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Governmental Influences on Organizational Capacity: The Case of Child Welfare Nonprofits

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Abstract: When government agencies interact with nonprofit organizations they have various effects on the organization's capacity. But, it is unclear how a particular agency's environment—both internal (i. e. organizational culture) and external (i. e. resource dependency)—determines whether government's influence on that agency will be positive or negative. Using data from a survey of child welfare nonprofits, this paper examines to what extent a nonprofit's relationship with government improves or hinders their capacity. Evidence suggests that the nonprofit's organizational culture, dependency on government funds, and relational contracting has a significant impact on the perception that governmental interaction has made capacity better or worse. Contrary to expectations, there are improvements in management activities as government funding and contracts increases.

Keywords: contracting, collaboration, child welfare, organizational capacity

Society's problems have become increasingly complex, and the expectation that government agencies can solve those problems within the boundaries of rigid, hierarchical agencies has largely gone by the wayside in public administration (Kettl 2006). Even straightforward service provision, such as waste management, is often administered through contracts with private agencies instead of direct service provision through a central government office. Policies aimed at “wicked” problems such as poverty, security, and child welfare, require the involvement of multiple levels of government and agencies across sectors (Milward and Provan 2006; Van Bueren, Hans-Klijn, and Koppenjan 2003) leading some to question if independence is even possible in the modern welfare state (Smith 2004).

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Early implementation research found that it is difficult to coordinate multiple levels of government and multiple government agencies to implement public policies, even when those policies are relatively straightforward in goals and support (Pressman and Wildavsky 1984). When there are multiple decision points, there is more opportunity for changing or vetoing ideas. However, additional work showed that central control and coordination also has substantial limitations in implementing complex policies (Hanf and Scharpf 1978; Hjern and Porter 1981). As the federal government has pushed implementation down to state and local governments, networking and collaboration has become more vital, because lower level governments rely on nonprofit organizations to implement policies within communities. This early literature on implementation, institutions, and networks informed current research in collaborative management and governance (Heinrich and Lynn 2000). Governance today becomes a “team sport” where organizations, especially public and nonprofit, form partnerships in an effort to achieve public goods and services further requiring government to employ various tools like contracts, grants, tax incentives, and networks to achieve desired ends (Salamon 1995, 2002, 600). Nonprofits, in turn, must develop capacity and to find mechanisms for implementing social services and to develop organizational structures and processes that enable them to do this successfully.

As government agencies increased funding to nonprofit organizations to develop and deliver social service programs, the nonprofit sector increased in size (Steuerle and Hodgkinson 2006). Much of this increase came from the creation of new nonprofit organizations, but some of it was due to established nonprofits creating new programs to compete for government funding. To understand the magnitude of the relationship between government and human service organizations, a recent report from The Urban Institute found that a majority of human service organizations consider their government contract or grant to be their largest source of funding with \$100 billion being awarded to nonprofits in 2009 (Boris et al. 2010). This has led to a rise in competition among human service organizations in response to present-day shrinking government funds and the movement of for-profits organizations into traditionally nonprofit service areas (Salamon 2012) like child welfare. Given this, it is not surprising that some have argued that government funding of private agencies to provide social services is “perhaps the most significant development in the latter part of the 20th century” (Ginsberg and Gibelman 2009, p.93).

While a co-dependency between the two sectors exist, some scholars have shifted their attention to how the reliance on government funding changes nonprofit organizations’ governing and management practices (Alexander, Nank, and Stivers 1999; Guo 2007; O’Regan and Oster 2002; Van Slyke 2007),

and, at times even requires hybrid structures and forms of operating (Smith 2010). Nonprofits are being asked to increase organizational capacity in response to funder demands on all fronts via board of directors, donors, and governmental stakeholders. On the other hand, funders must find nonprofits with sufficient capacity to “deliver effective, innovative, and sustainable solutions” (Malveaux 2007, 113). Previous research has focused on contracts to determine how the structure of an agreement between a principal and an agent affects the actions and reactions of parties involved. This perspective ignores other important factors, such as leadership, ideology, culture, and organizational goals (Miller 1992). Organizational culture profoundly shapes the way organizations understand and respond to problems (Schein 2010) and helps explain how groups face the “inevitable internal needs, external challenges, and uncertainties of existence... it is both the behavior and the reason for the behavior” (Sturm, Hinden and Teegarden 2011). A nonprofit’s organizational capacity may be shaped by both their internal organizational culture and the external demands placed on their performance by their government principals. We seek to further this area of the literature by determining how a relationship with government agencies affects nonprofit organizational capacity.

In this paper, we examine the relationship between government agencies and nonprofit organizations using the policy arena of child welfare. We determine whether a relationship with government agencies—specifically public child welfare agencies—improves or worsens a child welfare nonprofit’s organizational capacity. Our research seeks to build on previous research in resource dependency, organizational culture, and relational contracting to identify other variables that might explain the effects of cross-sector collaboration on nonprofit organization capacity.

First, we provide a brief overview of the evolving relationship between public and nonprofit child welfare agencies. Next, we introduce hypotheses about government-nonprofit relationships that stem from theories of resource dependency, organizational culture, and relational contracting. Finally, we provide results from an OLS model and then discuss the implications of our findings and areas for further research.

Providing for the Welfare of Children: Complicated Relationships

The child welfare system—which encompasses abuse and neglect prevention, foster care services, adoption, and family reunification—is widely seen as a

system in crisis in the United States (Curtis, Dale, and Kendall 1999). Even though the number of children in foster care has slightly fallen over the last few years with over 600,000 children being served (Children's Bureau 2013), researchers are still trying to better understand the complex needs and outcomes of individuals in the child welfare system (Pecora et al. 2010), including mental health (Clausen et al. 1998), long term educational deficiencies (Burley and Halpern 2001), and family reunification (Berrick, Barth, and Needell 1994; Davis et al. 1996; Maluccio 1999). The issue of child welfare is complex, and like other wicked policy problems, requires expertise from multiple fields across sectors. Between 80 % to 90 % of states report publicly funding various private and nonprofit child welfare agencies in their delivery of services to at-risk youth and families (U.S. DHHS and ACF 2001). Government agencies-i.e. State Departments of Human Services-may not have the capacity to provide all of the services necessary, and they have increasingly sought out the diverse expertise of nonprofit organizations to help administer programs aimed at the care of children (Barillas 2011).

Nonprofit organizations have been in the business of caring for poor children and orphans for hundreds of years, but direct government involvement in the welfare of children did not begin in the United States until the early twentieth century with the creation of the Children's Bureau, which advocated for the first grant-in-aid program targeted at child health programs (Lemons 1969; Lindenmeyer 1997). From 1940–1970 the number of foster care programs and children in foster care grew, as did the idea that children should be reunited with their families whenever possible. The state became even more involved in child welfare services as federal grants for welfare services increased greatly in the 1960s through the federal government's War on Poverty (Bremner 1974; Flaherty, Collins-Camargo, and Lee 2008). The 1970s and 1980s saw increased child abuse reporting standards for states, and many public agencies became child protective service agencies, as well as foster care service providers (Lindsey 2004). In the 1990s, changes in federal law (most notably the Personal Responsibility and Work Opportunity Reconciliation Act) shifted much of the responsibility for child welfare to the state and local level, and encouraged state governments to work with nonprofit organizations, faith-based organizations, and private organizations to provide services (Courtney 1999; Mangold 1999; Scarcella et al. 2006). Child welfare services (i.e. foster care, adoption services, neglect and abuse monitoring) now resembles a partnership between government agencies-providing funding, case management, and regulation-and nonprofit organizations-providing placement, counseling, facilities, and other services (Rosenthal 2000). Despite the rich history of public and

private agencies providing child welfare services, the study of these organizations themselves have only recently become the unit of analysis in research (McBeath et al. 2014, 84).

Public child welfare is an excellent policy arena to study the effect of collaboration with government on nonprofit capacity for a couple of reasons. First, government agencies rely heavily on nonprofit organizations to provide the range of complex services needed by children and families (U.S. DHHS and ACF 2001). In the last decade there have been more contracting out of essential child welfare services to nonprofit and private agencies and all states have some level of public-private partnerships in the delivery of services to at-risk children and families (Collins-Carmargo et al. 2014). Second, the relationship between government and child welfare nonprofits is often governed by contracts, but the type and number of contracts differs by agency (Scarcella et al. 2006), which provides diversity for this study. Some nonprofits accept a mix of public and private funds, as well as earned income through fees for service, while other nonprofit organizations rely entirely on government for funding, which further provides diversity for this study, because we can examine the effects of resource dependency on nonprofit capacity.

Organizational Capacity

Organizational capacity, or lack thereof, is an important and timely topic in the nonprofit management literature. In part, nonprofits do not always have the capacity to administer programs in the most desirable manner; moreover, nonprofits may not receive the full support of funders or grantors to invest in capacity building activities such as professional development and higher educational opportunities. Often under funder or competitive pressures, nonprofits have been increasingly turning to business and governmental forms of operating and managing their organizations to generate and diversify their resources and to show organizational legitimacy (Frumkin 2005; Salamon 1995; Weisbrod 1997). In turn, the emphasis on resource development may positively or negatively shape a nonprofit's ability to develop and focus on organizational capacity. The need to focus on managerial and organizational capacity is a considerable concern for nonprofits from across the subsectors (De Vita and Fleming 2001; Millesen, Carman, and Bies 2010).

Organizational capacity can more broadly be defined as mission fulfillment (McPhee and Bare 2001) and more narrowly as “an organization's ability to

implement a specific policy or procedure” (Barman and MacIndoe 2012, 74) or “implement and complete a new project or to expand an existing one successfully” (Schuh and Leviton 2006, 172). Sowa, Selden, and Sandfort (2004) go on to explain capacity in terms of processes, structures, and outcomes. They state: “capacity refers to how the organization or program operates, the structures in place, and the operating processes that dictate and direct employee actions. ‘Outcomes’ are the results produced by management and program activities” (715). Given these definitions, capacity includes multiple components and may also shape an organization’s overall ability to be effective.

Therefore, integrating the perspectives from public and nonprofit administration as well as program evaluation we can explore organizational capacity more holistically. Program evaluators and grantors have long emphasized the value of incorporating logic models or a theory of change to explain agency action and hold organizations accountable for their actions and results achieved. As such, logic models include inputs (“what goes into the program”), outputs (“what we do and who we reach”), and outcomes/impacts (“what results: the value or changes for individuals... agencies”) (Taylor-Powell and Henert 2008, H15). Relatedly, public and nonprofit literatures tend to focus on structures, processes, and outcomes of agency and managerial capacity, performance, and finally the overall effectiveness of a program or policy (Hill and Lynn 2005; Lynn, Heinrich, and Hill 2001; Lynn and Robichau 2013; Sowa, Selden, and Sandfort 2004). With these literatures in mind, we operationalize organization capacity in a multidimensional way that considers inputs-outputs-outcomes or a structures-processes-outcomes logic recognizing the overlap between these concepts (see Table 1).

Table 1: Organizational capacity as multidimensional.

Inputs-Structure	Outputs-Processes	Outcomes
– Doing paperwork	– Agency transparency	– Ability to serve children and families well
– Overall financial outlook	– Ability to respond to community needs	– Ability to meet key agency performance outcomes
– Outside oversight and monitoring	– Accountability to clients	
– Relationship with other nonprofits	– Development of new programs	
	– Development of long-standing programs	

The public administration and nonprofit literature offers a wide range of management variables that might help explain an organization’s overall capacity. Here we focus on the management variables that would be most important for public child welfare agencies, which often have broad collaboration and

contracting relationships with government agencies and other nonprofit organizations (See Wells et al. 2014 for discussion). This may create an increased demand for changes in management practices that can also affect organizational capacity including, heightened performance measurement standards (Gronbjerg 1991), stricter accounting standards (Kapucu, Healy, and Arslan 2011; Schuh and Leviton 2006), and greater transparency with the public and other organizations (Bies 2001). This in turn often leads to increases in required paperwork, which can affect service delivery (Rubin 1993). It can also push organizations to make changes in management and organizational structures within the agency, which affect the way that public child welfare agencies respond to their constituencies—i. e. families and children (McBeath et al. 2014).

For the purposes of this paper, an organization's capacity is defined by the processes, structures, and outcomes that when combined may enable or constrain the organization in achieving their missions and goals. Therefore, we argue that an organization's overall capacity may be shaped externally by their relationships with other organizations and internally by their own organization's culture. Table 1 reflects how a nonprofit child welfare capacity may be captured with this in mind. For child welfare agencies, however, the ultimate concern is for the well-being of the child, and a recent study of private child welfare agencies finds these organizations are facing normative pressures to demonstrate efficiency and accountability when it comes to assessing risk for children (Wells et al. 2014). These normative pressures may affect a child welfare agency's capacity.

Resource dependency theory is commonly used to explain why organizations seek collaborative arrangements (Gazley and Brudney 2007; Guo and Acar 2005). Nonprofit organizations often need to seek resources—finances, personnel, etc.—to combat the negative effects of competition, reductions in overall revenues, and other environmental factors. In order to survive external shocks, such as an economic downturn, nonprofits will collaborate with other nonprofit organizations and across sectors to seek those resources (Pfeffer and Salancik 1978).

In the twentieth century, nonprofits saw a marked increase in funding available from the government (Steuerle and Hodgkinson 2006; Young 2006). However, funding streams to nonprofit organizations vary by subsector—arts v. health and human services—and by nonprofit organization, so that the amount of government funding as a proportion of overall organization funding varies substantially. Some organizations exist wholly on government funding, while others accept a mix of government and private funding, and still others operate with no government funding (Smith 2006). Even for organizations that only operate partially with government funding, the addition of government financial

support can provide flexibility in the use of private or other unrestricted giving and open up additional service opportunities (Boyne 2003).

Reliance on government funding can also have negative consequences for the organization. First, government grants and contracts often come with strings attached that can “tie” the hands of nonprofit organizations. These strings include overly restrictive spending guidelines, such as the requirement that the money only be used for acquiring computers, when the organization really needs new staff members. Much of the time, contracts and grants have restrictions on how or when programs are delivered that may not be in line with the overall mission or goals of a nonprofit organization. This restricted money is focused on specific programs or program objectives rather than building organization capacity (Jones 2003), and it can create greater management costs through the addition of accounting and performance measurement requirements (Gronbjerg 1991). When organizations adjust to comply with restrictive contract or grant requirements, it can lead to mission drift (Van Slyke 2007), vendorism (Frumkin 2005), changes in management and hiring (Steuerle and Hodgkinson 2006), changes in governance, including less community representation (Alexander, Nank, and Stivers 1999; Guo 2007), and a shift in focus from fundraising to financial management (O'Regan and Oster 2002).

Second, many grants and contracts have extensive reporting obligations that require organizations to conduct program evaluation or additional performance reports (Dubnick 2005; Dubnick and Frederickson 2009). New performance reporting is often coupled with increased accounting requirements, and this can force nonprofit organizations to either professionalize or to seek professional help, which taxes personnel and financial resources. Focusing on paperwork and politics can also force organizations to lose focus on mission, goals, services, and ultimately outcomes.

While the availability of government resources can have positive effects on nonprofit organizations by allowing them to provide new programs and services, or freeing up private giving for other purposes, this funding can also negatively affect an organization's capacity, through additional paperwork, increased red tape, and constraints on spending and program services. Therefore, we developed competing hypothesis with regard to resource dependency.

H1a: Organizations that rely on government funding will report that their organizational capacity has increased as a result of the organization's relationship with government agencies.

H1b: Organizations that rely on government funding will report that their organizational capacity has decreased as a result of the organization's relationship with government agencies.

Organizational Culture

Many studies of collaboration and contracting have focused on the external environmental factors that affect the desire to collaborate or enter into a contracting relationship. This is particularly true in studies relying on principal-agent or transaction cost theories, which focus on how a contract or arrangement is structured to increase compliance by the agent and decrease monitoring costs for the principal (Brown and Potoski 2003a, 2003b). We have learned a great deal about contracting relationships from this literature, but it tells us little about how the agency's internal environment affects the organization's likelihood of entering into a partnership or organization's ability to deal with external shocks, such as the negative aspects of contracting discussed in the previous section. One measure of an organization's internal environment is its organizational culture, which is "...the patterns of values and ideas in organizations that shape human behavior and its artifacts" (Zammuto and Krakower 1991, 83–84). In particular to child welfare systems, Glisson and colleagues have found that different types of organizational cultures and climates profoundly shape child outcomes and service quality as well as the experiences of caseworkers in the system (Glisson 2002, Glisson 2007, Glisson, Green, and Williams 2012, Glisson and Green 2011).

Many scholars have tried to develop a meaningful definition and measure of organizational culture. We utilize the definition from the competing values model of Quinn and Rohrbaugh (1983).

The Quinn and Rohrbaugh model argues that organizational approaches to performance vary along three dimensions: (1) organizational focus (people versus the organization), (2) differing preferences about structure (control versus flexibility), and (3) different foci on important organizational processes and outcomes (means and ends)." (Moynihan and Pandey 2005, 426).

The competing values model was first operationalized by Zammuto and Krakower (1991) and includes four cultural types. Developmental culture is focused on the organization, flexibility, adaptability, growth, and resource acquisition. A hierarchical culture is focused more on people (human resources), control, managing information, and organizational stability. The third group, rational culture, focuses on organizational goals, control, planning, production, and efficiency. Finally, group culture focuses on people, flexibility, and employee morale and cohesion (Moynihan and Pandey 2005, 2010; Quinn and Rohrbaugh 1983; Zammuto and Krakower 1991). For this study, we use measurements of the Competing Values Model developed by Moynihan and Pandey

(2005, 2010). We chose this measure over a number of other options, because it has previously been used to examine the influences of organizational management on agency outcomes.

In previous research, organizations with a developmental culture were more likely to use performance management information than those with a hierarchical or rational, risk averse culture (Moynihan and Pandey 2010). Furthermore, a manager's ability to cultivate a developmental culture has been cited as one management choice that can make an organization more effective (Moynihan and Pandey 2005). We believe that a developmental culture will have similar significance in this study—a positive effect on the how the relationship between government agencies and nonprofits affects the nonprofit's capacity. Conversely, we believe that hierarchical cultures will have a negative effect in this same area. The other cultural types have not significantly influenced management decisions in previous studies, and while we include them in statistical models for control in this study, we do not hypothesize about their relationship with collaboration or capacity.

As discussed above, nonprofits are more likely to seek partnerships with other organizations when they need tangible and/or intangible resources to increase capacity and/or expand services. Therefore, organizations with a culture that encourages growth will be more likely to partner with government agencies that provide the resources necessary to achieve that vision. When organizations enter into a relationship with other organizations they do so with some uncertainty. It is unlikely that the two organizations will have similar processes, goals, or cultures, and that this new relationship will require changes in procedure or other organizational processes. A developmental culture focuses on organizational flexibility and adaptability. The flexibility and adaptability of the organization will make it better able to absorb shocks to its internal operations (Beyerlein et al. 2003; De Leeuw and Volberda 1996)—such as new reporting standards or constraints on program delivery—that come from relationships with government agencies. The ability to be adaptable and modify operations when necessary will make these organizations less likely to perceive negative effects on their capacity due to their relationships with government agencies. In summarizing their work on nonprofit organizational culture, Teegarden and colleagues (2011) find that external shocks or environmental changes, especially funding ones, lead many nonprofits to emphasize their beliefs and assumptions about the work they do in regards to mission achievement, financial management, and the distinctive values of their organization. In essence, while nonprofits may need to adapt their culture in response to their environment, this adaptation resembles more of an incremental change or developmental culture that still requires an organization to

enhance what they do and how they do it rather than completely changing who they are in response to government requirements.

Organizations with a hierarchical culture are more focused on centralization and control and may not be able to adapt to internal shocks as easily. These agencies may be more likely to perceive negative effects on their organizational capacity due to their relationship with government agencies.

H2a: Organizations with a developmental culture will report that their capacity has improved as a result of the organization's relationship with government agencies.

H2b: Organizations with a hierarchical culture will report that their organization capacity has decreased as a result of the organization's relationship with government agencies.

Relational Contracting

Trends show that government subcontracting to private child welfare agencies has had a significant increase in almost all areas from 1999 to 2009 (Wells et al. 2014). As discussed briefly above, these agreements are structured to prevent shirking on the part of agents (nonprofit organizations), and reduce the cost of monitoring on the part of the principal (government agencies). This rigid relationship is born out of uncertainty, but some research has shown that as relationships develop between government agencies and nonprofits through continued partnerships, contracts can take on a more relational tone based on credibility (Bertelli and Smith 2009), trust (Fernandez 2007), and shared objectives and discretion (Van Slyke 2007). Due to successful relationships over time, some government agencies may be able to focus less on monitoring nonprofit activities, and allow the nonprofit organization more flexibility in program design and service delivery. This may vary based on specific state or federal regulations and arrangements. For example, while child welfare policies are often set at the federal level, other “statutes and regulations...case law, e. g., court decisions and consent decrees... vary significantly at the state and local level” (Chuang et al. 2014, 103). Given that mandates and regulations become implemented through government contracts, often at the state level, contracts could vary with some being more flexible than others. We argue that the flexibility and trust that develops out of long-term relationships can increase the capacity of nonprofit organizations, because it gives the nonprofits access to needed resources without as many of the constraints that may be present in newer contract relationships, such as program evaluation and financial reporting requirements discussed previously.

H3: Organizations with more government contract experience will report that their capacity has improved as a result of the organization's relationship with government agencies.

The following section discusses the data and methods used to test the hypotheses discussed in the previous sections.

Data and Methods

The data for this analysis were collected via a nationwide survey of top-level administrators at nonprofit organizations providing child welfare or advocacy services in 2012. We used the National Taxonomy of Exempt Entities (NTEE) codes from the Internal Revenue Service and National Taxonomy of Exempt Entities-Core Codes (NTEE-CC) to identify the universe of 426 organizations that are classified primarily as providing child welfare or advocacy services. Nonprofits coded as P32, with the designation of their major activity being foster care, were surveyed. The total population of nonprofits and for-profits providing child welfare services is unknown (McBeath, Collins-Camargo, and Chuang 2011). The 51-item survey was emailed to 426 top-level administrators and directors between April and June of 2012. Respondents were asked questions in regards to their agency's characteristics, environment, relationships, operations, and their individual experiences. There were 184 surveys returned with responses from 38 different states giving us a response rate of 43 percent. We used financial data from the organizations' IRS Form 990's such as total revenue, net income, liabilities, and assets to check for non-response biases. In our t-test comparison between the potential respondents and the administrators that responded, we found no statistically significant differences in their financial data listed above. In order to determine what factors influence the perception that a relationship with government agencies has improved or worsened nonprofit agency capacity, we develop an OLS model with the following variables.

Dependent Variable

The dependent variable in this model is meant to measure an organization's capacity, and is based on research in the nonprofit literature, program evaluation, and the related structures-processes-outcomes framework discussed above and included in Table 1. Respondents were asked, "Thinking specifically about your agency's relationship with public child welfare agencies in general, what effect has this relationship had on the following areas of your

agency?”¹ Respondents were provided with a list of the 11 organization activities that are included in Table 1 above. Possible responses were listed on a scale from 1–5, with 1 = “it’s made it much worse” and 5 = “it’s made it much better”.

We first assessed the internal consistency of the survey responses, and found that the survey items were closely related ($\alpha = 0.92$). We then conducted exploratory factor analysis on the eleven dimensions, because we expected that they represented a latent variable, capacity, that connected and better described the dimensions. The results of the factor analysis showed that the dimensions were not wholly independent of each other as the factor analysis produced a single dimension with an eigenvalue of 5.97. The next closest dimension had an eigenvalue of 0.59 (see dimensions for the single factor in Table 2). We conducted further testing of the construct and verified that there was both convergent and discriminant validity by calculating the average variance extracted at 0.53 (Fornell and Larcker 1981).

Due to the high internal consistency, reliability, and validity of our multiple measures of organizational capacity, and the fact that the multiple measures loaded convincingly onto one factor, the use of a factor score as a dependent variable in a single OLS model is appropriate. The close relationship between each of the 11 measures of capacity would make the inclusion of separate models redundant while not necessarily adding to our understanding of overall

Table 2: Dimensions of single factor representing agency capacity and summary statistics.

Organization Activity	Factor Score	N	Mean	SD	Range
Agency transparency	0.6008	160	3.31	0.92	1–5
Ability to respond to community needs	0.8115	161	3.27	1.05	1–5
Doing paperwork	0.6239	162	2.56	0.93	1–5
Outside oversight and monitoring	0.7001	161	2.85	0.98	1–5
Accountability to clients	0.6271	162	3.15	0.87	1–5
Relationship with other nonprofits	0.5591	162	3.16	0.81	1–5
Overall financial outlook	0.7675	162	2.76	1.07	1–5
Development of new programs	0.8204	162	3.02	1.01	1–5
Development of long-standing programs	0.8335	162	3.08	0.97	1–5
Ability to serve children and families well	0.8327	162	3.15	1.16	1–5
Ability to meet key agency performance outcomes	0.8490	162	3.07	1.00	1–5
Eigenvalue = 5.97584					
Total Variance = 0.8908					

¹ This survey question is modified and expanded from the National Survey of Private Child and Family Service Agencies (McBeath, Collins-Camargo, and Chuang 2011).

organization capacity. We used the factor score as a dependent variable representing the reported improvement (or deterioration) in agency capacity brought on by relationships with public child welfare agencies.

Resource Dependency

We used responses to two questions from the survey to test our resource dependency hypothesis. The first question asked respondents to identify the source of the largest portion of their agency's operating budget revenues. Respondents could choose a single answer with the choices, "government", "individual donations", "business grants and/or donations", "fees for services rendered", "other nonprofits or foundations", or "business subsidiaries of your agency". Since our main concern was dependency on resources from the government, we constructed a dummy variable where 1 = "government support" and 0 = "all other funding sources." This survey question is consistent with previous research on resource dependency, which focuses on financial measures of resource dependency (Guo and Acar 2005; Krueathep, Riccucci, and Suwanmala 2010).

The second survey question examining resource dependency asked respondents what the effect would be on their agency's daily operations if they stopped receiving government funds. This hypothetical question is meant to gauge the nonprofit manager's perception of resource dependency. It provides an opportunity to better understand how much managers feel their organization actually depends on government resources. Respondents were asked to choose one of the following options; "the agency does not receive government funds", "it would have no impact on my agency", "the agency would have to substantially cut its services and capacity", "the agency's scope and mission would change significantly", and "the agency would have to be shut down." For ease of data analysis, these responses were collapsed into an ordinal variable with 0 = "no effect", 1 = "affects services or mission", and 2 = "agency would shut down". *Organization Culture*: In order to identify organizational culture, respondents were asked to rate how well a series of four statements describe the work environment of their agency. The statements are variants of those used by Moynihan and Pandey (2005) and are provided in Table 3. Responses were given on a scale of 1 to 5 with 1 = "strongly disagree" and 5 = "strongly agree". Due to our hypotheses, we are primarily interested in the variables for developmental and hierarchical cultures. However, we include independent variables for each of the cultural types in the model in order to provide a more robust model and provide a more complete picture of the relationship between organizational culture and the effect of relationships

Table 3: Survey questions measuring organizational culture.

Rational Culture – My agency is very production oriented. A major concern is with getting the job done. People aren’t very personally involved.
Group Culture – My agency is a very personal place. It is an extended family. People seem to share a lot of themselves.
Developmental Culture – My agency is a very dynamic and entrepreneurial place. People are willing to stick their necks out and take risks.
Hierarchical Culture – My agency is a very formalized and structured place. Rules and procedures generally govern what people do.

with government on nonprofit capacity. This resulted in four ordinal variables measuring organizational culture.

Relational Contracting

Finally, in order to test our hypothesis regarding relational contracting, we developed two independent variables that are proxies for the density of the contracting relationship with public child welfare agencies. For the first variable, respondents were provided with a list of common services that public child welfare agencies contract with nonprofit organizations to provide. The respondents were then asked to identify each of the services that their organization contracts with government to provide. The complete list of 12 possible services is provided in Table 4. We summed the number of contracts to create a continuous variable to measure the density of the relationship between public child welfare agencies and nonprofits.

The second contracting variable is meant to capture the extent of the relationship, contractual and non-contractual, between a nonprofit organization and public child welfare agencies. Respondents were asked to identify

Table 4: List of contract types.

Child abuse prevention services (primary prevention)/ family support	Counseling, therapy, or mentoring programs
CPS investigation or assessment	Foster care placement services and licensing
Family preservation/in-home services	Foster parent recruitment
Family reunification services	Adoption services
Residential treatment or congregate care	Adoptive parent recruitment
Case management	Independent living services

how frequently their agency collaborates or partners with public child welfare agencies to provide services. Respondents were given a scale from 1–5 with 1 = “never”, 2 = “yearly”, 3 = “monthly”, 4 = “weekly”, and 5 = “daily”. This resulted in an ordinal variable measuring frequency of collaboration with public child welfare agencies.

While the relational contracting literature has focused on the length of contractual relationships, and the effect of time on contract management, we believe that these two variables are reasonable ways to measure nonprofit contract experience, because they each explain a small piece of the extent of a relationship between a nonprofit organization and a public child welfare agency. Many times nonprofit agencies are awarded contracts, because they have performed satisfactorily under a previous or current contract. The first variable identifies the number of current contracts that the nonprofit has been awarded which may suggest that an agency with multiple contracts has had previously successful contracts. This variable also relates to the nonprofit organization’s service diversification efforts, which is often an opportunity for agencies to grow and expand in a competitive market (Chuang et al. 2014). We use the second variable-collaboration and partnering-to understand how the extent of a relationship beyond contracting alone (i. e. informal relationships) affects organizational capacity.

Control Variables

We added five control variables to the model, including organizational variables that are commonly used for controls in studies of contracting and collaboration. Organizational variables include the total operating budget for the nonprofit organization and the age of the agency. For total operating budget, survey respondents were given a scale of 1–6 with 1 = “less than \$100,000”, 2 = “\$100,000–\$499,999”, 3 = “\$500,000–\$999,999”, 4 = “\$1 million – \$4,999,999”, 5 = “\$5 million – \$9,999,999”, and 6 = “greater than \$10 million”. Respondents were also asked to identify the age of the nonprofit organization by identifying the year that their agency first began providing services to children and families in the child welfare system. In this model, this variable is included as the number of years since the agency began.

We wanted to get a better understanding of how the manager’s personal perceptions of government and government control over the nonprofit affects their perception of an increase or decrease in capacity. We added three control variables to the model to better understand this relationship. First, respondents were asked, “Would you take government funding if you did not need it?”

Respondents were given three possible responses, 1 = “yes”, 2 = “maybe”, and 3 = “no”, which were used as ordinal variables. Second, respondents were asked about the state government’s role in holding the agency accountable. “How involved is the state legislature in holding your agency’s operations accountable?” Ordinal variables were constructed from the three possible responses – 1 = “less than I would like”, 2 = “about right”, and 3 = “more than I would like”.

Finally, since we are asking individuals within the agency about their perception of child public welfare agency’s effect on the nonprofit, we controlled for individual perceptions of the government’s effect on the nonprofit organization. Respondents were asked if strong government influence over agency operations “present a challenge for your nonprofit agency’s ability to effectively provide services”. Responses were coded from 1–5 with 1 = “no challenge” and 5 = “very severe challenge”. Summary statistics for the independent variables in the OLS model are provided in Table 5.

Results

The results of the OLS model are presented in Table 6. The model results are based on 127 survey responses that had full information. It is often the case when using survey data that individuals will choose to leave some responses blank, and the model count was reduced to 127 due to missing data. We tested for differences in the mean responses for the broader population of survey respondents ($n = 184$) and the 127 completed surveys. There were no statistically significant differences between the broader survey population and the population with full responses.

Resource Dependency

The model shows the effect of the independent variables on reported improvement or worsening of nonprofit agency capacity brought on by relationships with government agencies. The nonprofit literature suggests that dependence on government resources could have a positive or negative effect on agency capacity, so we included dueling hypotheses in this article. Our first test of the hypotheses was an independent variable in which respondents reported the source of the largest portion of their operating budget. When government is the largest source of support for an agency the model shows a positive and statistically significant ($p < 0.001$) effect on agency capacity. The results for a hypothetical loss of government funding (reported by the respondents in the

Table 5: Correlation matrix and summary statistics for independent variables.

	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Frequency of collaboration with gov	1.00												
2. Total operating budget	0.15*	1.00											
3. Agency age	0.05	0.47***	1.00										
4. Reliance on government funding	0.37***	0.47***	0.15*	1.00									
5. Loss of gov funding	0.36***	0.35***	-0.05	0.72***	1.00								
6. Rational culture	0.07	0.08	0.08	0.01	-0.02	1.00							
7. Group culture	-0.04	-0.16*	-0.22**	-0.02	0.01	-0.12	1.00						
8. Developmental culture	0.08	0.04	-0.22**	-0.02	0.03	-0.11	0.39***	1.00					
9. Hierarchical culture	0.07	0.11	0.20*	0.10	0.14 ⁺	0.27***	-0.02	-0.05	1.00				
10. Density of government contracts	0.18*	0.40***	0.17*	0.35***	0.28***	0.09	-0.03	0.04	0.10	1.00			
11. Receive government funding	0.10	0.09	0.01	0.17*	0.19*	0.01	-0.07	-0.19*	-0.07	0.10	1.00		
12. Agency accountable to legislature	0.13	0.16*	0.06	0.18*	0.07	-0.14 ⁺	0.08	0.02	-0.13	0.23**	-0.13	1.00	
13. Government influence is a challenge	0.21*	0.24**	0.07	0.31***	0.29***	0.10	0.09	0.00	0.06	0.36***	0.02	0.11	1.00
N	161	184	184	179	181	153	153	153	152	184	146	141	145
Mean	4.26	3.54	31.66	0.68	1.14	1.92	4.24	3.83	2.75	2.96	0.15	1.93	2.95
SD	1.25	1.47	30.80	0.46	0.75	1.04	0.79	0.89	1.06	3.30	0.35	0.68	1.32
Range	1-5	1-6	3-158	0-1	0-2	1-5	1-5	1-5	1-5	0-12	0-1	1-3	1-5

Notes: Sig ***<0.001; **<0.01; *<0.05; ⁺<0.1

Table 6: Perceived effect of relationship with government on organizational capacity.

Variable	Coefficient	Standard Error
Resource dependency		
Reliance on government funding	0.693**	0.259
Hypothetical loss of government funding	−0.34*	0.157
Organizational culture		
Developmental culture	0.21 ⁺	0.111
Hierarchical culture	0.063	0.081
Rational culture	−0.086	0.083
Group culture	−0.179	0.118
Relational contracting		
Density of government contracts	0.064*	0.029
Frequency of collaboration with government	0.065	0.073
Control variables		
Total operating budget	−0.022	0.081
Agency age	−0.002	0.003
Receive government funding	−0.014	0.232
Agency accountable to legislature	−0.202	0.126
Government influence is a challenge	−0.384***	0.067
Constant	1.067	0.685

N = 127, Adj. R-squared = 0.2618, ⁺ = $p < 0.05$, * $p < 0.01$, ** $p < 0.001$.

second resource dependency question above) further validate this finding. As the consequences of the hypothetical loss of government funding go up, the respondent is more likely to perceive a negative relationship between the non-profit’s relationship with public child welfare agencies and the organization’s capacity. This finding is statistically significant at the $p < 0.01$ level.

Organizational Culture

We hypothesized that organizational culture would affect the perception of relationship outcomes on nonprofit capacity. We hypothesized that a developmental culture would have a positive relationship (H2a) and hierarchical culture would have a negative relationship (H2b). The model included four independent variables to examine this hypothesis: developmental culture, hierarchical culture, rational culture, and group culture. Only one of these variables, developmental culture, reaches the level of statistical significance ($p < 0.05$), and it confirms our hypothesis with a positive coefficient. Hypothesis 2b—that hierarchical cultures would perceive a negative influence on capacity of the

organization was not confirmed as the independent variable did not reach a level of statistical significance.

Relational Contracting

Finally, we hypothesized that a higher density of relationships between a nonprofit organization and public child welfare agencies would have a positive impact on a nonprofit organization's capacity (H3). In the model, we tested this hypothesis with two independent variables. The first variable is a count of the density of contracts with government agencies. The results show that as the density of contracts rises, the nonprofit manager perceives a positive and statistically significant effect on agency capacity ($p < 0.05$). This supports Hypothesis 3. The second variable, which measures the frequency of collaboration with government, does not rise to the level of statistical significance.

The only control variable to reach the level of statistical significance is the individual perception that government influence over agency operations presents a challenge for the nonprofit's ability to effectively provide services. As a manager perceives a higher challenge for the nonprofit agency, they are more likely to perceive a negative effect on agency capacity. This finding is not particularly surprising, but it is interesting in the context of the overall model. We think of this variable as a type of managerial ideology. In the case of public child welfare, nonprofit managers perceive an increase in capacity when they have a greater relationship with government agencies. This holds true even when they believe that government influence over the nonprofit organization's operations is a greater challenge.

Discussion and Implications

This study's findings have several limitations that should be considered when interpreting results. First, the data rely on a cross-sectional survey design; thus, the results suggest relationships between variables rather than causation. Secondly, our study relies on a small number of respondents and focuses on child welfare nonprofits. It is possible that more respondents would produce additional statistically significant relationships or that the results could vary based on the types of organizations surveyed. Some child welfare nonprofits may rely more heavily on government funds than other nonprofit subsectors. Additionally, there are certainly drawbacks to using NTEE Codes to identify nonprofit organizations with a specific mission. The chief drawback for this

study is that it leaves out some very large organizations that do not identify primarily as child welfare or advocacy organizations, but do provide child welfare or advocacy services, such as Catholic Charities which are coded as human service organizations more generally. Finally, while the use of a single factor score as the dependent variable in the OLS model is appropriate due to the high internal consistency of the multidimensional measure of capacity, it does limit our ability to interpret the magnitude of the effect of the independent variables on the dependent variable. With these limitations in mind, we discuss the implications of our study.

As government agencies rely significantly on nonprofit organizations to implement programs, a better understanding of how those relationships affect the operations of nonprofit organizations is crucial for the sector's growth and survival. In this article we examine how relationships with government agencies affect a nonprofit agency's capacity. The use of the structures-processes-outcomes model to help operationalize capacity gives us a glimpse into the complexity of capacity. Lynn and Robichau (2013) have called upon scholars to carefully consider how managers and policies interact to shape government outputs and outcomes. We do find associations between a nonprofit organization's dependence on government resources, the nonprofit's organizational culture, and the density of contracts with government agency's on the nonprofit's organizational capacity.

The results of the model discussed above suggest that when nonprofit organizations rely more heavily on government resources (in the form of monetary resources), managers will perceive a positive influence on organizational capacity. This is true when managers were asked to identify the source of the largest portion of their agency's operating budget and when they were asked their perception of the effect of a hypothetical loss of government funding on agency operations. The first measure is consistent with previous studies that have measured resource dependency using financial data (Guo and Acar 2005; Krueathep, Riccucci, and Suwanmala 2010). The results of the resource dependence variables in the model support the contention of resource dependency theorists that nonprofit organizations seek relationships across sectors in order to diversify finances and gain flexibility and autonomy as a buffer against negative environmental impacts (Gazley and Brudney 2007; Guo and Acar 2005; Pfeffer and Salancik 1978). This is also likely suggests that the availability of government funding frees resources from other sources to be used how the nonprofit wishes (Boyne 2003). From a strategic management perspective, it is often argued that "nonprofit managers willingly take on capacity-building activities so that they can improve decision-making and make practical changes to respond to constituent expectations and maximize

environmental opportunities” (Millesen, Carman, and Bies 2010, 7). We cannot fully address this question in our paper but it does raise important questions for future research. Chiefly, how does the relationship between a nonprofit’s dependence on government funding and the expectations that come with that funding, in turn, shape how a nonprofit and managers build capacity and plan strategically for the future.

The second measure of resource dependency gives us the opportunity to better understand how much managers believe or perceive their organization depends on government financial resources. It also allows us to begin to better understand the relationship between resource dependency and managerial decision-making. New institutionalism emphasizes that normative beliefs, shared meanings and logics of action, and mental constructs of the environment (e. g., perception), both of individuals and groups, strongly shape organizational behavior (Scott and Davis 2007). Therefore, finding that a manager’s perception of their primary funding source disappearing as profoundly influencing their ability to build organizational capacity is note-worthy. For example, if two different nonprofits receive 60 % of their revenues from government sources and suddenly lose it, they may react very differently depending on their perceived ability to recover those funds from other sources. If the manager of the first nonprofit believes they can replace this funding from other organizations or individuals, they may manage the interruption in funding by making adjustments to programs or activities. The second manager, who does not believe they can recover the funding from other sources, may perceive the only option as a complete shutdown of operations. Research shows that when it comes to the strategic planning process, director’s perceptions of uncertainty in the external environment is crucial in determining decision-making and strategic choices (Chuang et al. 2014, Brown 2015). We think that future research using experimental survey designs could give us even more leverage in understanding how differing levels of resource dependency affect managerial decision-making.

The model further suggests that managers at organizations with a developmental culture will perceive that their organization’s relationship with government agencies improved their organization’s capacity. Organizations with developmental cultures are more flexible and decentralized. These are attributes that are important in collaboration (Beyerlein et al. 2003) and can be cultivated in the organization by managers (Agranoff and McGuire 1999, 2003). When an organization has a more developmental culture, the effect of a relationship with government agencies on capacity is positive. This suggests that the more decentralized and flexible an organization is, the more likely it is able to absorb external shocks to its system, including changes that are inevitable when entering into a relationship or contract with a government agency.

The results of the model are consistent with findings from Moynihan and Pandey's work on organizational culture and performance (Moynihan and Pandey 2005, 2010), where developmental culture had an effect on organization performance, but the other organizational cultures did not. The fact that the other organizational cultures have not had an effect leaves some questions about the validity of the measures used here and in previous studies.

In the context of child welfare agencies, the type of culture is important for the organization, employees, and beneficiaries. Glisson and Green (2011, 590) argue that in order to improve service outcomes in the child welfare system and mental health service arenas it is imperative that an organization's social context (i. e., culture and climate) must be improved, which will ultimately require "evidence-based organizational-level strategies" that are not often considered and implemented at the organizational level. Furthermore, Glisson, Green, and Williams (2012) find that in less rigid cultures, where caseworkers are given greater flexibility and decision-making power, they have higher morale that ultimately helps with burnout. This may be why developmental culture has a positive relationship with organizational capacity in our model. This research suggests that managers should strive to create cultures where workers and clients will reap the benefits of increases in organizational capacity. As echoed by Glisson and colleagues, there is a need for scholars to find organizational strategies that facilitate more developmental cultures that enable managers and public policy to achieve desired outcomes for those they are serving.

Finally, our findings support the literature with regard to longer-term contractual relationships and the potential for positive relationships based on credibility, trust and shared objectives between nonprofit organizations and government. Unfortunately, our measure of density of contracts does not have information regarding specific contract details, and therefore we do not know the extent of flexibility built into contracts or if it differs based on how long the agency and nonprofit organization have worked together. However, we can add some understanding to the literature that focuses on service diversity in social welfare organizations. Previous studies have found that service diversification can help an organization expand operations and better compete in the larger social service market (Chuang et al. 2014). We add to this literature by finding a positive relationship between the number of child welfare contracts a nonprofit has and their overall organization capacity. This suggests that managers may be able to boost their organization's capacity by strategically partnering with government agencies to add new services. Furthermore, since this study focuses solely on public child welfare nonprofits, we do not know if this type of relationship can extend to other nonprofit subsectors, such as arts and entertainment, which focus less on service delivery.

The finding has implications for policymakers as well. As the number of contracts a child welfare nonprofit has with a government agency rises, so does their perception that the nonprofit's relationship with the government has a positive effect on agency capacity. This holds true even when controlling for an individual manager's perception that government influence over agency operations presents a challenge for the nonprofit's ability to effectively provide services. At first glance this finding suggests that public child welfare agencies should focus more of their contracts on fewer nonprofit organizations, but we hesitate to suggest this course of action. It is probably more likely that these nonprofit organizations have the expertise and organizational structure to implement these contracts and the extra government funding frees up administrative time that is often spent on raising funds to support other services provided by the nonprofit. Instead, we would suggest that it might make sense for agencies to give priority status on new contracts to nonprofit organizations that are currently or have previously had successful contracting relationships with that agency or similarly situated agencies.

In conclusion, we have argued that government shapes nonprofit capacity in various ways. Further attention is needed to explore the mechanisms through which this occurs. Nonprofits must consider how their relationship with government ultimately affects their ability to provide services and achieve their mission.

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