

Unintended Consequences: The Impact of Welfare Reform in the United States on NGOs

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The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 dramatically transformed the structure and goals of the public welfare system in the United States. The vast body of research and evaluation generated by the 1996 welfare reforms largely overlooked nongovernmental organizations (NGOs) despite their substantial historical and contemporary involvement in the delivery of social services to low-income populations. Therefore, this paper presents a unique assessment of PRWORA's implications based on the perspective of 90 social service NGOs operating in the Detroit metropolitan area. Examination of their services, staffing, budgets, and clients reveals many changes experienced by NGOs between 1996 and 2000 related to the welfare reforms. Overall, the findings suggest an increased role for social service NGOs in the "public" welfare system as well as concerns regarding their capacity to adequately fulfill this growing responsibility in the future.

KEY WORDS: NGO; nonprofit; welfare policy; welfare reform; PRWORA; social services; United States.

INTRODUCTION

Throughout United States (U.S.) history major shifts in social policy have produced unforeseen consequences that were very different from, or even at odds with the intentions of their sponsors. For example, the effects of the public welfare system established by the Aid to Families with Dependent Children (AFDC) program on family composition and gender relations and the impact of Medicare and

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Medicaid on health care costs were not anticipated when they were created (Axinn and Stern, 2001). The welfare reforms enacted by the 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) were no exception to this phenomenon.

The 1996 legislation fundamentally altered the style and substance of public welfare in the United States (Hagen, 1999; Haskins and Blank, 2001; Pavetti, 2000; Schott *et al.*, 1999). Several aspects of the change in public welfare are particularly noteworthy. First, the legislation ended 60 years of entitlement-based public assistance by establishing time limits and other criteria that prevent otherwise qualifying poor individuals and families from obtaining public welfare support. Additionally, state and local governments were given more responsibility and autonomy to design and implement mini “welfare states.” This was accomplished through greater reliance on a system of block grants in which states were given a fixed allocation of funds and relatively flexible guidelines to structure their public welfare programs and policies as they desired (Weaver, 2002). Another key component of the legislation was the creation and enforcement of “work requirements” that compel the vast majority of welfare recipients to be engaged in narrowly defined “work-related” activities as a condition of receiving public assistance (Hagen, 1998). The work mandates highlighted the goal of contemporary U.S. public assistance policy: to reduce the size of the welfare rolls by moving recipients into the labor market. Symbolically, the U.S. public assistance program was renamed Temporary Assistance for Needy Families (TANF) to reflect this short-term orientation.

Given these substantial changes, it is widely acknowledged by researchers and policymakers that the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 had significant implications for the decades-old partnership between the state and the voluntary sector in the United States and for the services nongovernmental organizations (NGOs) provide to their clients (Abramovitz, 2002; Bloom, 1997; Burt *et al.*, 2000; Cnaan *et al.*, 1999). Yet, most analyses have overlooked its unintended effects on social service NGOs—particularly their structure, functions, and patterns of interorganizational relationships (Besharov *et al.*, 1997; Carnochan and Austin, 1999; Hassett and Austin, 1997; Johnson, 1998; Perlmutter, 1997). A recent study in Ohio, however, suggests that during the past decade “nonprofits were under pressure to alter their traditional character” (Alexander *et al.*, 1999, p. 461). In order to address some of these concerns more directly, this paper reports on a study of 90 social service NGOs in the State of Michigan that explored the extent to which PRWORA has affected their structure and functions.

LITERATURE REVIEW

Since the onset of public debate about welfare reform, policymakers have recognized the potential effects of welfare reform on community-based organizations

(U.S. Senate, 1996). Yet, few studies have examined the role of NGOs in implementing welfare reform or the impact of policy changes on the organizations themselves (Besharov *et al.*, 1997; Briggs, 1999; Hassett and Austin, 1997; Johnson, 1998; Perlmutter, 1994, 1997; Raffel, 1998; Riccio and Orenstein, 1996). This is ironic since previous research revealed how changes in NGOs' external environment produce new patterns of intraorganizational behavior and interorganizational relationships, including alternative resource development strategies and the creation or expansion of collaboratives and networks (Bielefeld and Scotch, 1998; Bischoff, 2001; Galaskiewicz and Bielefeld, 1998; Grønbjerg, 2001; Reitan, 1998; Roberts-DeGenarro, 1997).

Investigating the consequences of welfare reform on NGOs is critical to an understanding of the contemporary policy environment for at least two important reasons. First, welfare devolution has produced new patterns of relationships between providers and government agencies and forged new arrangements among NGOs themselves (Alexander, 2000; Baker and Doorne-Huiskes, 1999; Bielefeld and Corbin, 1996; Briggs, 1999; Brown, 1997; Brunner, 1996; Perlmutter, 1994; Young, 1999). Second, the decrease in welfare caseloads since the mid-1990s, even in times of economic prosperity, has been accompanied by greater demands for NGOs' services (DiPadova, 2000; Eisinger, 1999; Withorn, 1999). The reduction in state welfare caseloads appears to represent a deliberate transfer of social costs from the public to the NGO sector. Despite the growing support for faith-based services it is unclear whether NGOs can bear the burden of this cost-shifting process.

RESEARCH METHODOLOGY

The authors compiled the research sample from several sources: (1) the 1997 edition of the Nonprofit Enterprise at Work (NEW) Washtenaw Nonprofit Resource Directory; (2) the Office of Field Instruction at the University of Michigan School of Social Work; and (3) the directory of participating agencies compiled by the United Way of Metro Detroit. The agencies chosen all provided health or human services to potential TANF populations (young children and/or their caretakers), were located within two Southeast Michigan counties (Wayne and Washtenaw), had been in operation prior to 1996, and had official charitable nonprofit status. This resulted in a sample of 201 agencies. These organizations were then contacted during the spring and summer of 2000. Ultimately, 82 organizations returned the survey questionnaire—an initial response rate of 41%. In addition, three focus groups were conducted involving 32 participants from 30 agencies. Eight of the organizations represented at the focus groups did not return a survey. Therefore, a total of 90 organizations—45% of the sample—participated in the project in some way.

The survey and focus group questions sought to determine whether organizational changes along the five dimensions of staff, clients, program, budget, and

interorganizational relationships had occurred between 1996 and 2000 and to assess the extent to which there was a relationship between these changes and welfare reform. These variables were selected because the literature on nonprofits has long identified them as critical dimensions of organizational life (Edwards *et al.*, 1999). The questionnaire generated both quantitative and qualitative data related to the breadth and depth of change experienced.

Researchers have hypothesized that NGOs would experience the effects of welfare reform differently depending on the nature of the community they served, the type of services they provided, their size, and the composition of their clients (Corbin, 1999; Grønberg and Paarlberg, 2000). Therefore, five variables were used for comparative analysis: agency location, program focus, size (as determined by agency budget), and the proportion of racial minority and public assistance clients served. This paper primarily examines the role of agency size and the proportion of public assistance (PA) clients served as important conditions influencing how welfare reform affected voluntary sector organizations. Agencies were divided into three different groups: low (<30%), medium (30–70%), and high (>70%), based on the proportion of clients receiving PA. An agency's annual budget was used as an indicator of its overall size. On the basis of self-reporting, organizations were divided into three categories: small (annual budget < \$250,000), medium (\$250,000–\$1,000,000), and large (>\$1,000,000). The responding organizations provide a wide range of social services. A breakdown of organizational characteristics is reflected in Table I.

Throughout the presentation and discussion of the survey findings, statistical significance is reported at the $p = < 0.05$ level. For categorical analyses, independence was tested by computing chi-square. Fisher's Exact Test was utilized when necessary, to adjust for low cell frequencies. Association between ordinal level data was determined by computing Kendall's Tau. In addition, qualitative data were captured through various open-ended questions and the focus groups.

Table I. Characteristics of the Sample Organizations

Revised sample size	Total sample (%)
Agency type ($n = 77$)	
Community/multiservice	35
Advocacy/info/education	18
Mental health/substance abuse	26
Emergency assistance	22
Proportion—public assistance clients ($n = 73$)	
Less than 30%	19
Between 30 and 70%	44
Greater than 70%	37
Annual budget ($n = 75$)	
\$250,000 or less	24
Between \$250,000 and \$1 million	23
Greater than \$1,000,000	53

One cautionary note regarding the data relates to the ability of nonprofit organizations to identify correctly the source of the documented changes. A number of political and economic factors, including the growth of managed care and alterations in Medicaid policies, have combined to form a complex operating environment throughout the period of PRWORA's implementation. While acknowledging this difficulty, the questions from the survey and focus groups were constructed in a manner to reduce this concern. Participants were first asked what degree of change (if any) had occurred in a particular area, such as staff workload, and subsequently asked if these changes were specifically attributable to welfare reform. Given the substantial variation in the responses to these two types of questions, we believe that nonprofit executives were able to distinguish between overall agency changes and changes associated with welfare reform. Additionally, the qualitative responses to these same questions frequently provided the rationale for whether or not a change was attributable to welfare reform.

Self-selection of the sample represents another potential concern with the data, in that possibly only those organizations experiencing changes or the effects of welfare reform would voluntarily complete the survey instrument. Although we cannot completely resolve this concern, we can offer some evidence regarding the heterogeneity of the nonrespondent population along the dimensions of organizational change and welfare reform.

During the data collection process, interviews with a number of nonprofit executives revealed that changes had occurred, but they chose not to continue their participation due to lack of time or general inundation with survey requests. A number of organizations originally scheduled to participate in the focus groups were unable to attend due to unforeseen crises that required the attention of the organization's representative. In addition, eight participants in the focus groups failed to complete a survey, although they referred to significant changes having occurred in their organizations related to welfare reform during the focus group discussions. Therefore, while the degree of self-selection remains unknown, we believe there is sufficient evidence that nonresponding organizations are not comprised solely of organizations unaffected by the changes in welfare reform, which suggests the ability to formulate realistic generalizations based on our findings.

RESEARCH FINDINGS

Changes in Client Demand and Composition

The unexpected effect of PRWORA on the scope and nature of client demand was, perhaps, the most widely reported consequence of the legislation. The median proportionate change in the difference between the number of clients served in 1996 and 1999 corresponded to an increase of 26% (see Table II). Although considerable variation existed among individual organizations within the research

Table II. Changes in the Client Demand and Composition

	Total (%)	% PA clients			Annual budget		
		Low (<30%)	Med. (30–70%)	High (>70%)	Low (<\$250K)	Med. (>\$1M)	High (>\$1M)
Median percent change in number of clients served between 1996 and 1999 ^a (n = 58)	26	25	25	33	25	31	29
<i>Change in the ratio of PA vs. non-PA clients served between 1996 and 2000 (n = 61)</i>							
Proportion reporting the same or a declining proportion of PA clients served	77	85	76	74	85	65	81
Proportion reporting a greater than 10% decrease in PA clients served	36	39	60	9	39	47	29

^a All median *percent change* values represent *percent increases* given the widespread growth in clients served.

sample, little systematic variation was evident based on the proportion of PA clients served or budget size. Multiservice organizations registered the greatest median increase in clients served (45%). In contrast, nearly half (46%) of the emergency service organizations reported serving the same or fewer clients. This appears to be related in part to their internal capacity rather than the actual demand for emergency services. Most of the organizations that provided emergency shelter indicated that the limited number of beds they possess constrains the number of clients they can serve, regardless of how many individuals seek shelter. Shelter residents are also taking longer to find permanent housing. Therefore, several of the shelters actually reported a decrease in clients served, even as demand increased or remained constant.

Reflecting the dramatic nationwide decline in the public welfare rolls, most organizations (77%) reported serving either a similar or a reduced proportion of clients receiving public assistance in 2000 than in 1996. In fact, over a third (36%) of the NGOs reported a decline of greater than 10%. This was especially evident among emergency service providers, as 53% reported at least a 10% decline in the proportion of PA clients served and none reported an increase greater than 10%. This finding provides some support for the assertion that the significant decline in the welfare rolls witnessed during the latter half of the 1990s did not necessarily indicate greater self-sufficiency and improved economic well-being among former recipients. Rather, the need for emergency services among low-income populations in the United States remained high and potentially growing during the period in which many were removed from public assistance rolls (U.S. Conference of Mayors, 2000). This interpretation is consistent with the comments

of numerous survey respondents that welfare reform had increased the number of clients they serve who are classified as the “working poor.” Respondents also stated that some clients are earning more but are unable to keep up with cost of living increases and the additional expenses of maintaining a job. They noted that work requirements had increased the level of stress among women, who are employed in “go nowhere jobs.”

Other changes noted by respondents included an increase in dual parent families and single parents seeking services and a significant increase in the number of grandparents who have formal or informal custody of their grandchildren. Such clients have multiple, largely unanticipated needs that are not being addressed by current policy changes. One respondent asserted, “They are not going to get off welfare. They have been poor all their lives and they probably will remain poor . . . They are only in survival mode.” Another respondent stated, “Clients are more difficult to serve than last year. We are working with the ‘gut-bucket bottom’ [the ones worst off].” The short-term orientation of programs means that these clients’ “problems will never be addressed.”

Two factors contributing to increased client demand during the 4 years under review have been the growth in the number of referrals received, particularly for emergency services, and changes in the duration of client contact. Most (80%) of the agencies ($n = 69$) reported an increase in referrals, while only 7% reported a decline. In addition to an overall increase in clients, factors cited for the increase in referrals included the development of expanded provision through the use of collaboratives, a rise in the number of harder to serve clients who require a complex network of services, the decline in the number of service providers, the effects of funding cuts, and the impact of declining resources.

Additionally, almost half (47%) of the respondents ($n = 70$) reported an increase in the *duration* of client contact during the 4 years under review. Mental health agencies were the exception to this trend, reporting shorter treatment periods as a consequence of managed care. As discussed above, this increase was particularly apparent among emergency assistance organizations (69% as compared to only 41% of other types of agencies), which have had to adjust to a greater demand for services as well as to longer or cyclical periods of client contact ($p = 0.008$). These effects cast serious doubts about the long-term “success” of welfare reform in moving TANF recipients towards economic sufficiency.

Staffing Patterns

The size, stability, and utilization of agency personnel are critical factors contributing to organizational effectiveness and staff morale (Brody, 1993; Edwards *et al.*, 1999). One unintended consequence of welfare reform may have been the degree to which PRWORA undermined these important features of nonprofits’ work. It is significant that nearly half (49%) of the respondents ($n = 75$) indicated

that staffing patterns changed as a direct or indirect result of welfare reform (see Table III).

In this regard, two major and somewhat conflicting findings stand out. Some agencies reported considerable difficulty obtaining and maintaining adequate numbers of staff and volunteers as service utilization by TANF recipients increased. Other respondents reported that their staffs had grown rapidly as they developed new programs or expanded existing services to meet increased client demands or funding requirements. Clearly, NGOs that offered or developed services consistent with the “welfare-to-work” orientation of the new TANF public assistance programs enjoyed substantial opportunities for organizational growth.

Agencies that served a high proportion of PA clients were significantly more likely to report such changes (65% vs. 48% vs. 21%; $p = 0.012$). They were also much more likely to state that welfare reform had a considerable/great impact on staffing ($p = 0.001$). Large- and medium-size organizations were nearly twice as likely to experience changes in staff composition due to welfare reform as small organizations.

Qualitative data from the surveys and focus groups reinforced these findings. Some agencies have expanded the size of their staffs to respond to increased referrals (particularly from the State of Michigan’s Family Independence Agency) and to engage in resource development or client advocacy. Others indicated that burnout among staff is higher because of the need to work extra, nontraditional hours since many of their clients are working during the day as well. Agencies also reported more staff turnover and that, in a relatively prosperous economy, it was harder to find committed workers. Some organizations, in fact, had offered signing bonuses and expanded their recruitment efforts. However, new staff frequently lacked the knowledge and skills to handle the complex problems they confront daily.

Agencies that historically depended on volunteers have had difficulty recruiting former clients for volunteer roles because of the work requirements of TANF and because the size of the overall volunteer pool has shrunk during the tight labor market. One respondent stated that general volunteers are no longer useful because specific skills are now needed in a work environment that increasingly emphasizes efficiency and productivity. Other respondents commented that it is difficult to attract and retain volunteers because they feel they are unable to help clients with multiple needs. Nevertheless, some agencies indicated that they continue to operate almost totally with volunteers recruited from local churches.

Staff Workload

Given the staffing problems generated by external pressures and increasing client demand, it is not surprising that a vast majority of the responding organizations ($n = 76$) reported changes in staff responsibilities (84%) and workload (93%) during the 4 years under review, with over half (55%) indicating that workloads

Table III. Changes in Agency Staffing

	Total (%)	% PA clients			p value	Annual budget			p value
		Low (<30%)	Med. (30-70%)	High (>70%)		Low (<\$250K)	Med. (>\$1M)	High (>\$1M)	
Percent of organizations reporting changes in staff/volunteer composition as a direct or indirect result of changes in welfare policy (<i>n</i> = 75)	49	21	48	65	0.012	28	55	55	0.048
Percent of organizations reporting changes in staff responsibilities during the 4 years under review (<i>n</i> = 76)	84	86	87	89	×	56	88	97	0.000
Percent of organizations reporting changes in staff workload during the 4 years under review (<i>n</i> = 76)	93	86	97	93	×	89	88	97	×
Percent of organizations reporting that the nature of staff workload and/or responsibility changed as a direct or indirect result of changes in welfare policy (<i>n</i> = 67) ^a	61	33	68	75	0.031	60	60	66	×

^aIncludes only organizations that indicated changes in staff workload/responsibility.

had changed considerably or to a great extent (see Table III). Agencies with larger budgets were significantly more likely to report substantial changes in staff responsibilities ($p = < 0.000$).

Nearly two-thirds of those reporting such changes ($n = 67$) attributed them to shifts in welfare policy. The impact of welfare reform in this regard is underscored by the finding that the only organizational characteristic that reflected significant differences was the proportion of PA clients served. While only one-third of the organizations serving a small proportion of PA clients related changes in staff workloads and/or responsibilities to welfare policy, 68% of organizations serving a moderate proportion of PA clients and 75% of those serving a large proportion did so ($p = 0.031$).

Several factors were cited as explanations for the growth in staff workload. These included higher caseloads, particularly with clients that had more complex problems; changing client needs; lack of sufficient funding; the addition of new programs; more paperwork because of greater accountability demands; and higher agency standards. One executive commented that there was increased burnout among staff and that staff "need to live with increased demand for service with no increase in revenue." In addition to the impact of extra, nontraditional hours, respondents also spoke of the need for more meetings and greater reliance on indigenous resources. One respondent noted "It has gotten to the point where this is not a social service agency any more. [It] more closely resembles a business."

Changes in Agency Programs

Respondents particularly noted the impact of policy changes on emergency services, such as the increased use of free meals and other food programs. Agencies with food pantries are now overwhelmed; they have had to expand nutrition services and revise their methods of food distribution. One agency reported serving 785 people in its Sunday soup kitchen (an increase of $\sim 300\%$). Seniors are also participating in food programs more frequently. One respondent remarked "Clients track me down for food wherever they see me, even during nonworking hours." Another noted that clients are now asking for help for the entire month, not only for a few days.

The demand for emergency shelter has also increased dramatically. One agency executive stated, "Walk-in centers are sometimes so crowded there is standing room only." Yet, while one organization has added two programs for homeless people since the introduction of welfare reform, others report they have actually served a reduced number of clients in shelters because the average length of stay has increased. They estimate they are serving about one-quarter of the people who are in need. These individual reports are consistent with national assessments of the growing need for emergency shelter and food services (U.S. Conference of Mayors, 2000).

In response, many agencies (77%; $n = 74$) have developed new programs or expanded existing services in such areas as employment training, information and referral, and the provision of concrete services (see Table IV). Of note, the overall trend toward increasing programmatic activities was not related to the proportion of PA clients served or the size of the agency budget. However, half of the respondents ($n = 72$) indicated that changes in welfare policies had affected the primary program activities of their agency. In focus groups, participants cited the shifting orientation toward work-related programs as the most important effect of welfare reform. This led to service expansion or development to satisfy legislative goals.

One positive unintended consequence of welfare reform has been an increase in client participation in shaping agency programs. The majority (52%) of respondents ($n = 75$) reported such increases during the 4 years under review. Agencies serving larger PA client populations were significantly more likely to relate this change to the 1996 welfare reforms ($p = 0.002$).

Program Objectives

Changes in client demand and new statutory requirements have led nearly two-thirds (66%) of the respondents ($n = 70$) to alter their program *objectives* during the 4 years under review (see Table IV); about one-quarter (24%) reported doing so considerably or to a great extent. Agency size was a significant factor in this regard, with larger agencies more than twice as likely to report substantial changes in program objectives ($p = 0.003$).

Of those indicating changes in program objectives, over half (55%) attributed these changes to welfare reform. Effects included an increased focus on the development of measurable outcomes, a focus on numbers rather than results, and greater orientation toward individualized client programs and targeted services. Others have expanded the provision of basic services to address the increased demand, as economic conditions are getting worse. One respondent remarked “we have had to shift our focus to just helping people survive.”

Although there were no statistically significant variations evident by service provider type, real differences existed among agencies based on the proportion of PA recipients served. Agencies with fewer than 30% PA clients were only one-third as likely to report changes in program objectives due to welfare policy shifts, as were agencies with substantial numbers of PA clients ($p = 0.007$).

Qualitative data from the focus groups reveal the largely unanticipated implications of these findings. Participants frequently pointed out how the objectives of welfare reform are unrealistic for many of the clients they serve. One respondent stated, “The goal is to cut people off from welfare, but they don’t just disappear.” The emphasis of Michigan’s Family Independence Agency (FIA) and other funders on “work first” overlooks the preparation involved in enabling clients to get

Table IV. Changes in Agency Services

	Total (%)	% PA clients			p value	Annual budget			p value
		Low (<30%)	Med. (30-70%)	High (>70%)		Low (<\$250K)	Med. (>\$1M)	High (>\$1M)	
Proportion reporting an increase in primary agency activities during the 4 years under review (<i>n</i> = 74)	77	77	74	85	×	72	71	84	×
Percent of organizations reporting that changes in welfare policies altered their primary program activities (<i>n</i> = 72)	50	33	53	59	×	35	44	61	0.077
Percent of organizations reporting changes in program objectives during the 4 years under review (<i>n</i> = 70)	66	64	68	64	×	39	60	81	0.003
Percent of organizations reporting that changes in welfare policies affected program objectives ^a (<i>n</i> = 44)	55	25	50	81	0.007	20	44	66	0.062
Percent of organizations reporting changes in program outcomes during the 4 years under review (<i>n</i> = 67)	70	62	80	69	×	40	67	83	0.003
Percent of organizations reporting that changes in welfare policies affected program outcomes ^b (<i>n</i> = 43)	44	12	53	53	0.054	50	40	46	×

^aIncludes only organizations that indicated changes in program objectives.

^bIncludes only organizations that indicated changes in program outcomes.

a decent job and supporting them once they get a job. “Two years are not enough to get people into a stable situation of self-sufficiency,” one respondent remarked, “clients don’t have the skills to help them get a good job.”

Another respondent assessed the effects of welfare reform on agency programs as follows: “Welfare reform was good for some of those on the other extreme, the skilled who actually had some education. Initially, there was some creaming of the best-qualified recipients. Not any more. Some clients are now coming through for the second and third time. Some are not motivated and are very difficult to work with. [Some] clients do not have the skills or stable mental health to handle a job.”

Because of these problems, agencies are torn between meeting people’s basic survival needs and helping them find and keep employment. It is difficult, for example, to hire former welfare clients, because they frequently do not have the skills, reliable transportation, and child care to be reliable employees. In addition, respondents noted, “it takes away time and energy from our other employees who try to work with them and assist them on a regular basis.” As the data reveal, agencies with larger budgets have more resources to support program changes.

Program Outcomes

Paralleling this shift in program objectives, 70% of respondents ($n = 67$) indicated that their program *outcomes* had changed during the 4 years under review (see Table IV); 21% responded that these outcomes had changed considerably or to a great extent. Only budget size appears to have a significant effect, with larger agencies reporting such changes twice as frequently as smaller ones ($p = 0.003$).

Of the organizations indicating a change in program outcomes, close to half (44%) reported that changes in welfare policy had affected program outcomes. This was especially apparent for emergency service agencies as fully 70% indicated that welfare changes affected their programmatic outcomes. Not surprisingly, agencies with large numbers of PA clients were more than four times as likely to link changes in program outcomes to welfare policy shifts than those with relatively small numbers of such clients ($p = 0.054$). Interestingly, agency budget size exhibited no connection between changes in welfare policy and changes in organizational *outcomes*, which contrasts with the findings regarding changes in program *objectives*. This suggests that the greater technical capacity and resources of larger agencies facilitated the realignment of their program goals and objectives in response to the priorities of welfare reform, but that the effect of welfare reform on client outcomes was similarly experienced by organizations of all sizes.

Nearly all respondents remarked on how their agencies’ programs have become more outcome-based, although their overall mission has not changed. Funding sources require them to define outcomes clearly, to measure programs’ efficacy, and to document program results far more than in the past. While this finding could

signal a positive trend among service providers, it may also be a harbinger of fundamental changes in the nature of NGOs (Alexander, 1999, 2000; Young, 1999). Some respondents used the language of client survival to describe their program outcomes. They spoke of filling the gaps created by welfare reform and of being compelled to focus more on numbers than on actual results. One respondent stated "Fewer people are getting back on their feet. [They] hop from one weak support system to another. [There is a] lack of permanency in their lives."

Agency Budgets

Over the past three decades, the role of NGOs in implementing social policies has expanded dramatically, as evident in the substantial flow of public sector funds received by NGOs (Abramson *et al.*, 1999; Alexander *et al.*, 1999; Smith and Lipsky, 1993). Yet, the fiscal effects of welfare policy changes on NGOs appear to be uneven and to have created disproportionate burdens on certain types of agencies. Over half of the agencies ($n = 69$) reported that these changes had affected the size of their budgets (over one-sixth to a considerable or great extent), with service expansion being the most commonly cited reason (see Table V).

There were significant positive associations when the agencies were examined in terms of their proportion of PA clients ($p = 0.008$). In fact, when agencies reporting some or more changes were combined, only one-quarter of the agencies with under 30% PA clients reported budget changes, as compared with nearly half (48%) of mid-range agencies, and 72% of agencies with large proportions of PA clients ($p = 0.006$). This appears to be a consequence of the changing pattern of public-nongovernmental organizational relationships (Grønberg and Salamon, 2002; Young, 1999). The budgets of organizations providing services to large proportions of PA clients are greatly influenced by changes in the availability of public sector funds for the delivery of particular types of services.

In addition, nearly 45% of respondents ($n = 69$) indicated that the sources of their agency's budget had changed due to welfare policy shifts. Some respondents expressed a sense of "urgency" to develop alternative funding sources and to engage in fundraising more aggressively. As anticipated, only 25% of agencies with relatively small numbers of PA clients reported changes in their budget sources, as compared with 41% of mid-range agencies and 60% of agencies that have large proportions of PA clients ($p = 0.043$). In focus groups, respondents' comments were equally divided among those that emphasized the implications of recent budget increases for service expansion and those that described how their agencies are attempting to serve more clients with the same or fewer resources. Some respondents complained of the difficulties involved in obtaining available public sector funds and of increased competition for fewer public dollars. As a consequence of welfare reform, one respondent remarked "All our fears were realized; there is an increased demand for services with no corresponding increase in funding."

Table V. Changes in the Size and Sources of Agency Budgets

	Total (%)	% PA clients			p value	Annual budget			p value
		Low (<30%)	Med. (30-70%)	High (>70%)		Low (<\$250K)	Med. (>\$1M)	High (>\$1M)	
Percent of organizations reporting that changes in welfare policies had an impact on the size of the agency's budget (n = 69)	52	25	48	72	0.006	41	47	61	×
Percent of organizations reporting that changes in welfare policies had an impact on the <i>sources</i> of the agency's budget (n = 69)	45	25	41	60	0.043	35	47	50	×

Others spoke of their agencies lacking the resources to generate matching funds as required by funders.

Numerous participants in the focus groups described problems in getting reimbursed from the city and state for contracts in a timely fashion. These fiscal difficulties are compounded, some respondents said, by a decline in private donations “since the general public believes that we don’t have a problem.” One respondent remarked “Personal contributions are down. The public’s perception is that employment is up and everyone is working. That’s not the reality and it’s hard to get that message out.” A large proportion of the respondents acknowledged the need to develop alternative funding streams to support their programs. There is considerable uncertainty, however, whether many nonprofits have the capacity to do so in the future on a sustained basis (Alexander, 2000; Alexander *et al.*, 1999; DiPadova, 2000; Withorn, 1999).

Organizational Responses to Budget Changes

Nearly half of the agencies sampled (47%; $n = 73$) reported making some substantial organizational adjustments as a consequence of the fiscal impact of welfare reform, such as rationing or eliminating services relying increasingly on earned income; cutting staff or increasing their workload; using more volunteers; restructuring; and relocating (see Table VI). There were significant variations within the sample in the strategic responses selected—regardless of client demographics. For example, only emergency assistance agencies reported rationing or eliminating services to any extent (24%; $p = 0.05$).

Overall, more than one-fifth of the agencies reported a need to reduce staff levels or increase staff workloads specifically as a result of budget pressures. Agencies with large budgets ($p = 0.003$), were far more likely to report such

Table VI. Organizational Response to the Budgetary Impact of Welfare Reform

	Total (%)	% PA clients (%)			Annual budget (%)		
		(≤70%)	(>70%)	<i>p</i> value	(<\$1 M)	(\$1 M+)	<i>p</i> value
Rationing	8	9	7	×	9	8	×
Eliminating services	8	7	15	×	6	11	×
Increased reliance on earned income	11	9	15	×	9	13	×
Staff reductions or workload increases	21	16	30	×	6	34	0.003
Increased reliance on volunteers	18	9	30	0.028	22	16	×
Management reforms	14	9	22	×	3	24	0.011
Agency relocation	10	7	15	×	13	8	×
Any budgetary impact ($n = 73$)	47	42	56	×	44	50	×

staffing adjustments. Agencies with large numbers of PA clients were nearly twice as likely to make staffing adjustments and over three times as likely to make increased use of volunteers ($p = 0.028$). Agencies with large number of PA clients were more than twice as likely to have restructured (22% vs. 9%). Large agencies were over eight times as likely to have done so ($p = 0.011$), probably because their greater institutional capacity enables them to take such risks.

Interorganizational Competition

While nonprofits have been experiencing the effects of resource scarcity for at least 20 years (Abramson *et al.*, 1999), there is some evidence that PRWORA intensified preexisting competition among agencies (Abramovitz, 2002; Alexander, 2000). While most respondents did not report a substantial amount of competition for clients, over three-quarters (77%) of the organizations indicated that they competed for resources and 61% indicated that such competition had increased during the 4 years under review. Of those reporting increased competition, 75% of the respondents ($n = 36$) reported that welfare policies had contributed to this increased competition. Some respondents remarked on how their agencies are trying to find an appropriate “niche” in the current social service nexus. One respondent referred to a “natural selection” process that had emerged among agencies as a consequence of decreases in public funding. Another remarked, “shifting priorities at all levels has forced everyone to reexamine what and how they do business.” This has led to “quality becoming a significant factor. [While] in the past, politics and nepotism were dominant.”

SUMMARY AND IMPLICATIONS

This study supports the findings of other research (Abramovitz, 2002; Alexander, 2000; Bischoff and Reisch, 2000; Withorn, 1999) that welfare reform has had a substantial impact on the ability of NGOs to meet the increased expectations generated by recent policy changes. As in the past, it appears that reductions in the social safety net have placed unanticipated burdens on social service NGOs that they are unable to bear without altering their basic structure and functions. As expected, these effects have been particularly pronounced among agencies that serve low-income populations as indicated by higher proportions of public assistance clients. While dramatic, our research may actually understate the full effect of the 1996 PRWORA legislation as experienced by similar NGOs in other areas within the United States since the State of Michigan initiated several PRWORA-like reforms prior to the baseline comparison year of 1996. It also is important to note that the data were collected before the post-September 11, 2001 increase in national security concerns and an economic recession. Many of the respondents

recognized that the implementation of PRWORA coincided with a period of strong economic growth and extremely low levels of unemployment. This troubled them since even during the “best case scenario” many organizations were already facing increased client demands, especially for emergency services.

The research also found that nonprofits have made significant changes in the nature and number of their primary program activities in response to welfare reform, including the creation of new services and increasing client participation in program development. Many respondents—regardless of location or service type—frequently expressed concern, however, that their agencies were unable to keep up with increases in client demands, demands that they attributed to welfare reform. They believe that current statutory requirements are detrimental for clients and staff, and that many clients are struggling to survive with minimal or no safety net supports. These effects have been particularly pronounced among people of color and those who are homeless, disabled, or in abject poverty. They are also reflected in the large increases in client referrals reported by most agencies, especially for emergency services.

Welfare reform has also affected the objectives and outcomes of agency programs. These changes were particularly striking in those agencies that provided emergency services and that served high proportions of TANF recipients. One respondent remarked “We have had a 30–40% increase in the homeless population and similar increases for survival services. Staff works many unpaid hours. This system is inhumane. It is another social experiment that will . . . result in negative findings for years to come.”

In addition to the impact on clients and staff, over half of the respondents reported that welfare policy changes had affected the size, and nearly half reported an impact on the sources, of their agencies’ budgets. These effects were particularly dramatic among organizations that serve large percentages of public assistance clients. Almost half (47%) of the sample had to make substantial organizational adjustments in response to the budgetary impact of welfare reform. The most common forms of adjustment were staff cuts or increases in workloads; greater use of volunteers, restructuring through mergers or consolidations; and more reliance on earned income.

These findings suggest that NGOs now play an even more prominent role in the provision of the contemporary U.S. social safety net. While NGOs have always been active in this arena, vastly predating substantial public sector involvement, the increasing reliance upon them should not be uncritically accepted. An important question that needs to be addressed by scholars, practitioners, and policy makers concerns the extent to which NGOs can be relied upon to supplement the diminishing role of government as a financier and provider of social services.

Our research found that agencies turned clients away, especially in the area of emergency services, given their limited ability to meet growing client demands even during a period of relative affluence. Nongovernmental organizations that are

most likely to address the most severe economic and social consequences of welfare reform are increasingly unable, despite their best efforts, to respond adequately to the serious challenges they face. This finding is consistent with another recent study examining food-assistance programs, which concluded that while NGOs are vital to the provision of needed services, they were “fragile organizations” which “makes them weak members of the new public–private partnership” (Eisinger, 2002, p. 128). Devolving responsibility for public welfare to private sector NGOs is not a costless or risk-free endeavor. Seventy years ago, the United States experienced a protracted and severe economic depression. During this period the counter-cyclical vulnerability of the private sector social safety net was revealed as over one-third of the charitable organizations closed and much misery was endured throughout the nation (Trattner, 1999). A better understanding of nonprofit sector capacity must be developed to guard against the recurrence of such an event.

Additionally, these findings have serious implications for the future structure of NGO service provision in the United States. Our research demonstrated that while larger organizations underwent substantial changes, they appear to be in a better position than smaller organizations to take advantage of the shifting opportunities created by the implementation of PRWORA. Conversely, small agencies and those that respond to clients’ emergency needs are particularly vulnerable in the current environment. Unlike their larger and more mainstream counterparts, they have less access to critical information, less flexibility in developing alternative staffing patterns, and fewer options to generate new resources. Our finding that the political–economic environment seemed to be more supportive of large organizations is consistent with research indicating higher failure rates among small agencies (but not young organizations) during the 1992–96 prewelfare reform era (Twombly, 2001) and overall industry data documenting a slow, but steady, increase in the average size of social service establishments (Tucker and Sommerfeld, 2002).

To the extent that smaller organizations represent a valued component of the private sector response to community concerns, additional support mechanisms will likely need to be introduced. The shifting size and composition of the NGO sector may indeed represent one of the unintended consequences associated with welfare reform. Further research is necessary to identify the specific causal mechanisms that may create such a relationship between organizational size and the emerging U.S. public–private welfare system.

Based on our research it is evident that many changes have been brought about through the implementation of PRWORA, not least of which is an increasing reliance on the NGO sector in the contemporary social safety net. While our research and the research of others support this general conclusion, it is important to note that additional environmental factors may be contributing to these pressures on the NGO sector, such as shifts in the overall economy and substantial changes in the health and mental health care fields. Therefore, continued inquiry is required

to better understand the changing capacity, roles, and structure of the NGO sector in the United States and other countries. This will assist policy makers in assessing the full range of implications of alternative social welfare legislation patterns for NGOs and the people affected by their operations, including the staff, volunteers, and the countless community members who rely on NGO services.

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