to power in the UK, US, New Zealand, and elsewhere. These governments were skeptical of public services and more supportive of market approaches. Consequently, public agencies (usually local government in countries such as the UK, Australia, and New Zealand) were pushed to transform their role into one of a purchaser and enabler rather than a direct provider of services (Gutch, 1992; Considine, 2000). This shift to the enabler role fit with the emergence of the “new public management” movement that stressed, “steering rather than rowing” for public agencies (Osborne and Gaebler, 1993).

It should also be stressed that in many countries such as the UK and US, the shift to contracting did not represent “privatization” of previously public services. Instead, contracting represented the creation of entirely new services, often in response to new social movements such as the women’s movement. For instance, in the US, UK, and Canada, domestic violence programs are provided by NGOs under government contract (Smith and Lipsky, 1993; Smith and Freinkel, 1988; Brown and Troutt, forthcoming). Many other examples exist including immigrant assistance and AIDS services.
The political attractiveness of contracting and the use of contracting as a quick way to respond to new needs is also evident in the growth of contracting among governments and large multinational NGOs such as Save the Children, CARE and Oxfam. These NGOs receive hundreds of millions of dollars in contracts to provide humanitarian relief and development programs. Many countries in the developing world also have contracts with locally based NGOs for a variety of important services (Hulme and Edwards, 1997). The extent of contracting in the developing world has exploded in the last twenty due to the changing character of foreign aid; recurring crises, wars, and natural disasters, and political liberalization allowing the growth of the NGOs.

Contracting between governments and NGOs, as might be expected, varies enormously across countries and indeed in some countries the shift in contracting is marked by subtle but important changes in governments relationship to NGOs. For example, the Netherlands has been extensively supporting NGOs with public funds since at least the 19th century. But as noted it was a system of subsidies and grants. Beginning in the 1990s, though, the Dutch government implemented of “marktwerking” which essentially entails the introduction of market forces to the relationship between government and NGOs. This policy includes formal competitive bidding and competition among NGOs and for-profit firms for government contracts (Burger and Veldheer, 2001). To varying extents, this shift in policy is evident in many other countries such as UK (Kirkpatrick, Kitchener, and Whipp, 2001; Gutch, 1992), the US (Smith and Lipsky, 1993); Finland (Simonen and Kovlainen, 1998); and Australia and New Zealand (Considine 2000).

Importantly, the contracting relationship can be characterized as a “regime” with its distinctive norms and rules (Smith and Lipsky, 1993). This regime varies across countries depending upon the political and institutional history of the country (Considine, 2000). For instance, the specificity of the contracts and the balance between statutory authority and NGO responsibility will vary greatly as will the influence of NGOs on the development and implementation of the contract. Nonetheless, the general trend is toward greater specificity of
contracts and more formal competition (although in practice competition often fall short.)

One additional trend is evident in the relationship between government and NGOs. In the last 10 years, many countries have implemented new consumer subsidies as a strategy to provide needed public services. For example, many countries offer vouchers for eligible parents child care that the family can use to pay for child care from any eligible provider (Besharov and Samari, 2000; Simonen and Kovalainen, 1998). Also, many countries have increasingly employed housing vouchers to help the poor and disabled afford adequate housing (Priemus, 2000). While vouchers for child care and housing are not specifically earmarked for NGOs, they have had important direct and indirect effects on government-NGO relationship. In general, vouchers encourage greater competition among service agencies and increase the uncertainty on receiving payments from government. Thus, vouchers can increase the unpredictability of the funding environment for NGOs.

**Conceptual Framework**

Contracting between government and NGOs has received widespread attention from scholars (See Smith and Lipsky, 1993; Gronjberg, 1993; Gutch, 1992; DeHoog and Salamon, 2002; Hartogs and Weber, 1978; Kramer, 1983). Collectively, this contracting relationship has important unique characteristics that distinguish it from other types of contracting (such as contracting for garbage collection or water). First, the services —such as residential care for the chronic mentally ill or community development—are complex and the outcomes are uncertain and often contested. Second, services such as home care, counselling, hospice care, and workforce development are typically very labor intensive, thus it can be difficult to achieve productivity gains and/or significantly reduce costs. Third, the users of many NGO services may be unable or unwilling to exercise their own voice to register complaints with services. Thus, user or citizen feedback is often quite limited as a measure of performance. Fourth, NGOs are
typically undercapitalized, especially compared to for-profit firms contracting for other public services such as garbage collection. Thus, NGOs often have problems with cash flow and may be unable to adequately invest in their capital infrastructure. Undercapitalization also places NGOs in a politically vulnerable position vis-a-vis government.

Arguably, the complexity of NGO services and the difficulty of performance assessment are major reasons for the continued predominance of NGOs in social and health services despite the greater formalization of contracting and the trend toward “marketization”. Hansmann (1980) noted that donors might prefer to give to a nonprofit organizations rather than a for-profit because they can be assured —due to the prohibition against using donor funds for personal gain—that the money will be used to support the programmatic purposes of the organization. In a similar vein, government officials might prefer nonprofits because they can “trust” that they will use the funds appropriately. And given the complexity of many NGO services and the difficulties of performance assessment, government officials are often in a weak position to switch agencies or to challenge NGO performance.

Donahue (1989) also modeled the contracting relationship as a principal-agent problem: public officials (i.e. principals) rely upon an agent (the NGO contractor) to actually implement the goals and objectives of the principals. But any principal-agent relationship is complicated by the difficulty of the principal monitoring the performance of the agent. Donahue (1989) argues that contracting can be especially complicated in difficult-to-evaluate services due to the potentially high costs of monitoring agent performance.

This principal-agent perspective usefully helps to explain the increasing formalization of the contracting process, including more detailed contracts and greater expectations on performance. As government contracting of NGOs has expanded, public officials have been under greater pressure to ensure the appropriate accountability for the expenditure of public funds, especially given the many demands on public funds. Government needs to “rationalize”
its programs and formalization, particularly through increased regulation, is often a preferred strategy (Brown, 1983). Regulation is also a strategy to increase the compliance of the agent with the wishes of the principal, especially by tying the public payments under contracts to the attainment of specific performance measures. (For example, many workforce development agencies will only receive public contract payments if they meet specific government performance targets on job placement.)

The push for greater regulation of NGOs receiving public funds has often spurred conflict between government and NGOs over the appropriate level of government regulation and NGO autonomy. Part of this conflict is rooted in the different norms that guide public and nonprofit organizations. James Q. Wilson (1967) once observed that organizations are guided by five critical imperatives: equity, efficiency, responsiveness, fiscal integrity, and accountability. But NGOs and government weigh these criteria differently. NGOs are typically created by “communities” of people interested in a particular problem or cause such as community development, homelessness, or juvenile delinquency. Thus, the volunteers and staff of an NGO view the first priority as being responsive to this community, however it is defined by the NGO. For example, a community mental health center may regard its primary responsibility as serving people with mental health problems in a defined geographic area. Or a halfway house for youth may regard its primary constituency as at risk youth who have not been involved in serious criminal activity.

The primacy placed on responsiveness can lead to conflict with government because government places greater emphasis on equity as a guiding norm for their service delivery decisions. Government officials always face the challenge of justifying their allocation decisions given that the demand for government funding and services inevitably exceeds demand. Consequently, government officials are pressured to develop equitable and fair standards to guide their allocation decisions. These standards are evident in many government social and
health programs. For instance, many government programs have strict standards of eligibility based on income or severity of illness.

The differences in guiding norms between government and nonprofit organizations creates two vexing public management dilemmas (Smith and Lipsky, 1993). First, NGOs tend to be more accepting of client difficulties and situations. Relatedly, they are also more likely to be interested in serving a client rather than evaluating the specific effectiveness of the service. By contrast, government cannot be so accepting and increasingly is focused on outcomes and extensive eligibility documentation. Second, NGOs —due to their emphasis on responsiveness to a specific community of interest— may reject clients who are regarded as incompatible with their mission. For example, faith-based NGOs might reject individuals who do not embrace their a particular faith. Or NGOs might reject clients with chronic mental illness because the NGO regards its mission as serving people with less serious mental disorders. In both types of dilemmas, government and NGOs may clash over the appropriate boundary between government and NGO responsibility, especially if government is providing most of the funding for the NGO program. Moreover, these dilemmas tend to spur government to increase its regulation of NGO, out of concern that NGO priorities will be at variance with government priorities unless NGOs are closely regulated.

Over time, government and NGOs may create a set of norms, or “contracting regime” to govern their relationship (Smith and Lipsky, 1993). Many contract relationships tend to be characterized by stability where the two parties settle upon a common set of assumptions to guide the relationship. These assumptions can change of course, especially in times of political change or budgetary crisis. And as Considine (2000) notes, the contracting regime varies across countries, reflecting the institutional dynamics of the welfare state in different countries.

In recent years, extensive comparative research has been undertaken that seeks to understand the significant differences in the composition and role of NGOs in different
countries. For instance, Sweden tends to rely upon public sector provision and much less on NGOs whereas the Netherlands, Germany, the UK and the United States have a substantially bigger NGO sector with a more extensive role in providing public services under contract. Salamon and Anheier (1998) contend that the variation across countries in the size of the nonprofit sector can be explained by a social origins theory that classifies advanced industrial countries into four different regime categories: social democratic, corporatist, liberal and statist.¹ For instance, a social democratic regime such as Sweden will have a large public sector and a relatively small NGO sector. Liberal countries such as the US will have an extensive NGO sector and a very modest public sector. Underpinning this social origins/regime model is the argument that historical forces in particular countries such as the strength of the working class have had a profound and enduring impact on the size and scope of the government and NGO sectors.

The special importance of historical forces in shaping the role of NGO in society is also reflected in the work of scholars such as Hall (1987) and James (1987) who argue for the critical role of organized religion in the formation and development of NGOs. For instance, James (1987) argues that the NGO sector will be larger in countries with diverse religious denominations and groups because religious entrepreneurs will compete for adherents by creating nonprofit educational and social organizations as a strategy to increase their membership. In essence, James (1987), Hall (1987), Alber (1995) and Morgan (2002) and others argue that religious politics matters as much if not more than class politics on the development of NGOs, especially in terms of their place in public service delivery and political advocacy.

Further insight on cross-national differences in NGOs is gained from institutional theory. As it relates to our understanding of NGOs, the institutional perspective suggests that the prevalence and vitality of NGOs is the product of the political, legal and institutional environment (Smith, 2002; Woolcock and Narayan, 2000). Proponents of institutional theory
stress that NGOs represent the choices of individuals shaped by the prevailing institutions. Weak and ineffective governments, a lack of public funding or appropriate tax incentives and regulations, and poor public leadership will profoundly affect the development of NGOs. For example, France has historically relied upon public sector service delivery with a minor role for NGOs. But the Decentralization Act of 1982 encouraged the growth of nonprofit organizations and the use of nonprofits to provide public services by local authorities (Archambault, 2001). Judith Tendler (1997) concluded that the central government was crucial to the formation and sustainability of NGOs and that positive relationships between government officials and NGO staff were essential to NGO effectiveness.

The work of Tendler (1997), Woolcock and Narayan (2000), Evans (1995) and many other scholars underscores the “embedded” nature of many government-NGO relationships, even in situations of formal contracting (Also, Granovetter, 1985; Flynn and Williams, 1996). Many contracts do not operate on a traditional competitive basis but instead depend upon networks of trust and cooperation. Contracts are often relational and thus are long-term even in instances where competitive bidding is required (Smith and Smyth, 1996). This “relational contracting” does not preclude differences of opinion or outright conflict but it does underscore the stability of many contracting arrangements (Deakin and Michie, 1997; Ring and Van de Ven, 1992).

Public Management and the Growth of NGOs: Issues and Challenges

As noted, the prevalence of NGOs and the emergent role in providing important public services (with and without public funds) is a worldwide phenomenon. But this growth presents complex management dilemmas for policymakers and public administrators as well as NGO staff and volunteers. These key challenges are: assessing performance; governance; sustainability and infrastructure support; and collaboration and cooperation.

Assessing Performance
The principal rationale for the increasing utilization of NGOs to provide services lies in the following assumptions: 1) the monopoly of direct service provision by public agencies should be broken (or at least greatly diminished), thus service providers (i.e. NGOs) will be more responsive to users; 2) competition among NGOs for public contracts introduces more efficiency into the service system; and 3) the roots of many NGOs in local communities offers greater opportunities for citizen participation in the development and implementation of services, particularly among heretofore socially excluded groups. Important related assumptions are: 1) a market comprised of a sufficient number of competing NGOs exists, or can be created through changes in government regulations and funding incentives; and 2) service providers are self-interested and thus would be willing to compete for more government contracts and funding (See for example, Flynn and Williams, 1997; Lewis and Glennerster, 1996; Pollitt, 1990; Smith and Lipsky, 1993).

The ability of a market among NGOs to “work” is based on another crucial assumption: the ability of public managers to assess provider performance. But in the absence of clear-cut performance measures, public managers often resort to two strategies: 1) they rely on the reputation of the providers; and 2) they may try to tie reimbursement and funding to the attainment of certain specified performance measures. Regarding the former, the reliance on reputation frequently means that public managers choose NGOs with whom they have a good working relationship. The second point reflects the greater formalization of the government-NGO relationship and the pressure on public managers to demonstrate proper accountability for public funds, despite the difficulty of achieving agreement on performance measures.

*The Perils of Competitive Tendering.* The difficulties of performance evaluation—rooted in part in the principal-agent problem—are a major reason for the potential of counter-productive effects of competitive tendering. Relational contracting based on trust reflects the information problems involved in contracting for difficult-to-evaluate services. The hallmarks of
competitive tendering are: formal requests for proposals; short-term contracts; and choice among providers for contracts. But competitive tendering is directly contrary to the precepts of relational contracting. Further, competitive tendering can actually fuel dysfunctional behavior by government and NGOs that may be directly contrary to the goals of effective performance. As suggested by the political economy perspective, NGOs may rationally react to competitive tendering with actions that are unexpected and unwanted from an overall public management perspective but entirely expected given the incentives facing NGOs.

For instance, Cooley and Ron (2002) documented how competitive bidding for humanitarian assistance contracts in Goma, a town in the Democratic Republic of Congo created powerful disincentives for a well-known and respected aid agency, Refugee Help, to protest the diversion of aid to militants and war criminals. The presence of multiple aid agencies competing for short-term contracts produced an environment where aid agencies including Refugee Help were very cautious about public statements and actions for fear of disrupting their existing contracts or potential contracts. Jeffrey Berry (2003) notes that many charitable 501 c (3) organizations in the US are very reluctant to engage in political advocacy, in part, due to concern that advocacy and lobbying might threaten their existing relationship with government funders and even threaten their tax status.

Short-term contracts and competitive tendering can also be inadvisable because they tend to encourage an under-investment in organizational capacity that can be directly counter to effective service. In practice, competitive tendering coupled with short term contracts tends to squeeze cross-subsidies from contracts and making it difficult for many nonprofits, especially smaller nonprofits to generate surpluses and sufficiently fund their capacity needs such as information and monitoring systems.

**Comparing Sectors.** Evaluating the performance of NGOs, for-profit and public organizations can be a methodologically challenging and difficult task because many NGOs do
not serve the same type of clients as comparable for-profit or public organizations. Further, many service organizations are essentially hybrid organizations. A nonprofit health care organization may have a for-profit subsidiary or a NGO may receive all of its revenue from government. Nonetheless, research on differences across sectors does point to key issues for public managers to consider. First, Donahue (1989) concluded that the cost savings from contracting out job training services to NGOs was largely due to lower labor costs (because of low unionization), rather than the inherent efficiency of contracting agencies. Indeed, many funders are increasingly concerned that the proliferation of NGOs has led to higher costs than would otherwise be the case due to the overlap in the service responsibilities. (Many funders in the US are even taking the lead in pushing NGOs to merge and consolidate their operations.)

But of course, efficiency is not the only relevant goal of public policy. Indeed, one could legitimately argue that many services provided by NGOs are worthwhile and needed even if they cost more than comparable public and for-profit programs. For instance, community residential programs for the developmentally disabled are more expensive than the large institutional facilities that warehoused the developmentally disabled for decades. But quality community living is a vast improvement in the quality of life and opportunities of the disabled.

Indeed, NGOs are also regarded by many policymakers as offering superior program quality. Weisbrod (1989) examined this issue as it pertains to health care organizations such as nursing homes and his conclusion was that the absolute best programs tended to be nonprofit and the worst programs were for-profit, with a large middle with many mediocre nonprofit and for-profit programs. Schlesinger (1998) further concluded differences among nonprofit and for-profit health care organizations diminished greatly as the competitiveness of the health care market increased. Essentially, competition precipitated organizational isomorphism due to the need to compete for clients and patients.

Program quality also raises the issue of trust and accountability. The relative
trustworthiness of NGOs has emerged an important public policy concern as the scale of funding has grown and competition between for-profit agencies and NGOs has intensified. To this point, Gray (1991) argues that nonprofit health care organizations are inherently more trustworthy than for-profit hospitals and thus have a greater incentive to invest in the development and maintenance of quality of care. Again, experience suggests this basic point to be valid except in situations of multiple principals and multiple agents ----i.e. many potential donors and many potential agencies to receive the funds. In these instances, NGOs may have an incentive to be less than completely forthright or “trustworthy.”

One other valued trait of NGOs which is often mentioned in public discourse on NGOs pertains to the belief in the greater flexibility and innovation of NGOs, especially as compared to public organizations. The argument is typically framed as a contrast between large public agencies with rigid rules and regulations and nimble, smaller and flexible nonprofits whose capacity for innovation is similar to a for-profit start-up. This argument fits with the “New Public Management” emphasis on decentralization, competition and greater use of community organizations (Osborne and Gaebler, 1993).

But an examination of the role of NGOs in policy and program innovation reveals a more complicated picture. First of all, the NGO sector is incredibly diverse with many small and large organizations. Nonetheless, nonprofits face significant obstacles to developing and sustaining program innovation. Unlike for-profit organizations, nonprofit cannot tap investors for financing; as a result, nonprofit face limitations on their ability to fund innovative projects even if they have good ideas and initiatives. Further, nonprofits are often very risk averse, especially when faced with multiple potential donors and many potential competitors (Kramer, 1983).

The problems faced by NGOs in program innovation are evident in the evolution of the social services system in the US in the post-World War II period. In the 1950s, a snapshot of NGO social services would reveal a very traditional service system with many long-established
agencies providing the same mix of emergency assistance, counseling and child welfare programs that they had for decades. At the time, public funding was not widespread and private contributions were quite modest and slow-growing. Thus, NGOs were very constrained in terms of their capacity for program innovation. It was not until the federal government provided extensive funding during the 1960s and 1970s did broad and sustained innovation occur (Smith, 2002).

Governance

One of the key distinguishing features of NGOs is their governance structure. Unlike for-profit organizations, NGOs has no shareholders. Indeed, most NGOs do not have members per se. Instead, most NGOs, especially NGOs providing services to the public, have self-elected boards of directors and no members whatsoever. The boards of directors in most NGOs are also volunteer and cannot receive any “profits” from the organizations or benefit unduly from activities of the organization.

This governance structure of NGO creates ambiguity and a lack of clarity regarding who exactly are the owners of nonprofit organizations. Some people might argue that NGOs by virtue of their tax exemptions are actually owned by society as a whole. Others suggest that nonprofits are really owned by the board who is legally liable for the financial and programmatic performance of the organization. In instances of extensive government funding of NGOs, many policymakers and public managers regard NGOs as an extension of government since NGOs by accepting government funds are relinquishing at least some of their private autonomy. And recently, a lot of attention has focused on the users of NGOs services and the need for their participation in organizational governance in some meaningful way.

In short, NGOs have many potential stakeholders and the proper mix of stakeholders in governance role is matter of legitimate debate, setting up inherent conflicts on accountability and
management. How much control should government have? How do NGOs preserve their autonomy? What is the role of users and the local community? These questions and others provoke sometimes passionate, active efforts by stakeholders to press their position.

Resolving these questions is further complicated by the inherent problems of boards of directors as vehicles of governance. Board members are volunteers and legally prohibited from sharing in the profits of the organization (due to the nondistribution constraint). Thus, their ownership stake in the organization is quite attenuated (Steinberg, 1987; Stone, 1987; Ben-Ner and Van Hoomissen, 1991). Arguably, then, the board members of NGOs may not aggressively monitor the performance of NGOs. Board members may also tend to defer to the executive director and his or her staff on key organizational decisions.

Contracting with government creates further confusion and role conflict for the board. The growing use of NGOs to provide services through contracts from government creates added ambiguity for the board. If government is purchasing the services of a NGO, then the implication is that government as the purchaser is in a position to control the services of the NGO. Typically, contracts are negotiated by public managers and NGO staff, effectively cutting out the board from a critical component of the NGO’s operation. Government contracting rules can also be very complicated and sometimes obtuse so the process of contracting can have the effect of distancing the board from the agency’s operations. These pressures can push board members into a focus on fundraising rather than program (Harris, 2001). This result is quite paradoxical since board members are often attracted to the participation on the board due to the purpose of the organization and its programs (rather than a specific desire to help raise money for the organization) (Wilson, 1973).

Thus, in an era of expanded contracting and public responsibilities, NGOs boards are challenged to find a guiding purpose that continues to engage board members in the purpose of the organization. The solution to this vexing conundrum may lie in devising new ways for the
board to help sustain NGO programs while at the same time creating new opportunities for joint
efforts between the board and staff to monitor NGO performance (Ryan, Chait, and Taylor,
2003).

**Sustainability and Infrastructure Support**

Perhaps no subject is more widely discussed among public managers, private funders,
and nonprofit staff than sustainability and infrastructure concerns. The broad concern and
anxiety expressed about this subject reflect, in part, the transformation of the NGO sector and
more generally public services in the last 40 years. Part of the attraction of NGOs is their
community connections and roots. Thus, a disproportionate amount of the growth in NGOs
around the world has been in smaller, so-called community based organizations. Typically, these
organizations are undercapitalized and may at least initially lack sophisticated boards and
professional staff with extensive management experience. Yet, these organizations are directly
delivering very complicated and difficult services with high expectations on performance by
public and private funders and/or the community.

The capacity problems of NGOs have an enormous impact on their role in society and
public service delivery. Undercapitalization and board problems makes NGOs much more
susceptible to donor pressure, especially from government or large private funders. Thus, the
potential for mission drift and assuming responsibilities that may not be the best fit for the
organization increases substantially. Further, undercapitalized NGOs are likely to operate on the
edge of financial survival, creating enduring difficulties in attracting and keeping qualified staff.

As a result, it is not surprising that a lot of attention and resources is being devoted to
improving the sustainability and “infrastructure” of NGOs. For instance, the Bush
administration is devoting millions of dollars to specifically improving the infrastructure of faith-
based service organizations. Many foundations fund intermediary bodies to help their grantees
improve their capacity through such measures as board development, more diversified fundraising, and better financial management.

The challenge though for funders is that technical assistance to enhance NGO capacity requires an ongoing and long-term commitment. Too often, technical assistance is in the form of short-term consulting advice that does not really help NGOs address their long-term capacity problems. The widespread attention accorded to venture philanthropy (Letts, Ryan and Grossman, 1999) and restructuring the relationship of funders to their grantees, especially community organizations is a recognition that technical assistance to NGOs needs to be reinvented if NGOs are to be able to provide effective, quality services.

**Collaboration and Cooperation**

The appeal of NGOs stems in part from their ability to be flexible, innovative, and responsive to the needs of a community or client group. This appeal has helped promote the dramatic increase in NGOs throughout the world. But one consequence has been a fragmentation of services so that many organizations have overlapping missions and purposes. In many urban areas in the US, several relatively small community development organizations and low-income housing organizations may be providing services; each organizations may have their own market niche but it overlaps with other organizations as well. Or at-risk children are likely to need the services of several public and nonprofit organizations if they are to be adequately served.

This service fragmentation may be quite useful because it allows organizational specialization but in an era of tight funding, it is increasingly viewed as a liability. Moreover, without adequate oversight, many users of NGOs services may not be able to navigate the complexities of the service system.

For these reasons, many funders are challenging NGOs to become more collaborative and demonstrate active efforts to cooperate with other NGOs, government and the private for-profit
sector. The obstacles to collaboration and cooperation are in part related to issues noted in earlier pages. First, undercapitalization creates uncertainty among NGOs on their financial position; in this environment, cooperation is difficult since many NGOs may fear that cooperation may reduce their future revenue opportunities (however unfounded a concern). Second, competitive tendering with multiple bidders creates the same type of uncertainty and the perception that cooperation could undermine the long-term future of the organization. Third, the ambiguity of ownership creates complications for collaboration or even mergers of separate organizations because many potential stakeholders can lay claim to the mantle of representing the NGO’s interest. Indeed, one of the principal reasons for the very low number of mergers among NGOs is the difficulty of getting the boards of directors of different agencies to agree. The absence of clear-cut performance metrics in NGOs exacerbates this situation since many potential measures can be used to evaluate organizational performance, especially if an NGO is addressing a long-term and/or complex social problem. Fourth, collaboration and cooperation among different organizations can entail fairly substantial transaction costs in terms of staff time and resources. Public and private donors rarely provide adequate compensation for these costs. Thus, serious financial disincentives for collaboration may exist that are very difficult for NGOs to resolve unless they are very large and can cross-subsidize the costs of collaboration.

To overcome these obstacles to cooperation, funders should provide incentives for collaboration and financial support. In the case of mergers, funders will most likely need to take on a sustained role in facilitating the merger given the complexities of the merger process. And public managers may need to rethink their approach to the contracting process. Instead of short-term contracts and outcome measures, public managers may want to offer longer contracts (with the appropriate level of accountability) as well as help with their capital situation. These initiatives would enhance the overall feelings of security by NGOs and create an environment that is more likely to promote collaboration.
NGOs, Citizenship, and Democracy

The rise of NGOs as an instrument of public policy has put public managers and NGOs squarely in the middle of contemporary debates on citizenship and democracy. There are two basic streams of thought in this debate: 1) the deTocquevillian perspective on the value of NGOs as vehicles for citizen participation and representation; and 2) the perspective of T.H. Marshall and others on role of the state and NGOs in fostering citizenship rights. In both cases, the debate about the role of NGOs is inextricably linked with the ongoing restructuring of the state around the world. This section explores these two different streams of thought with particular emphasis on the public management and policy implications.

Alexis de Tocqueville (1956) argued that voluntary associations were essential to democracy because they provided an opportunity for people to come together to express their views and opinions. He famously observed the United States had many more voluntary associations than continental Europe; to him, these associations were a critical component of American democracy. This de Tocquevillian perspective was articulated more recently by Berger and Neuhaus (1977) who argued that voluntary associations (including the church) were important “mediating institutions” between the state and the individual; as such, they were critical to protecting individual freedom since they serve as a bulwark against the state. They also articulated a powerful perspective evident in major policy initiatives such as the Bush administration’s push for greater use of faith-based organizations and the decentralization efforts of countries such as Australia and New Zealand. This perspective suggests that local democracy can be fostered by supporting local community based NGOs.

The recent work of Robert Putnam on social capital also fits with this viewpoint. Putnam (1993) concluded that voluntary associations such as sports clubs and PTA chapters build social ties in the local community, creating “social capital”, that helps facilitate collective action,
improve the effectiveness of government, and spur economic and community development.
Given Putnam’s work, NGOs have an obvious attractiveness as vehicles for rebuilding communities and promoting greater community solidarity and participation. Indeed, many recent programmatic initiatives in the US and elsewhere are designed to promote social capital building by creating incentives for the establishment and strengthening of social networks. For instance, the Blair administration in the UK has a major community revitalization program in disadvantaged areas around the country that requires the partnership of many different public agencies, NGOs, and private businesses. In the US, many different public agencies and private funders have sponsored Comprehensive Community Initiatives (CCIs) that seek to address difficult social problems such as drug abuse, crime and economic revitalization through multi-party collaborations, typically with a NGO in a lead role (See Connell, et al., 1995).

The push for NGOs to promote citizen participation, user involvement, and social capital building also fits with one central theme of the New Public Management: that public services need to be decentralized and “devolved” to lower levels of administration and make a much greater effort to be responsive to citizens (See Hood, 1991; Behn, 2002).

The ability of NGOs to empower local citizens, promote user involvement, and build social capital varies enormously. And given the diversity of NGOs, generalizations are extremely difficult. Nonetheless, NGOs share some challenges in their ability to successfully achieve the de Tocquevillian role of empowerment and participation. First, NGOs usually do not have voting members but instead have self-electing boards. In the case of many community organizations, these boards may not be very representative of their communities. Also, many community organizations emerge through the dedication and passion of a group of people committed to solving a social problem. But these individuals may not have extensive connections to their communities. The challenges of starting and sustaining new community organizations also mean that these NGOs may have great difficulty attracting and keeping staff and volunteers and
establishing ongoing community connections. (In this sense, NGOs—which provide a service or advocate for a particular cause—are substantively different than voluntary associations such as sports clubs or choral societies that feature prominently in Putnam’s research.)

Second, NGOs may be reluctant to actively participate in the political process (including the mobilization of community members) due to concerns about the reaction of government. This concern most directly affects NGOs which receive direct government funds. But governments also regulate the tax-exempt privileges of NGOs so the staff and volunteers of NGOs may be worried that political advocacy may somehow jeopardize their tax exempt status. This is a special concern in newly democratizing countries where NGOs are less established and the government imposes often onerous regulations on NGOs. But it is also a concern in the US and other countries where overly aggressive political action has been known to invite an audit or intensive scrutiny of an NGO’s activities (Berry, 2003).

Given the great differences among NGOs and the dynamism of the government-NGO relationship, it is not possible to really “solve” these political challenges. To an extent, education of government and NGO staff will help since many NGO staff and volunteers are not well-versed in the laws and regulations governing political activities. Also, model agreements between government and NGOs such as “The Compact” in the UK may help assuage concerns on both sides and promote greater cooperation (Plowden, 2003). Government can also provide incentives for NGOs to reach out to their communities and build new social networks. Indeed, government should approach its involvement with NGOs as a political development issue that requires a long-term commitment to building the civic infrastructure of a local community.

But the political role of NGOs has another citizenship dimension. T. H. Marshall (1964 ed.), the British sociologist, argued over 50 years ago that full citizenship hinged on the availability of political, civil and social rights. Political rights are voting and free and unfettered elections. Civil rights include freedom of speech and association. And social rights are the
availability of social benefits such as public education, adequate income maintenance, and social services such as child care and job training. To Marshall and other scholars of his generation, the public sector was the primary guarantor of citizenship rights; they tended to look askance upon NGOs and the voluntary sector. To them, voluntary organizations did not have the resources or overall capacity to ensure the equitable and comprehensive provision of social rights. Marshall’s perspective was certainly the reigning view of welfare state scholars and many policymakers in the post World War II period into the 1980s.

But NGOs as providers of public services represent an implicit rejection of this view. NGOs offer the possibility of greater flexibility and responsiveness and allow public managers to shift the risk of service delivery from to the NGO sector. This is particularly important in the current political environment. In many countries, the demand for public managers to address complicated social problems continues to grow without the corresponding resources; NGOs allow government managers to shift the burden of financing and funding valued public services, at least in part, to NGOs.

This shift though means that many citizenship rights may become more contingent. First, nonprofit organizations may not have the same commitment to the equitable provision of service as government. Second, the use of NGOs, especially through contracts, introduces an unexpected and sometimes complex entity into public service provision, possibly undermining service access and hence social rights and citizenship. Public agencies have well-developed measures for the proper accountability of service and grievance and appeal procedures if a person is unsatisfied. To be sure, these measures are sometimes ineffective and clients may have difficulty exercising their rights under these procedures. Nonetheless, these procedures exist. In NGOs, accountability and governance is ambiguous, as noted. Consequently, if a user is dissatisfied, it is not often apparent who is in charge. Also, by introducing another layer into public service delivery, contracting with NGOs may discourage people from using services or
voicing complaints about the lack of quality services (Smith, 1993). Third, the use of NGOs also raises the question about the discretion of front-line workers and the principal-agent problem inherent in the government-NGO relationship. Indeed, it is the concern that contracting with NGOs may reduce access for at least some people that leads government to demand ever higher levels of accountability on the part of NGOs. At the heart of the conflict between government and NGOs is a basic concern about discretion and how much discretion should be exercised by NGOs.

As with many management and policy issues, then, a tradeoff exists: government can promote user and citizen participation through NGOs (albeit imperfectly) but government is then at risk that NGO discretion may undermine the equitable and adequate provision of important public services. Given the trends around the world in public service delivery, this fear has some important foundation.

Looking to the Future

The role of NGOs in public policy and public service delivery is likely to remain one of the most central issues in public management in the coming years. Almost every major public policy issue around the world—e.g. humanitarian assistance and relief, immigrant and refugee assistance, job training, community regeneration, and child care—involve NGOs. Thus, the capacity of NGOs to meet public expectations will help define whether or not many governments succeed in satisfactorily addressing urgent public problems.

Moreover, the interaction of NGOs with the citizenry will, in a very important and meaningful way, define their citizenship rights. NGOs control access to many critical services such as income maintenance and social service programs. But this effect on citizenship goes well beyond the direct access to services. Marshall (1964 ed.) envisioned the political and civil rights would precede the granting of social rights. But throughout the world today, many groups are pushing for access to social rights as a way of gaining political and civil rights and hence full
citizenship. In continental Europe, many immigrant groups have been eligible for social benefits for years but have been unable to obtain political citizenship. Now, they are using the access to social benefits as a partial justification for their argument for broader citizenship rights. In the US, gay couples have successfully won the right to have foster children in many states; the resulting legitimacy has been leveraged for other political battles for gay rights. And, the political resistance to the Bush administration’s Faith-Based Initiative is premised in part on the concern that advancing in protecting workers and clients from discrimination will be eroded, thus setting a very dangerous precedent.

Further, the political debate on NGOs reflects, to an extent, the unrealistic expectations of both the Left and the Right on the potential of NGOs. The Left hopes NGOs will push the state to change and help previously excluded groups achieve full citizenship rights through political empowerment and access to social benefits. But this perspective neglects the resource problems of NGOs as well as their inherent governance challenges. The Right hopes that NGOs will shrink the role of the state in society and shift responsibility for solving social problems to the community and the individual. Yet, this view fails to take into consideration the capacity problems of NGOs and their dependence on the public sector to provide broadly available services.

In general, though, NGOs are likely to be more effective in providing services and representing their community when public and private funders invest in these organizations as a long-term strategy and conceptualize their relationship with NGOs as a social contract. Through this approach, issues of disagreement can be discussed and possibly resolved to mutual satisfaction. Absent this approach, disappointment with NGO performance is likely to rise, overshadowing the many positive contributions of NGOs to their community and society at large. Over time, this disappointment could undermine the prevailing legitimacy of NGOs as providers of public services, leading to a turning away from NGOs. This outcome would be particularly
unfortunate at time when NGOs are being called upon to build and re-build civil society throughout the world.
Endnotes
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1. Salamon and Anheier base their social origins theory in part on the earlier work of Gosta Esping-Anderson (1990) and Barrington Moore (1965).

2. The political economy perspective is quite helpful in understanding the underlying dynamics affecting the capacity of NGOs to undertake innovation. As the level of competition among principals and agents increases, the risks of program innovation are higher. Thus, one would predict that the behavior of NGOs would tend to converge in situation of competition and their actual programs would become more predictable.