

**A Political Consequence of Contracting:  
Organized Interests and State Agency Decision-Making**

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### **Abstract**

We theorize that contracting opens a pathway for organized interests to lobby public managers. Using hierarchical linear modeling, we test this proposition with data from administrative agencies in the American states. We find that interactions between organized interests and managers increase in the presence of contracting. We then demonstrate that the influence of organized interests over key state agency decision-making is driven, in part, by whether an agency contracts out for public service delivery. The findings suggest the presence of an alternate pathway for organized interests to access and influence government decision-makers. Moreover, these results complement previous studies, which primarily highlight the potential economic benefits of contracting, and hold important normative implications for our understanding of government responsiveness in an era of decentralized governance.

**Word Count: 124**

There is a vast literature concerning the economic consequences of government contracting for public service delivery (Ferris 1986; Averch 1990; Dilger, Moffett, and Struyk 1997; Hodge 2000); yet the political consequences of such actions are infrequently investigated empirically. This oversight is particularly striking given that the administration of public programs and services in the United States is rapidly changing (Frederickson 1999; Light 1999, 2003; Kettl 2005), with government contracting being a ubiquitous example. In this article, we focus on one potential political consequence associated with changing public management practices: the increased influence of organized interests on agency decision-making after government contracting.

We put forth a simple proposition. Government contracts open a new pathway for organized interests to lobby public managers. We theorize that the administration of government contracts increases the amount of time public managers spend interacting with those entities (such as private companies, non-profit organizations, or other levels of government), who traditionally act as contractors. These interactions largely consist of government officials monitoring the performance and behavior of “third party” service providers. Yet, these exchanges also provide opportunities for contractors to convey their recommendations for policy change—be in shifts in programming, budgets, or policy priorities—to public managers. Stated differently, contracting provides select organized interests access to government decision-makers. We posit that contracting reduces barriers to lobbying for these third parties and ultimately augments the overall influence of organized interests within the administrative state.

We submit that lobbying through this theorized *contract pathway* is but one of many avenues organized interests may use to influence public decision-makers. Indeed, it is not controversial to suggest that scholars have documented a long list of interest group lobbying tactics, including well established practices such as providing information to legislators, handing out political contributions, organizing grassroots activities, submitting public comments to regulations, and engaging in litigation. Yet, it is controversial to suggest that this standard list of tactics is incomplete, and more provocatively, that the standard list does not acknowledge that interest group strategies can, and do, adjust to a shifting political environment that increasingly tilts towards privatization in the American states.

We test the *contract pathway* argument with data drawn from two sources. First, we rely on the American State Administrators Project, which secured survey data from agency heads in each of the 50 states in 1998 and 2004. Second, we supplement these data with state-level contextual factors, including information on the number of organized interests active across the American states. We employ descriptive statistics and hierarchical linear modeling to assess the argument. We find that, in the presence of contracting out, the interactions between organized interests and government managers increase, albeit slightly. We then demonstrate that the influence of organized interests on state agency decision-making is driven, in part, by the degree to which an agency contracts out for public service delivery. For instance, when controlling for a variety of competing explanations, we uncover increases between five and 17 percentage points in overall interest group influence due to contracting. We take this evidence as suggestive support for the theory that select organized interests may use their standing as contractors to lobby public managers for policy change.

From a normative perspective, the article's theory and findings are particularly vexing because they can lead to two opposing policy implications. First, the theory and results imply that public managers are taking an active—and proper—role in soliciting feedback from their partners in government service delivery. From this viewpoint, our findings are normatively positive, with public managers indicating some degree of responsiveness and accountability to their stakeholders. Alternatively, the theory and findings suggest cause for concern. From this opposing perspective, these results imply that interest groups have yet another route to access government decision-makers. Moreover, this avenue for special interest access maybe especially nefarious because the interactions between contractors and public managers take place beneath the radar screen of the general public and are largely hidden from those elected representatives charged with keeping the “4<sup>th</sup> Branch” of government accountable to the people.

### **Theoretical Foundations and Argument**

The argument in this paper rests on differing perspectives within the political science and public administration literatures regarding the relationship between the public bureaucracy and organized interests. As Frederickson (1999) elucidates, these literatures frequently use conflicting conceptual lenses

to understand the political world. For instance, while recent research in political science has been largely concerned with the political control of public bureaucracies and the power relationships that ensue, the literature within public administration has moved towards “theories of cooperation, networking, governance, and institution building” (Frederickson 1999, 702). Due to these distinct concentrations, the literature within political science is more pessimistic regarding the relationship between administrators and organized interests, while the public administration literature appears somewhat more optimistic. There are, of course, exceptions to this characterization and many scholars contribute simultaneously to both literatures (e.g. Balla and Wright 2001; Nicholson-Crotty and Nicholson-Crotty 2004; Yackee 2006). Nevertheless, these opposing perspectives provide leverage as we move toward an understanding of the political consequences of agency responsiveness to organized interests. We now review select findings within these traditions.

### **A Focus on Political Power and Hierarchical Control**

Over the past several decades, few research questions received more attention within political science than, “who controls the United States bureaucracy?” The primary theoretical issue within this literature is a concern over the delegation of decision-making to non-elected bureaucrats. In particular, scholars have spent considerable time identifying the tools and mechanisms utilized by elected political principals in influencing the public bureaucracy (McCubbins 1985; Aberbach 1990; Wood and Waterman 1994; West 1995). Many of these studies focus on the democratic legitimacy and accountability of the public bureaucracy. These studies explicitly, or implicitly, employ a principal-agent framework, and thus often have a “vertical” focus that emphasizes a hierarchical relationship between the elected political principal and an agent.

Additionally, there has been increased recent attention paid to the direct interactions between organized interests and agencies, particularly in the area of rulemaking (Furlong and Kerwin 2005; Yackee 2006; McKay and Yackee 2007). And many studies treat organized interests as an additional political principal that compete for control with legislatures and executives (Bendor and Moe 1985; Hammond and Knott 1996; Scholz and Wood 1998; Yackee 2006; Kelleher and Yackee 2006).<sup>1</sup> This

perspective frequently contrasts with the often-cited agency capture literature (Bernstein 1955; Huntington 1966; Stigler 1971) and the revolving door hypothesis (Pika 1983; Mackenzie 1987) by suggesting that the influence of organized interests on agency decision-making may be conditioned by the oversight provided by other political principals.

Another related literature within political science focuses on the political power of organized interests. Regardless of the terminology used—organized interests, interest groups, clientele groups, pressure groups, or special interests—most political scientists agree, as Baumgartner and Leech (1998, xv) summarize, that these entities “are a necessary evil best controlled rather than eliminated.” Some of the pessimistic tone in the literature originates from the well-established bias towards business and traditional economic interests present within the United States system of organized interests (Scholzman 1984; Scholzman and Tierney 1986; Gray and Lowery 1996, 2001; Gais 1996; Rozwell and Wilcox 1999; Yackee and Yackee 2006).

### **A Horizontal Focus on Cooperation and Governance**

The public administration literature tends to differ from the political science perspective in terminology, tone, and substance with respect to the relationship between organized interests and public bureaucracies. In contrast to the political science labels of organized interests or interest groups, scholars of public administration often utilize alternative terminology—such as third parties or partners in service delivery. Similarly, the tone of the recent public administration literature also differs from political science. Whereas political science has continued to be primarily concerned with hierarchical relationships, public administration is increasingly “horizontal” in its orientation. Stated differently, prominent public administration scholars tend to highlight government partnerships with private, nonprofit, or other government entities to provide public services via networks, contracts and other quasi-governmental collaboratives (Kettl 2000; Heinrich, Hill, and Lynn 2004). This “re-positioning,” to use Frederickson’s (1999) wording, provides for a new concentration on the tools and mechanisms of governance in the public administration literature (Kettl 2000; Light 1999, 2003; Salamon 2002; Heinrich, Hill, and Lynn 2004).

Some have noted that the accompanying concentration on *governance* over *government* also provides for a more apolitical, technocratic, and problem-solving tone (Fuchs 2005). Yet, we would be remiss to characterize the public administration literature as naïve to the politics associated with public management. Many scholars note the accountability problems associated with using third parties to perform public services (Bardach and Lesser 1996; Milward and Provan 2000; Kettl 2000), while others point to more general concerns regarding democracy and citizenship (Box 1999; deLeon and Denhardt 2000; Denhardt and Denhardt 2000; King and Stivers 1998; Eikenberry and Kluver 2004).

The substance of each literature also differs to some degree. Take, for instance, the recent concentration on network theory within the public administration literature (Milward 1994; La Porte 1996; O'Toole 1997; Milward and Provan 2000). Network theory helps explain the relationships between the third party organizations that provide a particular array of government services and the public managers who oversee the networks. Networks are inherently horizontal in their orientation (La Porte 1996), and as a result, network management differs from hierarchal management by yielding a different array of managerial concerns (Kettl 1996; Milward 1994; O'Toole 1997). Interestingly, while accountability concerns are raised by numerous scholars, lobbying is infrequently mentioned with regards to network theory, and when it is mentioned, it has been portrayed as one of the problems that “must be solved if a [networked] system is going to become or remain stable” (Milward and Provan 2000, 371).

Similarly, the government contracting literature has been primarily the terrain of public administration. Over the past thirty years, numerous articles have explored what explains the decision of government entities to contract out (Ferris 1986; Ferris and Grady 1986; Morgan and Hirlinger 1987; Dilger, Moffett, and Struyk 1997; Greene 2002; Brudney et al. 2004) and evaluated economic efficiencies realized, or not realized, via contracting (Ferris 1986; Averch 1990; Dilger, Moffett, and Struyk 1997; Hodge 2000). Brudney et al. (2004), for instance, detail a variety of factors that determine the extent of contracting within state agencies. Kramer and Grossman (1987) highlight the process by which an agency initiates a contract, the likely response of the contractor, and need for political accountability within a devolved system of service delivery. Nevertheless, despite many articles on the topic of

contracting—Auger (1999) reviewed over 300 for her study alone—the non-economic consequences of contracting have often escaped empirical investigation (Brudney et al. 2004).

### **A Political Consequence of Contracting**

We suggest an account of agency responsiveness to organized interests, which draws on several lines of previous inquiry. More specifically, we theorize that government contracts open a pathway—the *contract pathway*—for organized interest to lobby public managers. The administration of government contracts, we argue, causes public administrators to interact and communicate more with horizontal collaborators. We expect these interactions to occur because both the performance and oversight of decentralized service delivery systems depend on the feedback public managers receive from contractors.

We theorize that this feedback takes two main forms. The **first form** is the apolitical reporting of activities, outputs, and outcomes performed by third parties. This type of feedback may be considered normatively “good” in that policy-relevant information filters from agents to principals and thus allows for the enhanced management of public programs. Yet, we also expect a **second form** of feedback to take place when third party entities are involved with the delivery of public services. We suggest that contractors also share policy-specific feedback with agency officials—for example, suggestions for budgetary changes or proposals for shifts in regulatory burdens. We anticipate that these third parties will advocate their political preferences because they have a high stake in agency decision-making.<sup>2</sup> We expect contractors to use their standing as “partners in service delivery” to engage in both forms of feedback, including the opportunity to lobby public managers.<sup>3</sup>

Stated differently, we consider these third parties to be organized interests—an assumption that is not inconsistent with related literature. Salamon (2006; see also Salamon 2002) defines third parties as “lower levels of government, private banks, insurance companies, businesses, nonprofit organizations, and the like” that are enlisted to “carry out government programs and respond to public needs.” Using this definition, Salamon’s list of third parties closely matches the types of organized interests that scholars find engaged in lobbying in multiple political venues, including the public bureaucracy (Gray and Lowery 1996, 2001; Baumgartner and Leech 2001; Kerwin 2003; Yackee and Yackee 2006). Beyond this

correlation, however, there is also some empirical support for the suggestion that contractors lobby decision-makers. For instance, Grier, Munger, and Roberts (1994) and Mitchell, Hansen, and Jepsen (1997) find that as firms and/or industries become more enmeshed with government—be it via selling to government or becoming more regulated—they also tend to lobby legislators.

*We hypothesize that the use of contracts increases the influence of interest groups over agency policy outputs.*<sup>4</sup> This argument builds on two established literatures. The interest group literature has long identified access to public decision makers as a critical mechanism for lobbying (for a summary see, Baumgartner and Leech 1998; a recent example, Nicholson-Crotty and Nicholson-Crotty 2004). We theorize that the increased connectedness between contractors and agency officials provides access to contractors, which then yields a vehicle for select organized interests to lobby the administrative state. Likewise, the contracting literature strongly suggests that public managers—despite making the decision to contract for the provision of some government services—retain decision-making ability on key issues of policy, regulation, and contract details (Ferris 1986; Boyne 1998; Brudney et al. 2004). We begin to bridge these literatures by specifying a pathway for interest group influence within the administrative state.

### **Testing the Argument**

#### **Data and Methods**

We draw on data from multiple sources to test this theory. However, we rely primarily on the American State Administrators Project (ASAP), which secured survey data by mail from 1,175 agency heads in 1998 and 940 agency heads in 2004. The data include all 50 American states and all categories of state agencies active over this time period. The response rates with the corresponding years were: 33 percent (1998) and 28 percent (2004). These response rates have been confirmed as representative of the agency heads contacted by the ASAP surveys.<sup>5</sup>

We utilize survey data tapping the attitudes and assessments of state administrative agency heads to test our theory for two main reasons. First, the literature specifically examining organized interest involvement with state agency decision-making is relatively thin. While there are exceptions (e.g.

Brudney and Hebert 1987; Nicholson-Crotty and Nicholson-Crotty 2004; Kelleher and Yackee 2006), our understanding of these relationships is incomplete, especially considering the important role that these agencies play within state politics (Schneider, Jacoby, and Cogburn 1997; Barrilleaux 1999; Dometrius 2002). Moreover, the current status of the literature does not fully account for the recent transformation of public management in the United States and the fact that even “more responsibility for both making and implementing policy has flowed to state and local governments” (Kettl 2000, 489). And, as Auger (1999) and Brudney et al. (2004) conclude, much additional work is needed to fully understand contracting in the American states.

Second, the perceptions of agency heads are a key component in our understanding of state agencies decision-making. While the perceptions of agency heads do not explain the entirety of political reality, surveys of public officials provide a powerful tool for understanding the perceived influence of outside entities on state bureaucracies (Hoffman 1967). What and how political actors see and respond within the framework of their perceptions is an important dimension of reality (Ring and Van de Ven 1989; Weick 1979, 1995, 2001).

In this article, we employ descriptive statistics and a multilevel (or hierarchical) linear modeling strategy with individuals nested in states to test the previously presented hypothesis. A hierarchical design offers a multitude of methodological advantages. First, it recognizes and controls for the clustering of individuals within larger units, and thus, it does not violate the assumption of statistical independence. Additionally, it accounts for the possibility of non-constant variance across different states (Raudenbush and Bryck 2002; Steenbergen and Jones 2002; Rahn and Rudolph 2005). Finally, as suggested by Lynn, Heinrich, and Hill (2001) and Brudney et al. (2004), some sort of hierarchical structure of governance drives all programs, and thus, it is critical that scholars acknowledge these distinctions in their efforts to explain policy and administrative decisions. Failure to use a multilevel strategy for nested data can result in biased standard errors as well as incorrect Type I error rates (Steenbergen and Jones 2002). A multilevel model essentially involves the estimation of both a level-1 (individual) and a level-2 (state) model (Steenbergen and Jones 2002; Raudenbush and Bryk 2002).

The quantitative models pool data from the 1998 and 2004 ASAP surveys. We account for any year-specific differences with the inclusion of a fixed effect for data collected in 2004. We also control for any substantive differences that may arise across type of state agency. To do so, we use a classification system established by Deil Wright and utilized by other scholars (e.g. Brudney and Herbert 1987). Wright groups state agencies into 13 substantive categories based on the agency's functional role in state government. We provide a list of these categories in Table 1. We include 12 fixed effects in the model specifications to account for differences across types of administrative agencies.

(Insert Table 1 here)

### **Dependent and Independent Variables**

The dependent variable in our analyses is a scale tapping the *Overall Influence of Organized Interests on Agency Decision-Making*. This scale measures state administrator perceptions of organized interest influence on agency policy making. The wording of the question follows: "In making agency decisions it is usually possible to identify and weigh several major sources of influence. Among these are ... clientele groups. Please indicate below (by circling) the degree of influence ... on decisions your agency makes in the following decision areas."<sup>6</sup> Administrators were asked to respond about multiple decisions areas using the following choice categories: None (0), Slight (1), Moderate (2), and High (3) degree of influence. From these scores, we created an additive scale combining the responses for three major decisions areas—Total Agency Budgets Level, Budgets for Specific Programs, and Major Policy Changes—into a single measure. The alpha on this scale is moderately high at 0.83 for 1998 and 2004, and thus, confirms the general reliability of the scale construction.

This dependent variable has the unique advantage of being measured at a level of aggregation that allows us to assess whether contracting affects the overall level of interest group influence on agency decision-making. This fact is critical to the testing of the article's hypothesis. However, one disadvantage of the ASAP survey is that it does not ask any supporting, or supplementary, questions tapping whether those third parties who are actively engaged in contracted service delivery, per se, hold

more influence over the administrative state. Table 2 displays the descriptive statistics this variable and all other variables included in the models.

(Insert Table 2 here)

We also generated a number of control variables from this same ASAP question. Along with the degree of influence of clientele groups, respondents also evaluated the overall influence of the governor, legislature, and professional associations in the same three decision areas—Total Agency Budgets Level, Budgets for Specific Programs, and Major Policy Changes. We constructed similar scales for each entity. The inclusion of these variables controls for any systematic differences between survey respondents on this question set. The alpha values range from 0.73 to 0.86.

Our primary independent variable in all analyses is *Contracting*. This variable is a seven point scale ranging from zero to six, and it is constructed from two questions on the ASAP survey. First, respondents were asked to assess whether or not their agencies use contracting via the following question: “In recent years, some governments and agencies have used contracts (or contracting out) to deliver services to the public. Does your agency use such contracts?” Negative responses are coded a zero on the *Contracting* scale. Of the affirmative responders, the subsequent survey question was asked: “Currently, about what percentage of your agency’s budget is allocated to contracts for delivering services to the public?” The six choice categories for this question make up the remainder of our seven point *Contracting* scale, with a one indicating that 1 to 5 percent of the agency’s budget was allocated to contracts. The remaining categories are as follows: two (6 to 10 percent), three (11 to 20 percent), four (21 to 30 percent), five (31 to 40 percent), and six (over 40 percent of agency’s budget). We anticipate a positive, significant, and somewhat modest-sized relationship between the *Contracting* and the dependent variable, *Overall Influence of Organized Interests on Agency Decision-Making*.

One key advantage of the *Contracting* survey questions described above is that these questions require agency heads to reflect upon choices made in the past regarding their agency’s decision to contract. Therefore, the wording of the *Contracting* questions mitigates considerably the potential problem of endogeneity between the dependent variable and this predicted variable. Stated differently,

we anticipate that contracting decisions, which were made before the survey was administered, will affect the respondent's perceptions of interest group influence at the time the survey was completed.

A number of additional variables of interest are also included at both levels of analysis in select models. For instance, we include a number of administrator characteristics to control for whether, for one example, the longevity of an administrator may affect their perceptions regarding the overall influence of organized interests on policymaking decisions. The list of controls includes the following: *Years in Current Agency* measures the longevity of administrator tenure within the specific agency. Administrator *Education* measures the overall level of educational achievement with possible responses of: High School, Some College, Bachelor's Degree, Graduate Study, and Graduate Degree. Administrator *Gender* is also included in the models with women scoring a one. *Merit Position* taps whether the administrator's position is covered via a civil service system or not. We also include a five point scale of the respondent's *Partisan Identification* with a one indicating strong Democrat, a two suggesting weak Democrat, and three being Independent, a four indicating weak Republican and a five suggesting strong Republican.

We utilize two measures of interest group and agency interactions. The first variable, *Time Spent with Organized Interests*, taps the amount of time that state agency heads devote to organized interests as opposed to their time spent on other management and administrative tasks. The wording used on the ASAP survey is as follows: "How do you divide your time—in approximate percentage terms among: ... Public Support (with Clientele and Interest Groups)?" We create a second measure, called *Time Spent with Organized Interests-High*, using this same question. To do so, we collapsed this variable into a dichotomous measure, with values of one indicating greater than 50 percent of time spent cultivating the support of clientele and interest groups. We then generate an interaction term that combines this dichotomous measure with the *Contracting* scale. In accordance with the theory, we anticipate that contracting out in combination with high interest group interactions with agency officials will lead to greater interest group influence over key public agency decisions.

We incorporate three variables to control for state-level forces that might drive the overall influence of organized interests. The first variable is the *Total Number of Organized Interests in State* as measured by Gray and Lowery's (1996; 2001) over time research regarding the number of organized interests registered to lobby in the American states. The inclusion of this variable is particularly important because it serves as a primary rival hypothesis for our expectations. One may argue, for instance, that contracting is of little importance to the level of interest group influence on agency behavior when compared to the fact that interest groups have become a more prevalent and powerful force in the American states in general. This variable is collected in 1997 and 1999, and we match these data with the subsequent ASAP survey year.

We also include Berry et al.'s (1998) measure of *State Government Ideology*, which is a combination of a number of indicators such as congressional election outcomes, the partisan division of state legislatures, and gubernatorial political party. A higher value on the measure indicates a desire for more liberal policies or opinions. Finally, we incorporate a measure to tap the total number of *Non-Profit Organizations Registered in the State*. This variable was collected from the National Center for Charitable Statistics.

## Results

We begin with descriptive findings concerning how the presence of contracting may affect the interactions and communications between organized interests and public administrators. The article's theory suggests that contracting will provide increased lobbying opportunities for select organized interests. If this hypothesis is correct, then we should see illustrative patterns in data tapping the overall time agency heads devote to cultivating support with clientele and interest groups.

We look for this evidence first in a difference of means analysis. To do so, we use the variable *Time Spent with Organized Interests* to see whether differences exist in the presence or absence of contracting out. Across both years, with respect to how they allocated their time, we noted a statistically significant difference between those reporting the presence of contracting and those administrators that did not. More specifically, among agency heads who noted the administration of government contracts,

the average time spent with organized interests was 26 percent. For those who did not report the use of contracts, this time was somewhat lower at 24 percent. Although small, these statistically significant increases provide preliminary support for the proposition that government contracting with select parties may help drive the overall interactions between administrative decision-makers and organized interests. Moreover, the subtlety of the results is not surprising given that the population of contracted parties represents only a part of the overall community of organized interests within a state.

With this tentative and preliminary evidence in hand, we now turn to the results from the hierarchical linear models, which provides for a more robust assessment of the theory. Table 3 reports the results for the unconditional or null model for the dependent variable (Raudenbush and Bryk 2002; Steenbergen and Jones 2002). In the null model, we are primarily interested in the  $u_{0j}$  parameter, which tells us whether significant state-level variation (or clustering) is present. In other words, we are interested in whether the overall influence of interest groups as perceived by agency leadership actually varies significantly across the states in the sample. Our findings indicate that significant variation exists at the state level. In this same table, we list the intraclass correlation coefficient (ICC), as well.<sup>7</sup>

(Insert Table 3 here)

We present the dichotomous relationship between our key independent variable and the dependent variable in the first column of Table 4. We observe a positive and significant relationship between the *Contracting* scale and the overall influence of interest groups as perceived by state agency heads.<sup>8</sup> We also assess whether this relationship holds in a setting controlling for other administrator and state-level characteristics in Table 4, Model 2. We again observe a positive and significant relationship between *Contracting* and the dependent variable. This finding implies that as government contracting increases, so too does perceived interest group influence on key agency decision-making. Thus, the core relationship is preserved despite the inclusion of other control variables tapping the influence of other political actors, the substantive nature of administrators' agency, and administrator background characteristics. The fit for Model 2 is well within normal bounds for survey research, as well as comparable with work using similar data (e.g. Brudney et al. 2004).

(Insert Table 4 here)

To more fully understand the magnitude of these relationships in Table 4, Models 1 and 2, we calculated the predicted value of the dependent variable given shifts in the *Contracting* variable. All other variables in the model are set to their mean values. Our findings point to clear and measurable increases in the dependent variable as the degree of contracting by public managers increased. Across 1998 and 2004, the predicted value of the dependent variable in the Model 1 analyses jumps by nearly 10 percentage points when *Contracting* moves from its minimum (of zero) to its maximum value on the scale (6, or over 40 percent of agency's budget). In Model 2, which is more fully specified, the predicted influence of organized interests jumps similarly by 5.2% as we move across the possible range of values for *Contracting*. These results are noteworthy given that we would expect the relationship with the dependent variable—which is measured at a high level of aggregation—to be attenuated considerably given that contracted parties make up just one component of the overall interest group community. We can conclude from these findings that there is suggestive support for the hypothesis that government contracting does, in fact, lead to increases in the perception of interest group influence on major agency policy decisions.

In Table 3, Model 3 we further unpack the theorized relationship between state agencies, contracting, and the influence of organized interests. To do so, we include two new variables. One construct is the dichotomous variable, *Time Spent with Organized Interests-High*, and the second variable is the product of the interaction between *Contracting* and *Time Spent with Organized Interests-High*.<sup>9</sup> In accordance with our theory, we anticipate that the *Contracting* effect will be magnified by a high-level of interest group activity with agencies. To assess this relationship, we sum the *Contracting* coefficient and the interaction term coefficient. The combined effect is 0.236, and this combined effect is significant ( $p < 0.05$ ). These results suggest that the importance of *Contracting* is heightened under the conditions of increased interactions and communications between interest groups and agency heads. To understand the magnitude of these effects, we calculated the effects of *Contracting* on the predicted value of the dependent variable while varying *Time Spent with Organized Interests-High*. Across 1998 and 2004, the

predicted value of the dependent variable analyses jumps by over 17 percentage points when interactions with interest group interactions with agency officials are high and contracting is greater than 40% of the agency's budget.

Our task now is to understand the implications of these results, and we suggest two dimensions on which to explore the consequences. First, consider the trade-off between equity and responsiveness within the public bureaucracy. As Wilson (1989) articulates, the bureaucracy has been traditionally concerned with equity (for all) over responsiveness (to some). This article's results imply that the growing presence of contracting out in the American states may begin—albeit in an admittedly incremental fashion—to counteract this long-standing bias toward equity, and thereby may shift our understanding of bureaucratic accountability in the process. Second, consider an alternate dimension, which frames the contracted relationship in two ways: (1) acceptance of contractors as “partners in service delivery” or (2) suspicion of contractors as “special interests.” If one leans toward the first interpretation, then these results may appear uncontroversial. Yet, if one is inclined toward the second of these frames, then the results imply yet another avenue for interest group influence within the political and administrative process.

### **Conclusions**

We began this article with an argument: government contracts open a new pathway for organized interests to lobby the administrative state. We theorized that contracting prompts public administrators to interact more with organized interest collaborators. We argued that this access to decision-makers leads to increased interest group influence over agency decision-making. To test this theory, we utilized descriptive statistics and multilevel models. We found that interactions between organized interests and government managers are more somewhat frequent in the presence of contracting out. We then demonstrated that the influence of organized interests over key state agency decision-making is driven, in small part, by the degree to which an agency contracts out for public service delivery. These findings provide suggestive support for the article's hypothesis.

We conclude that there are political and administrative consequences attached to government contracting. Yet, more provocatively, we also conclude that government managers may—overtly or inadvertently—shift their management strategies, orientations, and decision-making when government contractors are utilized. These conclusions are particularly important because they represent an effort to engage both the political science and public administration literatures with respect to the influence of third parties on the process of governance. As Hooghe and Marks (2003, 233) write, “New forms of governance and dispersion of decision-making away from central states have gained the attention of a growing number of scholars across political science.” However, despite this increased attention, the political science literature still devotes too little energy to understanding the implications of recent shifts away from *government* towards *governance*. Public administration research, on the other hand, still lacks a full understanding of the new and possibly re-aligned power relationships present within systems of horizontal or more-networked governance.

Furthermore, the article’s theory and analyses directly respond to a number of burgeoning scholarly arguments. For instance, we engage Fuchs (2005, 55) and her critique that the concept of *governance* is too often applied within an apolitical, problem solving frame and that scholars must begin to ask questions about the “preferences, channels, and extent of influence” of those new actors who are engaged in governance. Likewise, we also address Heinrich, Hill, and Lynn’s (2004) call for new empirical investigations into the political and normative consequences brought about by recent shifts in governance. Finally, these findings begin to answer Frederickson’s (1999, 703) challenge: “How do we define and understand public management when it is not entirely clear for whom we [public managers] work?”

Yet, more research is needed so that scholars and practitioners may fully understand the spectrum of political consequences associated with government contracting. Future studies should compare across several lobbying tactics, including the *contract pathway* discussed in this article, to provide a more complete assessment of the lobbying within the administrative state. Moreover, this work ought to clarify and specify an understanding of the connection between access to agency decision makers and third party

influence on policy outputs. In this process, scholars should investigate the differences between types of organized interests, including who stands to win and who stands to lose after the contracting decision. Finally, while this article's empirical results offer early evidence of a relationship between government contracting and aggregate-level patterns of organized interest influence, future research should tease out an estimate of the influence tied specifically to those third parties who are actively engaged in contracted service delivery.

Nevertheless, these calls for future study do not negate the theory and relationships suggested by this article. The findings contribute to the developing literature on accountability concerns raised by third party involvement in governance. Yet, of perhaps greater importance, this study also provides a new twist on the critical trade-off between equity and responsiveness within the public bureaucracy (Wilson 1989). The article's preliminary results call for a re-examination of this trade-off in light of new management practices. Do these findings imply that public managers are taking an active—and proper—role by soliciting feedback from their partners in government service delivery? Or do these results represent a new, and potentially nefarious, avenue for special interest access and influence over government decision makers? While we do not purport to resolve these critical normative questions, the theoretical argument and initial findings in this study provide, at a minimum, a framework for discussion and renewed debate regarding these fundamental political power and governance issues.

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**Table 1) State Administrative Agencies Classified by Functional Category**

<b>Functional Category</b>	<b>Examples of Agencies Represented</b>
1) Elected Officials	Auditing, Attorney General
2) Staff: Fiscal	Comptroller General, Finance
3) Staff: Non-Fiscal	Personnel, Purchasing
4) Income Security and Social Services	Aging, Welfare, Employment Services
5) Education	Higher Education, Vocational Education
6) Health	Mental Health, Emergency Services
7) Natural Resources	Agriculture, Fishing, Mining
8) Environment and Energy	Water Resource Management, Air Quality
9) Economic Development	Tourism, Small and Minority Business Assistance
10) Criminal Justice	Department of Corrections, State Police
11) Regulatory	Insurance, Food and Drug, Child Labor
12) Transportation	Highway Safety, Mass Transit
13) Other	Libraries, Emergency Management, Women's Services

*Source: Wright's 13 Functional Categories*

**Table 2. Descriptive Statistics.**

	<b>Mean</b>	<b>Min</b>	<b>Max</b>
<b><u>Level 1 Variables (Administrator)</u></b>			
Overall Influence of Organized Interests on Agency Decision-Making (Dependent Variable)	3.91	0	9
Contracting	1.93	0	6
Time Spent with Organized Interests - High	0.04	0	1
Influence of Governor	7.45	0	9
Influence of Legislators	7.35	0	9
Influence of Professional Associations	2.63	0	9
Merit Position	0.22	0	1
Years in Current Agency	5.55	0	36
Gender	0.22	0	1
Education	4.34	0	5
Partisanship	3.12	1	5
<b><u>Level 2 Variables (State)</u></b>			
Total Number of Organized Interests	687.87	72	2,272
Government Ideology	47.52	2.5	97.92
Total Number of Nonprofit Registered Organizations	22,707.74	3,700	142,681

Note: Descriptive statistics are for 1,699 cases appearing in Model 2 in Table 4, with the exception of the “time” variables, which are the descriptive statistics for the 1,677 cases in Model 3 in Table 4.

**Table 3. Null Model of Responsiveness to Organized Interests**

	<i>Overall Influence of Organized Interests on Agency Decision-Making</i>
<b><i>Fixed Effects</i></b>	
Intercept ( $\gamma_{00}$ )	<b>3.941*</b> (0.073)
<b><i>Random Effect</i></b>	
State-Level Variance ( $u_{0j}$ )	0.136
Individual-Level Variance	4.900
Intraclass Correlation Coefficient (Proportion of Variance Explained by State-Level Variance Component)	0.027

Note: \* $p < 0.05$ , Two-tailed test. Standard errors in parentheses. The dependent variable is a scale constructed from the following items: Clientele Group Influence on Total Agency Budget, Budgets for Specific Programs, and Major Policy Changes.

**Table 4. Government Contracting and Interest Group Influence**

<b>Level 1 Variables (Agency Administrator)</b>	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>
Contracting	<b>0.149*</b> (0.026)	<b>0.078*</b> (0.024)	<b>0.070*</b> (0.025)
Contracting * Time Spent with Organized Interests - High			<b>0.156*</b> (0.114)
Time Spent with Organized Interests – High			0.184 (0.324)
Influence of Professional Associations		<b>0.471*</b> (0.023)	<b>0.468*</b> (0.023)
Influence of Governor		-0.052 (0.027)	<b>-0.054*</b> (0.027)
Influence of Legislators		<b>0.138*</b> (0.030)	<b>0.139*</b> (0.030)
Merit Position		0.054 (0.115)	0.051 (0.115)
Years in Current Position		0.014 (0.009)	0.017 (0.009)
Gender		0.205 (0.116)	0.207 (0.117)
Education		0.055 (0.051)	0.056 (0.051)
Partisan Identification		0.038 (0.030)	0.039 (0.030)
2004 Dummy Variable		<b>-0.331*</b> (0.097)	<b>-0.318*</b> (0.098)
<b>Level 2 Variables (State)</b>			
Total Number of Organized Interests		0.0002 (0.000)	0.0002 (0.000)
Government Ideology		-0.0003 (0.002)	-0.0002 (0.002)
Total Number of Nonprofit Registered Organizations		-0.000002 (0.000)	-0.000003 (0.000)
Intercept	<b>3.642*</b> (0.090)	<b>1.575*</b> (0.396)	<b>1.566*</b> (0.400)
State-level Variance Component	0.379	0.182	0.174
Individual-level Variance Component	2.193	1.919	1.921
Number of level-1 units	1864	1699	1677
Number of level-2 units	50	50	50

\*p<0.05, Two-tailed test; Standard errors in parentheses. Models estimated using STATA, xtmixed function. The dependent variable is a scale constructed from the following items: Clientele Group Influence on Total Agency Budget, Budgets for Specific Programs, and Major Policy Changes. Fixed effects for 12 functional categories are included in Models 2 and 3 but are not reported due to space constraints.

## Endnotes

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<sup>1</sup> While a preponderance of the political science literature focuses on control of the United States bureaucracy, other important strands of scholarship suggest a more friendly relationship between public bureaucracies and organized interests. Some scholars, for example, point to the power of organized interests to assist agencies in drafting rules and implementing programs (Pika 1983; Chubb 1985; Yackee 2006), securing agency budgets (Berry 1989), and swaying public opinion for agencies (Hrebenar 1997; Rourke 1984).

<sup>2</sup> For instance, the budgets of contractors depend to some extent on agency decisions, and a contractor's ability to change or expand programming may also reside with the policy choices made by public managers.

<sup>3</sup> We anticipate that some portion of a contractor's suggestions for policy change to filter up to the level of senior agency management even if the feedback generally takes place between contractors and more junior public managers.

<sup>4</sup> We theorize that an exogenous relationship exists between government contracting and interest group influence on agency decision-making. In making this argument, we rely on the numerous studies devoted to explaining contracting, which, in general, neither posit nor demonstrate empirically that interest group influence is a key factor on the decision to contract out. For instance, Brudney et al.'s (2004) explanatory model of contracting out in the American states includes 23 predictor variables, including several variables tapping the dimension of "politics and ideology." Yet, these authors do not reference the importance of interest groups in explaining a state agency's decision to pursue this form of privatization. Nevertheless, like most research within the social sciences, we must be concerned about the potential for endogenous relationships. We address this fact, as described later in the article, to some degree by using the time ordering of events within the ASAP survey to our advantage when testing the theory.

<sup>5</sup> Telephone follow-up conversations with a random sample of the non-respondents were completed in 1998 and 2004. In both years, these additional analyses led the survey administrators to conclude that the

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actual respondents to the questions were representative of the universe of administrators to whom the ASAP surveys were sent.

<sup>6</sup> The survey question taps the degree to which outside parties influence key agency decision-making. The terminology in the ASAP survey follows the logic and terminology used by a variety of scholars (e.g. the seminal article by Aberbach and Rockman 1978), which employs the term “clientele groups” synonymously with “interest groups”.

<sup>7</sup> The ICC indicates how the overall variance is divided between the model’s levels (Raudenbush and Bryk 2002). For the dependent variable, approximately three percent of the variance is attributable to state-level differences. Although this ICC percentage is quite small, it is not inconsistent with other articles using similar modeling strategies. For example, in Rahn and Rudolph’s paper (2005), only four percent of the variation in trust in government is found to be at the city level. And as Steenbergen and Jones (2002) suggest, due to the individual-level measurement of the dependent variable, we should expect to see the majority of the variance explained at the individual level.

<sup>8</sup> We also estimated this model including the dummy for 2004 and the results were identical.

<sup>9</sup> Our number of observations drops slightly to 1,677 in this model (from 1,699 in the previous model) due to missing values in the additional predictor variables.