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Do Government Tools Influence Organizational Performance?

Examining Their Implementation in Early Childhood Education

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This article explores whether the multiple tools used by government to implement social policy influence organizational performance. This analysis focuses on three tools—grants, contracts, and vouchers—and their use in the field of early childhood care and education. Through analysis of a field-based study of 22 organizations, the authors explore qualitative evidence and examine the relative consequences of each tool using multivariate modeling. The authors conceptualize organizational performance along four dimensions—management capacity, management outcomes, program capacity, and program outcomes—to better explore how government tools influence organizations delivering publicly funded services. Findings reveal that the different tools the government uses to implement early childhood programs have distinct consequences; grants have the most significant, positive consequences on a variety of desirable outcomes.

**Keywords:** government tools; implementation; performance; policy tools; nonprofits

Many public administration scholars have noted the dramatic change in the scope and role of the public sector in the past 30 years (Agranoff & McGuire, 2003; Brudney, Fernandez, Ryu, & Wright, 2005; Heinrich & Lynn, 2000; Kettl, 2002b; Light, 1999). Worldwide, government-centered models have yielded to multisector networks, and government roles have changed from direct service provision to governance of third-party organizations. In the United States, this transformation has occurred in government at all levels—national, state, and local. The change in roles has required public managers to develop new, diverse tools to work with the largely autonomous organizations now responsible for implementing significant aspects of public policy.

Lester Salamon’s (2002) book *The Tools of Governance* provides a thorough catalogue of these tools, including regulation, grants, tax expenditures, loans, and vouchers. This work helps public management scholars have a more accurate understanding of government operations and the increasingly complicated work of public managers (Agranoff & McGuire,
2003; Howard, 1995; Kettl, 2002a; O’Toole & Meier, 1999; Peters, 2000; Salamon, 2002). However, less is understood about how the various tools used by government affect the third-party organizations actually delivering public services.

In this article, we begin to address this gap by exploring how different tools shape organizational effectiveness within one policy field—early childhood care and education. Using data collected from a field-based study, we examine how three public policy tools—grants, contracts, and vouchers—influence organizations that provide early childhood care and education services each day. In particular, we explore the following question: Does the receipt of various government tools have differential impacts on measures of organizational effectiveness? Although the analysis presented here is exploratory, it contributes to the field by investigating whether the intensity of the diverse tools of government influence nonprofit human service organizations. Although such an analysis would need to be replicated in other fields and institutional contexts, our analysis provides preliminary evidence that tools have differential consequences on third-party organizations. When public officials consider the various tools at their disposal, they should consider whether these consequences are consistent with public policy intent.

**Previous Research on the Tools of Governance and Organizational Effectiveness**

Scholars interested in public management have developed the concept of government “tools” or “instruments” to make visible the diverse ways governments now operate (Bemelmans-Vidic, Rist, & Vedung, 1998; Blair, 2002; Peters & Van Nispen, 1998; Salamon, 2002; Schneider & Ingram, 1990; Steuerle, Ooms, Peterson, & Reischauer, 2000). The research in this area explores structural characteristics of government action that transcend particular uses, characteristics that can be described and catalogued. As one proponent argues, “the purpose of the tools approach to public policy is to ensure an appropriate match between policy and the instruments used to address it, with one dominant concern being the capacity to make the policy work in society” (Peters, 2000, p. 40). In the most exhaustive account to date, Salamon’s (2002) work describes various tools in use. He argues that, theoretically, tools vary in how they influence core values important to public governance, such as effectiveness, efficiency, equity, and legitimacy. In addition, the tools themselves vary along multiple dimensions: directness, automaticity, visibility, and coerciveness. These tradeoffs all should be considered when selecting the appropriate tool to implement a particular policy.

As suggested by this seminal work, most existing research examines the use of a particular government tool, for example, social regulation (Licari & Meier, 2000; Meier & Licari, 1997), government corporations (Mitchell, 1999), or loan guarantees (Howard, 2002). The three tools we compare in this study are similar, and the research centers on distinct questions. For example, research about the grants tool tends to focus at the macrolevel, considering the prevalence and consequences of grant-in-aids from the federal to state and local governments (Conlan, 1998; Elazar, 1965; Posner & Wrightson, 1996). In contrast, research about government use of contracts and vouchers is often concerned with how these tools alter market-based dynamics. Although principal-agent theory is often used to explore the inherent information asymmetry in contracting relationships, there are unique challenges in
purchase-of-service situations where the work is complex, the purchaser is distinct from the consumer, and there often is a limited supply of service providers (DeHoog, 1990; Hasenfeld & Powell, 2004; Johnston & Romzek, 1999; Kramer, 1994; Palmer & Mills, 2005; Van Slyke, 2002; Van Slyke & Roch, 2004). The extensive research about vouchers explores how voucher implementation in particular fields, such as health, education, or housing, influences market dynamics, such as consumer incentives and restrictions of choice (Campbell, West, & Peterson, 2005; Howell, 2004; Ladd, 2002; Levin, 1998; Steuerle et al., 2000; Susin, 2002; Twombly & Boris, 1999).

An emerging thread of tools research, though, moves beyond considering how government action influences market dynamics to explore how individual tools influence management and program implementation (Agranoff & McGuire, 2003; Blair, 2002; Twombly & Boris, 1999). Most of this scholarship concentrates on the contracting tool and examines both government and third-party implementers. On one hand, public organizations and management practices change as they depend more on contracts (Behn & Kant, 1999; Hefetz & Warner, 2004; Kettner & Martin, 1998; Romzek & Johnston, 2000, 2002; Van Slyke, 2002; Walsh, 1997). Rather than managing service providers, public managers now focus more exclusively on developing contract, monitoring service levels, and assessing performance. On the other hand, research also documents that contracts also influence the private organizations receiving them. This stream of research—which we build on with our analysis—suggests that contracting with public entities increases management complexity. Private organizations must track programmatic results, juggle various budgetary parameters, cope with different reimbursement practices, and document adherence to public rules (Gronbjerg, 1991; Kramer, 1994; Smith, 1999, 2005). Contracting also appears to alter both internal human resource practices and the relationship between staff and boards (O’Regan & Oster, 2002; Saidel & Harlan, 1998; Smith & Lipsky, 1993; Stone, Hager, & Griffin, 2001).

Although research about contracting influence on management and program implementation is well developed, few studies examine how multiple tools may interact in a policy field. Howard (1995) argues that more empirical exploration is needed to discern how tools function in practice, in combination with other tools. In his study of U.S. income support policy over time, Howard compares the structural characteristics of direct transfer and tax-credit tools at a macrolevel and concludes that tool choice is more important in policy enactment than in subsequent growth and state-level administration. Blair’s (2002) study of economic development focuses on enterprise zones and whether the various government tools used in that arena, including regulations, grants, government corporations, and tax expenditures, influence implementation and management. Through multivariate modeling, Blair finds the combination of tools and their characteristics to be a positive predictor of variation in implementation structures. He concludes, “This study opens up the possibility for the use of tools concepts as part of a theoretical and explanatory framework for examining the management of intricate public-service delivery networks” (Blair, 2002, p. 183). Other researchers, however, have not followed this path to compare the consequences of multiple government tools on implementation dynamics.

This article begins to address this omission. Unlike Blair (2002), whose policy field necessitates that the implementation occur through local policy networks, the policy implementation in early care and education occurs within organizations. As a result, we are exploring how government tools influence the organizational effectiveness of nonprofit service providers.
charged with this implementation. Peters (2000) suggests that one approach to empirical investigation of government tools is examining those tools in relation to both policy problems and management. By focusing this study in one field, early childhood care and education, we hold constant the policy problem—namely, how to provide care and education to children—and focus our analysis on the relationship between government tools and management. Specifically, does the intensity of government tools received by an organization influence its management and effectiveness? Unlike Blair’s (2002) enterprise zone setting, government investment in early childhood education originates from distinct federal and state programs, each using different tools.

The Tools Government Uses to Fund Early Care and Education Services

Early childhood care and education services is integral to the daily lives of many American families, and public policy supporting these services has grown significantly in the past 30 years. Some children are cared for by relatives, neighbors, or family child care providers who operate small businesses out of their homes. Other children are cared for in private child care centers, private preschools, or public schools. States require basic health and safety standards, but the diverse third parties involved in service provision creates considerable variation in the settings and services provided to children and families (Hofferth, 1995; Love, 1998; Meyers & Heintz, 1999; Phillips, Howes, & Whitebrook, 1992; U.S. General Accounting Office, 1999). Although both federal and state governments are involved in funding these services, the creation of public policy has been incremental, resulting in a fragmented system (Bruner, 1996; Kagan, 2001; Lombardi, 2003; Michel, 1999).

From the beginning, public investment focused on two distinct goals: helping women work outside the home and nurturing children’s development. During times of labor force shortages, such as World War II, the government made investment in “day nurseries” so that low-income women could work without requiring their children be removed from their custody (Beatty, 2001; Lombardi, 2003; Michel, 1999). Alternatively, with the establishment of Project Head Start in the mid-1960s, government investment shifted to embrace early childhood education and other early intervention services to break the intergenerational cycle of poverty (Ellsworth & Ames, 1998).

Current government policy—and the distinct programs developed to implement them—focus on either one of these two goals. In 1988, the federal government passed legislation to provide child care subsidies to welfare parents to allow them to work. In 1990 and 1996, this role was further strengthened, as the federal child care subsidy was recognized as an essential element of national welfare reform. The current Child Care and Development Fund (CCDF) empowers states to administer subsidies to low-income parents through vouchers so they can access child care in the marketplace and keep paid employment. In this regard, child care vouchers resemble the myriad of other ways that the voucher tool is used by government (Anonymous, 2000). The public subsidy must be sufficient to allow beneficiaries to access care on the market without unduly altering market forces. As consumer-sided subsidies, a premium is placed on parental choice, and no effort is made to steer consumers to high-quality or enriched environments. For a voucher system to work effectively,
the state must have a system for smoothly processing hundreds or thousands of vouchers, and in most states, they are administered through state/county welfare offices or nonprofit resource and referral agencies. Although the use of vouchers is firmly established, there are fierce debates in the field about appropriate eligibility standards, adequacy of subsidies, and unintended effects on supply and demand (Adams, Snyder, & Sandfort, 2002).

To achieve the other goal of nurturing low-income children’s early development, the government has developed the Head Start program and state-funded preschool, which are implemented through grants and contracts. Such supply-side tools allow governments to control their aggregate costs by limiting the number and size of grants or contracts awarded. Although parents do not have the same range of choices as is available through a voucher tool, these tools provide a more reliable source of revenue for third-party providers.

The federal Head Start program continues to focus on promoting low-income children’s school readiness (Currie, 2000; Ellsworth & Ames, 1998; U.S. General Accounting Office, 1999). Through grants with local nonprofits or other local government entities, the federal government assures that high-quality early education is available to disadvantaged children. Compared to other government tools, grants create a structured but comparably loose relationship between grantor and grantee (Beam & Conlan, 2002). Although Head Start grants specify required performance standards, this tool often allows grantees flexibility in how they use public funds to deliver programs (Advisory Committee on Head Start Research and Evaluation, 1999). As a federal categorical grant, Head Start is given to local program operators (most often private, nonprofit organizations) without any intervention from state governments. Unlike other types of grants, such as block grants (Posner & Wrightson, 1996), these funds often provide stability to these organizations as well as other benefits, such as access to management training, data systems, and quality enhancement resources (Ellsworth & Ames, 1998; Zigler & Valentine, 1979).

Since the 1980s, prekindergarten (Pre-K) programs have been developed by state governments to enrich early education. These initiatives vary considerably across states in their administrative structures, program goals, and scope of supports (Stone, 2006). In the two states that are the focus of this study, the relationship between government and service providers is shaped by the contracting tool. The state Department of Education passes funds to local school districts for services for 4-year-olds. In turn, the districts can run programs themselves or contract with other agencies, such as child care centers or Head Start grantees. In Virginia, resources are targeted to at-risk children not already being served, and local school districts are required to “match” state revenue to participate in the program. In New York, local districts must use at least 10% of their state funds in contracts with non-school-based or community settings, such as private child care or Head Start agencies. In New York, although preference may be given to at-risk children, the Pre-K program is designed to be universal, serving all 4-year-olds in the state.

Theoretically, each policy tool would be deployed individually, with a care and education provider receiving publicly subsidized vouchers, a Head Start grant, or a Pre-K contract. In practice, however, none of these tools fully respond to the dynamics of the market. By law, states may not allow child care vouchers to reimburse more than 75% of the market rate, and many states provide significantly less. Head Start grants and most Pre-K contracts only cover costs associated with part-day, part-year programs, even though most low-income families qualifying for the programs must work conventional hours throughout the year.
As a result, beginning in the late 1980s, some early care and education providers began to access multiple sources of public funding to offer programs that would both serve the needs of working families and enhance early childhood environments for children (Bond, 1997; Kagan & Verzaro-O’Brien, 2000; Sandfort & Selden, 2001). Some early childhood care and education organizations began to work together in partnerships to share resources and services, whereas others accessed new public funding streams directly. As these “partnerships” began to grow in frequency, they received greater attention in the field. In fact, the data for this article were gathered as part of a larger study, Investigating Partnerships in Early Childhood Education, which described these unique program operations. These partnerships provide a unique opportunity to examine the use of multiple government tools within one policy field and explore how these tools affect the organizations charged with program implementation.

Research Design, Conceptual Model, and Analytic Methods

The study includes 22 local sites in two states, New York State and the Commonwealth of Virginia, that receive one or more different government tools (vouchers, grants, or contracts) and provide full-day, full-year care for children. We developed a theoretical model of the different ways these organizations combine policy tools, which drove the purposeful selection through snowball sampling of 11 sites in each state (Patton, 1990). In case selection, we varied location and size, as nonurban or small human service organizations often experience different challenges than urban or large providers (Davis & Weber, 2001; Galloro, 2001). This sampling decision was made to increase the generalizability of the findings from this embedded, multicase study design (Huberman & Miles, 1994; Yin, 2002).

Data were gathered from June 2000 to May 2002. Within each site, we collected multiple sources of information using five surveys, semistructured interviews with managers and teachers, structured observation, and document analysis. Among the agency’s classrooms, we randomly selected a full-day, full-year classroom for more in-depth exploration. We received a 100% response rate on our organizational survey, early education and management survey, management survey, and teacher survey. We surveyed 367 parents (also referred to as “clients”) and obtained an 80% response rate. In this article, we draw on data from all of these sources to explore the impact of different government tools on various dimensions of organizational effectiveness.

Conceptual Model and Measurement

In this study, we are breaking new conceptual ground in the government tools literature. Salamon’s (2002) specification of tools focuses primarily on how they influence public management and government institutions at the macrolevel. In contrast, we explore how different policy tools influence program implementation at the microlevel, within organizations implementing public programs (Berman, 1978). At this level, policy tools take on different dimensions related to how they affect organizational operations. For the three tools received by organizations in this study, we posit four main dimensions (see Table 1); the
first two are generalizable across policy areas, whereas the latter reflect specifically how these government tools are used in early childhood care and education. As other researchers consider how government tools influence the implementing organizations, they should not overlook the field-specific ways that particular tools are specified.

One dimension of tools is how they affect operational autonomy. What does the tool ask the organization to do when receiving it? Can the organization use the tool in any manner it wishes, or are specific requirements, operational and regulatory, attached? Contracts provide the lowest autonomy to the organizations, as they generally specify how resources can be used. Grants provide medium autonomy to the organizations because, although they require some management and reporting requirements, they have fewer constraints than contracts. The vouchers tool focuses on reimbursing for service costs rather than dictating other program or operational details. Organizations have more autonomy in determining how the funds are used to create their desired service packages.

Tools vary in their reliability as a source of revenue for organizations. How stable or predictable are the funding and requirements that accompany each tool? Governments develop tools that either target demand-side or supply-side dynamics. Supply-side tools, such as grants or contracts, fund the organizations providing services. In this approach, funding and other resources are received by the agency before the services are delivered, and terms of implementation are relatively stable over time. Demand-side tools, such as vouchers, focus on providing resources to consumers to enhance their market-based choices; these tools are less reliable for service-providing organizations. Parents may choose to withdraw their child at any time, and organizations must fill that slot before they can recoup the revenue. Additionally, vouchers also often reimburse for expenses incurred by the organization, thereby decreasing its reliability as a funding source.

In the early childhood care and education field, government tools vary in the additional benefits they provide to the organization, beyond direct funding of services. Although vouchers offer no additional benefits, receipt of grants and contracts provide real tangible resources that directly influence the organizational operation. Both offer teacher training and curricular resources. Depending on the local specification, tool receipt also enables the organization to access technical assistance in areas such as child assessment, facilities development, and program quality enhancement. Thus, the tool provides more than money; it carries with it a bundle of support that may directly influence organizational operations and performance.

Finally, as described earlier, government tools in this field reflect distinct policy intents and thus vary in how they align with the program goals of the implementing organizations. Head Start grants steer organizations toward both education and family support through

<table>
<thead>
<tr>
<th>Tool</th>
<th>Autonomy</th>
<th>Reliability</th>
<th>Other Organizational Benefits</th>
<th>Connection to Program Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants</td>
<td>Medium</td>
<td>High</td>
<td>Yes</td>
<td>Education and family support</td>
</tr>
<tr>
<td>Contracts</td>
<td>Low</td>
<td>High</td>
<td>Yes</td>
<td>Education</td>
</tr>
<tr>
<td>Vouchers</td>
<td>High</td>
<td>Low</td>
<td>No</td>
<td>Enable parents to work</td>
</tr>
</tbody>
</table>

Table 1: Government Tools Dimensions Related to Organizational Operations.
requiring both types of services as a condition of tool receipt. Contracts with local school districts focus organizations on early education as preparation for school. In contrast, vouchers are designed to ensure that families can secure care for their children while they are working and have no requirements related to these other goals. Although the specific details here relate to the early childhood care and education field, it is important to investigate how government tools themselves reflect particular policy goals. When focusing on implementing organizations, these goals may well come into conflict, which could influence daily operations and organizational performance.

In our quantitative models, our independent variables of interest are the government tools being received by these organizations. We operationalize each of the three tools—grants (Head Start), contract (Pre-K), and voucher (Department of Social Services [D.S.S.])—by the percentage of annual early care and education revenue derived from each (see the appendix for descriptive statistics). This approach differs from the one other study comparing multiple government tools at the microlevel. In that study, Blair (2002) operationalizes government tools as an index of direct government action embedded within enterprise zones implementation networks. Although this approach is appropriate to network-based program implementation, it does not fit the context of this study, where program implementation is bounded within organizations. The dimensions of tools also suggest that organizational operations are influenced by more than the mere presence or absence of a tool. When receiving multiple tools, organizations’ program structure and management systems are shaped by the magnitude of a particular tool’s penetration; as a result, we operationalize our independent variables to reflect these field conditions.

In this article, we are interested in how these policy tools affect organizational effectiveness; however, there is no consensus among nonprofit researchers about how to best operationalize organizational effectiveness. General agreement exists that multidimensional constructs provide more complete pictures because of the various criteria of success held by various stakeholders, such as boards of directors, funders, and clients (Cameron & Whetten, 1994; Forbes, 1999; Herman & Renz, 1997, 1999; Kushner & Poole, 1996; Ostroff & Schmitt, 1993; Rojas, 2000). In this article, we use such a model (Sowa, Selden, & Sandfort, 2004). It highlights four dimensions of organizational effectiveness (see Figure 1). By including four dimensions, it moves beyond more simple concepts of performance that privilege programmatic over management results. Management capacity refers to the ability the organization possesses to manage its resources. Management outcomes are the results of these actions, such as financial health, employee satisfaction, and organizational culture. When government invests public funds in these organizations, however, it is rarely interested in these types of management issues. In spite of widely cited concerns about nonprofit “capacity,” governments often assume that management issues will be resolved and focus instead on programmatic results. In our conception, program results take on two dimensions. The first, program capacity, refers to an organization’s ability to deliver high-quality services that are likely to influence clientele. “Program outcomes” are the actual consequences able to be documented on citizens served.

We explore multiple ways to operationalize each dimension and use these alternatives as dependent variables in the multivariate analysis that follows. Management capacity, for example, is operationalized by both management systems and organizational communications.
Program capacity is operationalized by the diversity of services offered to clients, physical environment, and quality of teaching staff. Two measures of program outcomes are included in this study: school readiness and parental satisfaction with the program. Although school readiness is one of the most important outcomes in early childhood education, there is no consensus about how to measure it (Bowman, Donovan, & Burns, 2001; Love, Aber, & Brooks-Gunn, 1999). As noted in a report by the National Research Council (Bowman et al., 2001), traditional standardized tests and measurements have the potential to be misused. Love et al. (1999) recommend using various measures including parental reports, kindergarten and first teacher reports, and community data to gauge this outcome. Because our study did not track students after leaving their early childhood programs, our analysis is limited to parental reports of school readiness and parental satisfaction with the program. The Appendix presents more detailed information about the definitions of these outcome measures and descriptive statistics for all measures.

**Methods of Analysis**

To isolate the influence of the three policy tools on these four dimensions of organizational effectiveness, we proceeded along two paths for analysis. First, we analyzed qualitative data collected through interviews, site visits, and agency documents. We coded these sources in relation to human resource management, financial management, and program operations and outcomes. In this analysis, we explored the mechanisms of how government tools influenced these various elements of organizational operations and results.
Second, to explore the relationship between grants, contracts, and vouchers and organizational effectiveness more directly, we use both ordinary least squares (OLS) and hierarchical linear modeling (HLM) multivariate models. The two estimation techniques are necessary because we have multiple levels of variables. Our main unit of analysis is the organization. However, when exploring the impact that these tools of governance have on program outcomes, we drew on data from client (parent)-level surveys. As a result, the principles of OLS did not hold. In the results that follow, we present both unstandardized and standardized coefficients to aid our substantive interpretation of the results. In all quantitative models, we include several control variables mentioned in other research bases as possibly significant but are parsimonious in our inclusion of these variables because of our relatively small sample size. First, we include organizational size, operationalized here as the total staff in the organization. O’Regan and Oster’s (2002) study of the influence of government funds on board governance identifies organizational size as an important predictor variable. Second, we control for type of organization. In their in-depth study of how government contracts influence nonprofit organizations, Smith and Lipsky (1993) develop distinctions between three types of human service organizations: traditional service agencies established in the early 20th century, community-based organizations founded to address local problems, and government-sponsored nonprofits founded in the past 35 years in response to the increased availability of government revenue. These distinctions were made because of the different capacities of each in buffering the effects of government financing. As a result, our models include dummy variables denoting organizations as traditional social service or community-based organizations. Finally, because other research stresses the importance of an institutional environment in shaping organizational management and capacity (Galaskiewicz & Bielefeld, 1998; Hasenfeld & Powell, 2004), we included a dummy variable for New York State.

**Findings**

**Analysis of Qualitative Data**

We explored the qualitative data to gain insight about ways the tools of government might influence organizational operations and performance. Our analysis reveals multiple mechanisms. We learned that each tool requires different processes for securing payment—some organizations must develop new ways of documenting costs for contract documents, others have that system but need to coordinate disparate timetables for submitting reimbursements for voucher payments. The tools have a distinct impact on the financial management practices; for each organization, managers and staff changed their daily behavior and incorporated new tasks into their repertoire. These findings are echoed in other studies of how government funding influences organizational operations (Gronbjerg, 1991; Smith, 1999, 2005).

The program capacity of these organizations is also affected by the government tools; in these early childhood organizations, grants and contracts carry with them particular programmatic requirements. Head Start grants, for example, are accompanied by program performance standards that specify both child development practices for classrooms and community engagement techniques. Early childhood organizations in this study made changes, such as...
hiring a family worker to provide additional family support and building a bathroom attached to a classroom, to meet these standards. Pre-K contracts in New York mandate the hiring of certified teachers for the 4-year-old classroom and, in both states, require that organizations meet child care licensing standards. These requirements create increased human resource costs for these organizations and new challenges around recruiting and retaining qualified teachers. For example, one organization receiving a Pre-K contract used much of the funding attached to that contract to hire a teacher with a master’s degree in education.

Our study revealed that managers and staff attempt to reconcile the distinct management and programmatic elements of each government tool. Yet, as contingency theory would suggest, there did not appear to be one technique that can transcend the particularities of local environment and organizational context. To illustrate, we would like to highlight how organizations respond to specific programmatic requirements attached to the tools. First, the slightly different eligibility criteria for children mandated by each policy tool necessitated that each organization respond if it were going to provide all children served by the organization full-day, full-year care. In the sites examined in this study, three main strategies are used to reconcile these tensions—some sites reserve slots for a child to be paid for by a particular government tool, other sites separate classrooms based on the funding requirements, and still others purposively assign students to developmentally appropriate classrooms and respond with more sophisticated tracking and financial management techniques. Second, to respond to the different program or staffing requirements, we find that most sites use the standards mandating the highest quality program and build their activities around those benchmarks. Third, realizing that new professional norms might come into conflict among their staff, a few programs invest in coordinators or other techniques to enhance staff communication and assure smooth implementation. Fourth, some programs use the technical assistance that was offered by the funding agent. For example, the Pre-K contract in one organization allows one of its teachers to participate in the local school district’s mentoring program. Through this program, the teacher interacted with other teachers in the community and learned new techniques to introduce into the classroom. These examples illustrate a few of the management and program strategies organizations adopt to accommodate the demands of the different government tools.

This analysis suggests that managers and staff respond to the contingencies they face and develop procedural responses accordingly. What is interesting, of course, is that the actions they take often become embedded in how the organization carries out its future programming for children and their families. For example, having to reconcile multiple eligibility requirements led one organization to streamline its intake procedure, resulting in a new system that provides the organization more comprehensive data for all the children in the organization, not just those funded by a particular tool. The qualitative data provide considerable insight into the ways various tools affect organizational and program operations.

Analysis of Quantitative Data

To further explore the influence of the government tools on management and program capacity and outcomes, we examine the relationships quantitatively. Tables 2 through 5 present findings by each dimension of organizational effectiveness.
The first dimension we explore is management capacity—the existence of practices and systems within the organization that map to generally accepted “best practices” in the field. In this analysis, we operationalize this construct in two distinct ways—management systems and organizational communications. Management systems are the core systems required for the organization to operate. Organizational communication structures are those that allow for information processed through the management systems to “feed back” into the organization so that it learns and improves on its management. Both models that explore how the tools are related to this construct, management capacity, are presented in Table 2, and both are statistically significant, with $R^2$ values of .65 and .58, respectively. In the first model, we find a statistically significant positive effect of both grants and contracts, with Head Start grants having a more sizable influence on management systems. This finding suggests that receipt of larger amounts of grants increases the formalization of management systems, such as having specialized computer systems, financial tracking, and written financial policies. This finding is consistent with others (Gronbjerg, 1991; Smith, 2005) who say that these sources of public revenue cause organizations to develop more formalized management infrastructure.

Our second dependent variable, organizational communications, represents how well management communicates through formal meetings or writing. In the management of organizations, such basic communication mechanisms are necessary to make efficient use of organizational resources. In addition, communication systems and processes are essential components of management capacity to foster learning and improvement in an organization. In our analysis, the percentage of funds an organization receives through grants is statistically and positively related to this dimension of management. This finding is supported by conventional wisdom that policy tools that are stable and flexible, such as grants, may offer

### Table 2: Results of OLS Regression for Management Capacity Measures

<table>
<thead>
<tr>
<th></th>
<th>Management Systems</th>
<th>Organizational Communications</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unstandardized</td>
<td>Standardized</td>
</tr>
<tr>
<td>Constant</td>
<td>3.04*</td>
<td>8.96**</td>
</tr>
<tr>
<td>Grant (% Head Start)</td>
<td>0.05*</td>
<td>0.94</td>
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<tr>
<td>Contract (% State Pre-K)</td>
<td>0.07*</td>
<td>0.55</td>
</tr>
<tr>
<td>Voucher (% Child Care Subsidy)</td>
<td>0.04</td>
<td>0.45</td>
</tr>
<tr>
<td>Organizational size</td>
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</tr>
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<td>Traditional social service agency</td>
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</tr>
<tr>
<td>Community-based organization</td>
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<td>0.30</td>
</tr>
<tr>
<td>Institutional–New York</td>
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<td>0.26</td>
</tr>
<tr>
<td>$R^2$</td>
<td>.65</td>
<td>.58</td>
</tr>
<tr>
<td>$F$</td>
<td>2.97*</td>
<td></td>
</tr>
<tr>
<td>$N$</td>
<td>22</td>
<td></td>
</tr>
</tbody>
</table>

Note: OLS = ordinary least squares.

*p < .05. **p < .001.
managers more time for internal rather than external tasks, such as marketing, that are necessary in a market environment (Gronbjerg & Salamon, 2002). Additionally, Head Start grantees also may access federally funded management training efforts that might increase the likelihood of practices that enhance communication. Contracts and vouchers do not provide such management capacity-building support. In this model, New York is a statistically significant and negative predictor of formal management communication; because this variable is important in many of our models, we discuss this finding in more detail later in the article.

The second series of models explores the next dimension of organizational effectiveness—management outcomes. These are the direct results of management action, and as shown in Table 3, we use two variables to operationalize this construct—voluntary turnover and innovative culture. The first model is not statistically significant; however, the finding is not surprising. Many studies document the problem of voluntary turnover in the early childhood field (Lombardi, 2003; Whitebrook, Sakai, Gerber, & Howes, 2001). Voluntary turnover is often regarded as one of the most significant factors affecting program quality because of the important role teachers play in the development of young children. Our results suggest that these three government tools have no discernible effect on this important outcome. In part, this might be driven by our relatively small sample size. In multivariate and bivariate analysis, the percentage of funding from Head Start (grant) is a statistically significant, negative predictor of voluntary turnover. Clearly, however, many other factors besides those examined here, such as wages, task complexity, and burnout, influence voluntary turnover. This nonfinding does raise questions, though, about whether specialized public initiatives can directly influence the workforce dynamics in this field. Nearly half of states, for example, offer salary enhancement and retention programs that build on North Carolina’s Teacher Education and Compensation Helps (TEACH) model. This model offers direct subsidies and training for

### Table 3

<table>
<thead>
<tr>
<th></th>
<th>Voluntary Turnover</th>
<th></th>
<th>Innovative Culture</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unstandardized Coefficient</td>
<td>Standardized Coefficient</td>
<td>Unstandardized Coefficient</td>
<td>Standardized Coefficient</td>
</tr>
<tr>
<td>Constant</td>
<td>43.04**</td>
<td>1.84</td>
<td>1.84</td>
<td></td>
</tr>
<tr>
<td>Grant (% Head Start)</td>
<td>–0.29*</td>
<td>–.74</td>
<td>0.00</td>
<td>.05</td>
</tr>
<tr>
<td>Contract (% state Pre-K)</td>
<td>–0.15</td>
<td>–.17</td>
<td>0.05*</td>
<td>.44</td>
</tr>
<tr>
<td>Voucher (% child care subsidy)</td>
<td>–0.13</td>
<td>–.22</td>
<td>–0.03</td>
<td>–.36</td>
</tr>
<tr>
<td>Organizational size</td>
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<td>.46</td>
<td>–0.00</td>
<td>–.12</td>
</tr>
<tr>
<td>Traditional social service agency</td>
<td>–20.45</td>
<td>–.57</td>
<td>1.54</td>
<td>.33</td>
</tr>
<tr>
<td>Community-based organization</td>
<td>–3.57</td>
<td>–.12</td>
<td>1.31</td>
<td>.34</td>
</tr>
<tr>
<td>Institutional–New York</td>
<td>–10.64</td>
<td>–.35</td>
<td>3.17**</td>
<td>.81</td>
</tr>
<tr>
<td>(R^2)</td>
<td>.34</td>
<td>.71</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted (R^2)</td>
<td>.01</td>
<td>.59</td>
<td></td>
<td></td>
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<tr>
<td>(F)</td>
<td>1.03</td>
<td>4.84**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(N)</td>
<td>22</td>
<td>22</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: OLS = ordinary least squares.

* \(p < .05\). ** \(p < .001\).
early childhood professionals to directly reduce voluntary turnover within the field; it may be that such targeted investments are needed to address this critical management outcome in early childhood organizations. However, a definitive conclusion is beyond the scope of this study; more research is needed on what forms of government intervention can be used to reduce voluntary turnover, as teacher stability and continuity in the classroom is fundamental to early care and education quality and positive child outcomes.

The second dimension of management outcomes we explore is innovative culture, tapping the degree to which staff view management as creating an environment that supports experimentation, risk taking, and using creative ideas from other settings in their organization. This model is statistically significant, and the proportion of revenue from the contracting tool is a statistically significant predictor. It is likely that the finding reflects the fact that the Pre-K contracts in New York and Virginia require more professional teachers, people who pride themselves on their professionalism and highly value their abilities to bring innovative ideas into the classroom from other educational settings. This model also reveals that, even when controlling for other factors, innovative culture is more likely in New York sites. Our qualitative research supports this finding. In New York, the early childhood community works hard to develop more resources, hold conferences where ideas can be shared between sites, and cultivate an environment where early childhood care and education is recognized as a professional field rather than an informal service. The professional community is more highly developed; from interviews with policy-level administrators, early childhood care and education in New York is viewed as an essential service for parents and children (Sowa, 2003). Staff members see their roles as not simply providing care for children but working to increase children’s well-being and development. Our analysis highlights that this difference in institutional environment is reflected in a different culture of programmatic innovation within New York sites, even when controlling for other factors.

The third dimension of organizational effectiveness is program capacity—the organization’s ability to develop and execute strong programs that care for and educate children. In Table 4, we explore three types of program quality measures. Each model is statistically significant. First, we examine the diversity of services being offered to children. Much has been written about the importance and feasibility of using early childhood sites to provide more comprehensive services to children (Hofferth & Kisker, 1994; St. Pierre, Layzer, Goodson, & Bernstein, 1997). In particular, when dealing with at-risk children, education services are not enough; supportive services, ones that address the overall physical and socioemotional well-being, are also necessary to improve overall child well-being. In our model, we explore how these tools of government are achieving this end. The first model reveals that even when controlling for other factors, Head Start grants are a statistically significant and sizable predictor of providing more services, such as health screening, transportation, and nutritional support for parents. The other two government tools do not have a statistically significant influence.

Next, because equipment is important in the delivery of high-quality early childhood programs, we examine the physical environment present in the study classroom. As the table reveals, among the policy tools, Head Start grants are positively associated with the quality of the physical environment. Again, contracts and vouchers do not have a statistically discernible effect. This result is particularly interesting because it illustrates the multiple ways that public policy tools can shape programming in this field. Head Start grants have specific
## Table 4

Results of OLS Regression for Program Capacity Measures

|                        | Diversity of Services | Quality of Physical Environment | Quality of Teaching Staff
g | Diversity of Services | Quality of Physical Environment | Quality of Teaching Staffa |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unstandardized Coefficient</td>
<td>Standardized Coefficient</td>
<td>Unstandardized Coefficient</td>
<td>Standardized Coefficient</td>
<td>Unstandardized Coefficient</td>
<td>Standardized Coefficient</td>
</tr>
<tr>
<td>Constant</td>
<td>3.62</td>
<td>.448**</td>
<td>4.48**</td>
<td>19.60**</td>
<td>.02*</td>
<td>.23</td>
</tr>
<tr>
<td>Grant (% Head Start)</td>
<td>0.04*</td>
<td>.61</td>
<td>.00*</td>
<td>.26</td>
<td>-.01</td>
<td>-.04</td>
</tr>
<tr>
<td>Contract (% Pre-K)</td>
<td>0.01</td>
<td>.07</td>
<td>-.00</td>
<td>-.10</td>
<td>-.01*</td>
<td>-.23</td>
</tr>
<tr>
<td>Voucher (% child care subsidy)</td>
<td>0.01</td>
<td>.11</td>
<td>.00</td>
<td>.00</td>
<td>-.01</td>
<td>-.04</td>
</tr>
<tr>
<td>Organizational size</td>
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<td>.16</td>
<td>.00</td>
<td>.20</td>
<td>-.01*</td>
<td>-.23</td>
</tr>
<tr>
<td>Traditional social service agency</td>
<td>1.84</td>
<td>.28</td>
<td>-.43</td>
<td>-.29</td>
<td>-.38</td>
<td>-.05</td>
</tr>
<tr>
<td>Community-based organization</td>
<td>-0.05</td>
<td>-.10</td>
<td>-.06</td>
<td>-.06</td>
<td>-.06</td>
<td>-.01</td>
</tr>
<tr>
<td>Institutional–New York</td>
<td>-1.59</td>
<td>-.28</td>
<td>.80**</td>
<td>.65</td>
<td>.88</td>
<td>.14</td>
</tr>
<tr>
<td>R²</td>
<td>.55</td>
<td>.73</td>
<td>.60</td>
<td>.06</td>
<td>.08</td>
<td>.06</td>
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<tr>
<td>Adjusted R²</td>
<td>.42</td>
<td>.60</td>
<td>.53**</td>
<td>3.22**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>22</td>
<td>22</td>
<td>22</td>
<td>22</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: OLS = ordinary least squares.

*HLMs were run of this variable because it is constructed from individual-level data (parents’ perception of teacher quality) rather than organizational-level data. In these models, we also included the individual-level control variables found in Table 4. The HLM did not influence model estimation, and so to ease interpretation, we presented the OLS results here.

*p < .05. **p < .001.
requirements for physical equipment that enhances child development, is age appropriate, and is in good condition. Assessments of physical space are required to be done at least annually and often lead to changes, as demonstrated by the center discussed earlier that was required to add a bathroom to its Head Start classroom. In contrast, contracts used to implement New York and Virginia’s Pre-K programs do not consistently include such a requirement and, as demand-side subsidies, vouchers are unable to influence program capacity in this way. A more sizable factor, though, in predicting the quality of the physical environment is whether a program is in New York State. Again, this finding might reflect the more resource-rich environment that makes additional grant and loan funds available for improvement of physical space in New York’s early childhood programs. For example, two of the organizations involved in the study in New York State had recently built new facilities or expanded their facilities, accessing unique philanthropic and local funding sources. This activity is suggestive of community and local and state government support for early childhood care and education outside of the larger funding streams and tools examined here. More research in early childhood care and education across the United States is needed to fully explore the impact of a supportive policy environment on the organizations providing these services.

In our final measure of program capacity, we examine the quality of teaching staff. Again, in the multivariate results, the percentage of funds from the Head Start grant is a positive predictor of teacher quality. This is an interesting finding because teacher qualification requirements are less stringent in Head Start grants than in New York and Virginia Pre-K contracts. The explanation for this may be due to the long-standing nature of Head Start as a program. At the time of this study, the two state Pre-K programs were still in the early stages and may not have articulated as comprehensive a training and development plan as Head Start. Although the overall training requirements in Head Start may be lower, the training is generally focused on skills needed to enhance a teacher’s classroom performance and daily work and interactions with students. This model also reveals that the size of the organization is negatively related to the quality of the teaching staff. This finding is troubling, as parents may often gravitate toward larger centers, as they may have more room for their children or more ability to attract children. Based on our experiences in this study, a possible explanation for the finding may rest with the labor market in early childhood care and education. As mentioned previously in the article, early childhood organizations face market dynamics that cause high turnover among teachers and aides (Whitebrook et al., 2001). The larger organizations in this study may have to fill positions quickly to meet the demands of the classrooms, perhaps not always being able to attract the highest quality candidates every time. However, because of the small sample size of our study, we cannot state definitively that this holds for all large early childhood care and education organizations. More research is needed on the impact of size on the ability to recruit and retain qualified frontline workers in this policy field.

Our fourth and final construct highlights elements of organizational performance relating to program outcomes. As mentioned earlier, program outcomes often are presumed to be the most important consequence of government funding. In conventional wisdom, government provides funds and program affects—positive or negative—result. In our analysis, we focus on two types of programmatic outcomes—the school readiness of children and parental satisfaction with the program. Because these factors are individual level rather than
organizational level, our analysis, presented in Table 5, is done with HLM rather than the OLS technique presented in earlier models. Additionally, we control for parental income, level of education, and age. Of the two measures of program outcomes, there is more variance between sites for school readiness than for parental satisfaction. It is interesting that, for both measures, there was even greater variance among children and their parents within sites than across sites.

As Table 5 reveals, only one of the tools of government is related to the two indicators of program outcomes: the degree of children’s school readiness and parental satisfaction. Our analysis shows a negative relationship between the voucher tool and these programmatic outcomes. This result is not surprising; vouchers are focused more on addressing the work needs of parents rather than the needs of children. When parents are selecting care based on vouchers, they may be aware that this programming is not necessarily the best in terms of quality and may represent more of the best available care that they can select with the voucher they have. Parents, realizing that there may be better quality care that they cannot afford, would therefore reflect lower levels of satisfaction. Alternatively, parents’ expectations of the quality of care their children will receive may be higher than the organization is able to provide. Because D.S.S. reimbursements are less than the market rate, organizations with a large share of clients using D.S.S. vouchers have fewer resources for programming, facilities, and salaries.

As shown in Table 5, the only other statistically significant predictor of school readiness is organizational size, which is negatively related to children’s school readiness. Given all

### Table 5

**Results of Hierarchical Linear Models for Program Outcomes**

<table>
<thead>
<tr>
<th>Fixed Effects</th>
<th>School Readiness</th>
<th>Parental Satisfaction</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient</td>
<td>SE</td>
</tr>
<tr>
<td>Client level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parent’s gross income</td>
<td>0.00</td>
<td>.05</td>
</tr>
<tr>
<td>Parent’s level of education</td>
<td>-0.09</td>
<td>.07</td>
</tr>
<tr>
<td>Parent’s age</td>
<td>0.00</td>
<td>.01</td>
</tr>
<tr>
<td>Organizational level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intercept</td>
<td>6.88**</td>
<td>.20</td>
</tr>
<tr>
<td>Grant (% Head Start)</td>
<td>0.00</td>
<td>.00</td>
</tr>
<tr>
<td>Contract (% state Pre-K)</td>
<td>0.01</td>
<td>.00</td>
</tr>
<tr>
<td>Voucher (% child care subsidy)</td>
<td>-0.01**</td>
<td>.00</td>
</tr>
<tr>
<td>Organizational size</td>
<td>-0.00*</td>
<td>.00</td>
</tr>
<tr>
<td>Traditional social service agency</td>
<td>-0.13</td>
<td>.19</td>
</tr>
<tr>
<td>Community-based organization</td>
<td>0.10</td>
<td>.20</td>
</tr>
<tr>
<td>Institutional–New York</td>
<td>0.18</td>
<td>.13</td>
</tr>
</tbody>
</table>

-2LL: 518.85 989.02

N

<table>
<thead>
<tr>
<th>Level 1</th>
<th>Level 2</th>
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</thead>
<tbody>
<tr>
<td>280</td>
<td>22</td>
</tr>
<tr>
<td>280</td>
<td>22</td>
</tr>
</tbody>
</table>

*p < .05. **p < .001.
of the factors important in determining outcomes for children and families and our relatively small sample size, this result is not surprising. Although only two variables were statistically significant predictors of school readiness, 79% of the parameter variation of school readiness is explained by the model presented in Table 5. When we explore parental satisfaction as our outcome of interest, we also find that New York exerts a positive and statistically significant influence on this outcome. The model, however, does not predict the variance of parental satisfaction as effectively as it did for school readiness, with only 14.89% of the variance explained.

Looking across these models presented in Tables 2 through 5, the differential effects of government tools in these early childhood organizations become apparent. Head Start grants are consistently related to measures of management and program effectiveness. They have statistically significant, sizable positive effects on management systems, organizational communications, a sizable negative effect on teacher turnover, and a more modest positive effect on classroom environment and teacher quality. In contrast, vouchers that provide subsidy to parents have a statistically significant negative relationship with the two measures of program outcome, overall parental satisfaction, and school readiness. Pre-K contracts have other effects, with smaller but statistically significant influences on an organization’s management system and culture for innovation.

**Discussion and Conclusion**

By focusing on the relationship between three government tools and nonprofit organizational performance, this article is a first step response to Peters’s (2000) call for empirical research bridging the literature of policy tools and public management. By using a multidimensional model of organizational performance, we draw researchers’ attention to the multiple relationships that might be significant in the operation of government tools in use. A number of interesting findings merit more discussion.

For one, this analysis illustrates how the tools that a government uses are not neutral. They directly affect the organizations charged with implementing social policy. In the organizations we examined that provide early childhood care and education, public grants and contracts directly influence management and its capacity to create high-quality programs. Qualitatively, this is apparent when talking with program managers and teachers who alter their day-to-day practice because of the perceived intent of government tools. Grants and contracts give program managers and teachers new resources and opportunities that they can put to use toward improving their organizations overall and improving outcomes at the management and program level. Quantitatively, this article presents a simple multivariate model that predicts various dimensions of organizational performance. Our results about the many consequences of the Head Start grant on these organizations suggest that there is more at stake than merely funding programs. The tool itself carries with it a number of consequences that seem to be directly influencing how these organizations operate on the ground. In an era where government works closely with private organizations to carry out public policy, public managers should carefully consider the multiple ways government’s tools affect these organizations. From our exploratory models, we offer the following propositions about how government tools may affect organizations:
Hypothesis 1: Supply-side government tools that provide organizations with a stable revenue base will have a greater impact on an organization’s management capacity and management outcomes.

Hypothesis 2: Government tools that allow for stability and innovation, such as grants, will increase programmatic capacity.

More research is needed to explore the viability of these hypotheses in other policy areas, consistent with the whole premise of the government tools scholarship.

Second, although our model incorporates elements suggested in previous research to be important in the implementation of public contracts, these factors may be less consequential when multiple tools are being employed. The type of nonprofit, as suggested by Smith (1999; Smith & Lipsky, 1993) to be important, does not have predictive power in these models. Similarly, organizational size is rarely a statistically significant variable. Yet, as seen by the consistent importance of the New York State variable, the institutional environment shapes the implementation of tools. In many ways, this is not surprising because of the qualitative difference between both states. New York was one of the pioneers in investing public funds to support early childhood education, with the Experimental Pre-Kindergarten program dating back to 1966 and the state’s commitment to universal 4-year-old preschool access in 1997. In Virginia, public support is less clear; early childhood education leaders spend considerable energy trying to legitimate public investment that supports child development (Sowa, 2003). It is more typical for the public debates there to reflect the belief that government investment should focus on providing child care to enable low-income parents to work rather than to enhance early childhood educational development. In Virginia, leaders spend considerable time legitimating the role of early childhood care and education in promoting the needs of both parents and children. This is no longer necessary in New York State. This state variable also might be a proxy for larger cultural and managerial-style differences between New Yorkers and Virginians or differences in perceptions concerning the role of government overall. More research should be done to examine how and in what ways institutional conditions affect the legitimization and operation of early care and education throughout the United States. Regardless, the significance of state context in our models highlights the importance of crafting multiple case study designs that vary and control for state institutional settings in a devolved social welfare system.

Third, our analysis shows how little is understood about the causal mechanism operating inside organizations that are influenced by tools. We could speculate, for example, how the ways in which frontline staff and managers in private organizations understand government tools shapes how they work with them (Sandfort, 2000). If this is true, it might be possible to use certain tools that would be more aligned with particular organizations. It might be possible to package tools or communicate them in ways that enhance rather than hinder their implementation. Very little is understood about these dynamics involved in public policy implementation. Across the 22 organizations studied, the language used to refer to the different tools varied within and across the organizations, suggesting that the way frontline workers and managers understand and make sense of the tools in use might affect the efficacy of these tools in practice (Sandfort, 2000; Spillane, 1998; Weick, 1995). When implementation challenges associated with particular tools occur, the challenge may not be with the tools per se but with the way in which the frontline workers and managers understand and enact
them. This is an area of public management research that needs more attention in the future to promote the better match of tools to policy problems and organizations.

Finally, our analysis suggests that more research needs to explore the relationship between government tools—in and of itself—and programmatic results. Although program outcomes are often stressed in public policy debates, our analysis raises some important questions about how public funds truly influence these types of outcomes in a decentralized policy domain like early childhood care and education. In our models, we found limited direct relationships between the government tool and program outcomes. Yet our results are not robust enough to warrant the creation of propositions. Logically, it is not surprising that we cannot identify government tools as the main driver of programmatic outcomes. Other research shows that many factors, such as classroom or teacher quality, other social supports, responsive program staff, or home environment, are likely to more directly influence school readiness or program satisfaction (Hauser, Brown, & Prosser, 1997; Shonkoff & Meisels, 2000). Our analysis shows that public investment does directly influence management capacity, management outcomes, and program capacity. Logically, these factors could lead to better program outcomes. The more effective an organization is overall, the more likely it will be to deliver programs with positive and hopefully lasting outcomes (Lett, Ryan, & Grossman, 1999). Government tools such as grants and contracts, which affect the key facets of capacity contributing to organizational effectiveness, may well be the preferable route for government investment in private organizations. Our small sample size does not allow us to explore the nature of the relationship between government tools, organizational capacity, and results; future research should try to unpack how the form and intensity of public investment in third-party organizations is related to achieving positive program outcomes.

As in all empirical examinations, this effort has some important limitations. The most obvious is the generalizability of these findings to other policy fields and institutional contexts. Our analysis also presumes that public managers will make rational decisions when making choices among the tools of government at their disposal. However, there are many reasons to believe that these decisions might also be shaped by political concerns (Peters, 2002), such as public opinion or institutional pressure. Finally, our data set did not gather information about other citizen-level outcomes. Political scientists have noted that there are many noneconomic costs associated with the increased privatization of public services and the proliferation of government tools (Morgan & England, 1988; Smith & Ingram, 2002; Soss, 1999; Van Slyke & Roch, 2004). These costs are not trivial; citizens’ experiences with publicly funded programs shape their expectations, their sense of civic responsibility, and perhaps their own efficacy as citizens. Subsequent studies exploring how government tools shape organizational performance should try to include these important elements in their conception of program outcomes.

In spite of these limitations, this article takes an important first step in exploring the multiple ways government investment is shaping organizational performance among the agencies it depends on to provide services to citizens. In this increasingly complex world where government is responsible for governance of multisector delivery networks, we must not lose sight of the unintended but real consequences of these new forms of public service delivery.
Appendix
Definition and Descriptive Statistics of Variables

Government Tools
*Grant:* Percentage of early childhood funding from Head Start ($M = 35.05$, $SD = 39.77$)
*Contract:* Percentage of early childhood funding from state preschool program ($M = 10.30$, $SD = 17.27$)
*Voucher:* Percentage of early childhood funding from D.S.S. ($M = 25.52$, $SD = 26.45$)

Management Capacity
*Management systems:* ($M = 4.14$, $SD = 2.00$, range = 0 to 7, Cronbach alpha = .67)
Index created by the following eight questions combined, all with scales from $0 = no$ to $1 = yes$
- Does your organization:
  - Have a formal mission statement?
  - Employ specialized computer software program to track enrollment?
  - Employ specialized computer software program to collect parent payment?
  - Employ specialized computer software program to bill outside vendors?
  - Employ specialized computer software program to track child assessments?
  - Employ specialized computer software program to manage staff scheduling?
  - Use internal financial statements?
  - Have written financial policies governing things such as investment of assets, purchasing practices, or reserve funds?

*Organizational communications:* ($M = 10.86$, $SD = 2.10$, range = 5 to 13, Cronbach alpha = .86)
Index created by the following three questions combined, all with scales from $1 = never$ to $5 = very often$
- Communicates changes or new policies, programs, and procedures to teachers through meetings.
- Communicates changes or new policies, programs, and procedures to teachers in writing.
- Holds regular staff meetings.

Management Outcomes
*Voluntary turnover:* Percentage of teaching staff that left the organization voluntarily (annual)
*Innovative culture:* ($M = 4.23$, $SD = 2.00$, actual range = 2 to 10, Cronbach alpha = .73)
Index created by the following four questions combined, all with scales from $1 = strongly disagree$ to $5 = strongly agree$
- We are encouraged to share experiences, concerns, and ideas with people in other organizations.
- We are encouraged to experiment when we are faced with a new situation.
- People here are encouraged to try out new ways of dealing with problems, even if these may not always succeed.
- Experts and creative practitioners are invited to the organization to share their ideas with us.

Program Capacity
*Quality of physical environment:* ($M = 4.95$, $SD = .59$, actual range = 3 to 6, Cronbach alpha = .63)
Index created from the “space and furnishing” construct of the Early Childhood Environmental
Rating Scale revised edition (Harms, Clifford, & Cryer, 1998). This structured observation tool, developed at the University of North Carolina, is widely recognized as the most valid way of assessing high-quality early childhood settings. It tapped the following dimensions:

- Indoor space
- Furniture for routine care, play, and learning
- Furnishings for relaxation and comfort
- Room arranged for plan
- Space for privacy
- Child-related display
- Space for gross motor play
- Gross motor equipment

**Parent perception of teacher quality:** \((M = 19.92, SD = 3.13, \text{actual range} = 1 \text{ to } 22, \text{Cronbach alpha} = .89)\)

Index of the following seven questions combined, all with scales from 1 = never to 4 = always

- My child gets lots of individual attention.
- The teacher is warm and affectionate to my child.
- My child is treated with respect by teachers.
- The teacher handles discipline matters easily without being harsh.
- My child’s teacher is open to new information and learning.
- The teacher is supportive of me as a parent.
- The teacher accepts the way I raise my child.

**Diversity of services:** \((M = 5.5, SD = 2.86, \text{range} = 1 \text{ to } 10, \text{Cronbach alpha} = .84)\)

Following 10 questions combined, all with scales from 0 = no to 1 = yes

Please provide the following information about the types of services that are provided to at least some children at the child care site:

- Vision screening
- Hearing screening
- Dental screening
- Dental services
- Medical screening
- Mental health screening
- Social services assistance for parents
- Transportation from home to program
- Transportation from program to home
- Nutritionist available for parent consultation

**Program Outcomes**

**School readiness:** \((M = 6.45, SD = 1.06, \text{range} = 2.5 \text{ to } 7, \text{Cronbach alpha} = .84)\)

Following two questions combined, all with scales from 1 = never to 4 = always

Based on your child’s experience in the classroom, evaluate the following statements:

- My child is being prepared for kindergarten.
- My child learns skills and concepts that will be important for succeeding in school.

**Overall parent satisfaction with program:** \((M = 22.50, SD = 3.72, \text{range} = 1 \text{ to } 25, \text{Cronbach alpha} = .90)\)

Following eight questions combined, all with scales from 1 = strongly disagree to 5 = strongly agree:

Based on what has happened over the past year, how satisfied are you with how well the center is . . . helping my child to grow and develop.
being open to my ideas and participation.
supporting and respecting my family’s culture and background.
identifying and providing services for my child.
identifying and helping to provide services that help my family.
maintaining a safe program.
preparing my child to enter kindergarten.
helping me become more involved in groups that are active in my community.

**Controls**

*Traditional social service agency:* dummy variable \((M = .23, \ SD = .43)\)

*Community-based organization:* \((M = .54, \ SD = .51)\)

*Size:* Total number of staff \((M = 90.68, \ SD = 116.03)\)

*Institutional context:* Dummy variable for sites located in New York \((M = .50, \ SD = .51)\)

**Notes**

1. In 2002, three out of five children ages birth to 6 were cared for regularly by someone other than their parents. The prevalence of nonparental care varies by state.
2. In both New York and Virginia, we contacted local, state, and federal public officials working with state Pre-K programs and federal Head Start to identify organizations operating full-day, full-year programs. Although we attempted to create a population of the sites blending resources to offer full-day, full-year early childhood care and education programs, we are not confident that our pool was complete. We conducted a telephone prescreening of the programs identified by these officials to determine if they met our two primary criteria for participation (receipt of government funds and full-day, full-year operation) and selected study sites willing to participate in our 2-year study. Programs were grouped into the following three categories: (a) received D.S.S. and Pre-K funding, (b) received D.S.S. and Head Start funding, and (c) received D.S.S., Pre-K, and Head Start funding. Then, we selected three organizations from each of these categories, trying to balance size of organization and location (urban and nonurban). We also selected one organization receiving only D.S.S. funding in each state.
3. A nonurban locality was defined as a town with a population of less than 30,000 based on the 2000 U.S. Census.
4. We designed the study for New York. We then added Virginia as a second state to vary the institutional context and began to collect data in 2000. The two states have important similarities and differences in their political and institutional environments that made them important candidates for replication. As described by Yin (2002), replication logic is a strategy of case study research similar to replication used in experiments. In a multiple-case study design, it allows us to examine whether the results found in one case are the same or different in multiple cases, thereby increasing the robustness of the findings.

**References**


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