

Hybrid Organizations in Social Service Delivery in Quasimarkets: The Case of Germany

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Abstract

With the introduction of quasimarket principles in the mid-1990s, the German social service sector faced several challenges from above (the state), within (the organizations), and outside (new competitors and “players”). Within the social services, considerable differences prevail between subsectors; although all reforms have been oriented at the principle of (quasi)markets, the governance arrangements implemented have been rather divergent across subfields. This article compares the effects of the introduction of quasimarket principles in two subfields with very different governance architectures: youth welfare and old-age care. Basic findings include different degrees and variants of hybridity at the meso-level of local welfare arrangements as well as at the micro-level of the organizations in the field. The analysis shows a considerable effect of different governance regimes on the openness of the subfields to new competitors (profit-oriented and voluntary), the reactions of established third sector organizations (internal reforms and hybridization), and the modes of political steering (with varying degrees of informality and oversight).

Keywords

hybridity, quasimarkets, third sector, youth welfare, old-age care

Introduction

With the introduction of quasimarket principles in the mid-1990s, the German social service sector faced several challenges from above (the state), within (the organizations), and outside (new competitors and “players”). Germany has long been classified

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as an ideal-typical example of a conservative welfare state, characterized by the dominant role of status-oriented social insurance programs, the decentralization of residual benefits, and a corporatist mode of governance for social services (Castles, 1993; Esping-Andersen, 1990; Palier, 2010). The “market” has wielded only marginal influence in these arrangements. Since the 1990s, some of the key organizational features of German welfare production have come under stress due to fiscal restrictions and the effect of new interpretative schemes. One important element was the introduction of quasimarket reforms in the main pillars of the welfare state, as accomplished in the care insurance (1995), social assistance (1993), and youth welfare (1996) acts.

Within the social service sector, considerable differences between subsectors prevail: Although all reforms have been oriented toward the principle of (quasi)markets, the implemented governance arrangements are rather distinct in different subfields. Important differences include the degrees of decentralization and standardization as well as the rigor of accountability measures. This article compares the effects of the introduction of quasimarket principles in two subfields with highly distinct governance architectures: youth welfare and old-age care. Basic findings include different degrees and variants of hybridity on the meso-level of local welfare arrangements as well as on the micro-level of the organizations in the field. *Hybridity* is defined here as the presence of several distinct governance logics within one organization or one organizational field. Hybrid organizations are derived from pure logics (such as the market, the state, or the community) and show specific mixtures of these pure types (Billis, 2010; Evers, 2005). By this broad definition, organizations in the German welfare sector have been hybrids ever since their emergence in the 19th century, incorporating the logics of the state (quasigovernmental provision of services and strong involvement in decision making), the market (contractual service provision and the function of an employer), and the community (advocacy and philanthropy) (Heinze & Strünck, 2000). Quasimarket reforms have induced significant shifts in the composition and relevance of these orientations, as well as in the organizational fields (welfare arrangements) and the organizations themselves. These shifts have led to tensions and conflicts in the organizations, triggering splits and the development of more pure-type organizations. This article asserts that the degree of marketization resulting from quasimarket reforms depends heavily on the architecture of governance arrangements. Specifically (and paradoxically at first glance), the more hierarchical the governance arrangements, the more market-like the structures that develop within the organizational field and the organizations themselves will be. This results in a certain kind of “dehybridization,” as organizations tend to (over)emphasize one specific logic and neglect other logics that were previously integrated into their hybrid orientations. In more decentralized arrangements, the integration (or amalgamation) of the logics of the market, hierarchy, and community continues to prevail.

After a brief description of the way the term *hybridity* is used in this article (section 2), I develop the argument by outlining quasimarket reforms in Germany and examining their effect on German welfare arrangements (section 3). The article then illustrates the considerable effect of different governance regimes on the openness of the subfields to new competitors (profit-oriented and voluntary) (section 4), the modes of

political steering (with varying degrees of informality and oversight) (section 5), and finally, the reactions of established third sector organizations (internal reforms and hybridization) (section 6).

Hybridity in Social Welfare Production: Conceptual Approaches

The term *hybridity* is used across a variety of disciplines to describe the mixture of essentially separate and often contradictory elements (Brandsen, Van de Donk, & Putters, 2005; Brandsen & Karré, 2011). The recent discourse on hybridity in the field of social welfare is a sign of the blurring of the boundaries between the public and private provision of public services, mixed modes of governance, and the compound orientations of the actors involved. Its new prominence stems from two developments (Brandsen & Karré, 2011): the transformation of state agencies in the course of public management reforms (Christensen & Laegreid, 2010; Kickert, 2001) and the incorporation of civil society bodies in the wider public sector and welfare markets in the course of (quasi)market reforms (Bartlett & Le Grand, 1993).

Hybridity can mean different things in these contexts. The focus may be on the sectoral position of organizations, as in the case of quasigovernmental organizations that exist at the interface between the public and private sectors (Lan & Rainey, 1992) or between the market and civil society (Koppell, 2003). An alternative approach analyzes the respective governance modes of organizational fields such as the principles of market versus hierarchy (Williamson, 1991) or coordination modes of markets, hierarchy, and clans (Ouchi, 1980). A third approach focuses on the blending of the functions of the organizations, for example, the combination of political advocacy and service provision (Minkoff, 2002). Finally, the internal governance modes of organizations (i.e., the mix of internal logics) can be analyzed (Evers, 2005). It is obvious that there are interconnections between these perspectives. For example, in an ideal-typical market setting, organizations are clearly oriented at the market and governed by market principles; in this case, the functions of organizations are generally streamlined to emphasize service provision. Their internal governance modes might thus rely on incentives, ergo market mechanisms. Nevertheless, empirically, these dimensions occur in a variety of different combinations, fostering the discussion about hybridity, its nature, its advantages, and its shortcomings.

A broad conception of hybrid organizations (Evers & Laville, 2004) has identified third sector organizations as typical hybrids or “containers” of a vast set of varied orientations. In addition, recent discussions have addressed the hybridization of both public bodies (Christensen & Laegreid, 2010; Kickert, 2001) and private-sector organizations (Powell, 1987; Williamson, 1991). This can also include mixtures of a dominant coordination mode (such as hierarchy, market, or community) with minor elements of the other two modes. In contrast to this broad definition, a narrow approach adopted by some scholars excludes traditional third sector organizations, focusing exclusively on organizations that combine market and nonprofit elements (as discussed by Glänzel & Schmitz, 2012). Taking the term *hybridity* at face value, such a

narrow definition represents only one very specific form of hybrids. For the purpose of this article, this narrow definition is less appropriate, as it neglects the role of various hybrid orientations that are inherent to traditional organizations in the social service sector.

The description of hybrids in the social service sector—specifically, what exactly is being hybridized—varies in different approaches: cultures, coordination mechanisms, rationalities, or action logics (Brandsen & Karré, 2012). In connection with these different internal rationales, hybrid organizations are subject to distinctive environmental pressures (Minkoff, 2002). As will be shown for the German welfare associations, these pressures are linked to various stakeholders (state bodies and local governments as “purchasers,” their members, donors, clients, churches, etc.) that try to maximize their influence on the conduct of the organization. The organizations then face the dilemma of responding to these varying claims, which forces them to develop a “multiple-self” identity (Elster, 1986; Wiesenthal, 1990). This dependence of such organizations on external resources and support is fundamental to the discussion of the three levels of hybridity that can be found in the field of social service production and to the development of hypotheses explaining different pathways of hybridization.

I differentiate between three levels of hybridity that are relevant to a comprehensive understanding of the structures and organizations found in social welfare production.

1. *Field hybridity* refers to the organization of societal sectors. The relevant literature here distinguishes between three main sectors: the state, the market, and the community. Each sector is governed by specific coordination mechanisms with distinct qualities (Evers, 2005; Pestoff, 1992). The state represents the classical locus of the public sector; its dominant coordination mechanism is hierarchy. The market is the primary locus of the private economy, with a primary guiding principle of free exchange and competition. Finally, the community (or “clan”) is the locus of small entities organized by spontaneous solidarity. This sector is closely intertwined with personal identity and relies on personal bonds and trust.
2. *Governance hybridity* denotes the instruments by which organizational fields are governed. As with the types of organization, governance instruments include more or less state-centered approaches (command and control), market-oriented approaches (contracts and competition), and community-centered modes (trust and cooperation).
3. *Organizational hybridity* refers to the basic structural features by which organizations manage their internal steering, resource allocation, and personnel policies. Here, one can also identify ideal-typical modes related to the basic coordination modes: classical bureaucracy in a Weberian sense (with line responsibility, input budgeting, and career-oriented human resource policies), market-oriented organization (with internal contracts, performance budgeting, and position-based personnel policies), and community-based organization (based on membership organizations, donations, and volunteers).

This article contributes empirically to three main discussions in the recent literature:

First is the question of whether hybridity develops a specific quality, as several authors have claimed. This is expressed by the notion of an “intermediary sector” (Evers, 1995) or, as Billis (2010) asserts, “Hybridity is not therefore any mixture of features from different sectors, but according to this view, is about fundamental and distinctly different governance and operational principles in each sector” (p. 3). In the following analysis, I will present evidence of the constructive integration of different modes of coordination as a disintegrated mode of hybridity in which conflicts between different rationalities arise. The crucial question is thus under what conditions productive forms of hybridity prevail.

Second, another empirical question raised in recent research is whether we are experiencing a trend toward more hybridity. The common denominator of these recent discussions is that hybridity is growing as organizational fields, governance arrangements, and organizations increasingly lose their traditional locus (e.g., Brandsen & Karré, 2012). In opposition to this common knowledge, I will first argue that hybridity is not a new development; rather, it is an essential feature of organizational fields, governance arrangements, and organizations. In addition, hybridization is not a one-way street. Under certain identifiable conditions, hybridity recedes in favor of purer types of coordination. In the case of German welfare markets, the most remarkable shift is not toward more extensively hybridized organizations; rather, the dehybridization of existing hybrids indicates a trend toward more pure organizational fields and organizations.

Finally, recent literature has also discussed the pros and cons of hybridity. Hybrid organizations are portrayed as connected to a wide range of disadvantages: financial inefficiencies resulting from the distortion of competition, a decline in public-sector or philanthropic ethics due to the influence of profit motives, and control problems for political principals (Brandsen & Karré, 2012). However, hybrids are still viewed as specific solutions for the necessary integration of conflicting orientations that can foster innovation and problem solving. I will argue that the performance effects of hybrid organizations depend heavily on the institutional arrangements that combine specific permutations of field and governance hybridity.

In general, the rise of hybridization is linked to the diminishing primacy of the state and the hollowing out of hierarchical management (Zimmer & Evers, 2010). Contrary to this standard narrative, in this article I will first show how the centralization of governance has led to strong shifts toward hybridity in the organizational field of old-age care, whereas field hybridity has remained relatively stable in the decentralized field of youth welfare. Second, I will show how similar governance instruments function differently depending on their organizational affiliation and stakeholders’ interests (governance hybridity). Third, I will discuss how these shifts in field and governance hybridity affect the individual organizations in the field (organizational hybridity). In contrast to the standard argument of increasing hybridization, I will argue that increasing hybridity in an organizational field and in governance mechanisms can lead to dehybridization on the level of individual organizations. These groups then lose some degree of their traditional hybrid orientation and become increasingly one-dimensional.

Quasimarket Reforms in German Welfare Production

Ever since Bismarck's creation of the social insurance system in the 1880s, the German welfare state has been marked by a division between two substantially different administrative logics: the provision of social services and social assistance for the neediest members of society as the responsibility of local governments, and the management of "standard life risks" by national social-insurance bodies. Governments at the federal and state levels have refrained from direct involvement in the administration of social benefits and services, confining themselves to policy formulation, some fiscal involvement, and legal oversight (Schmidt, 1998; Stolleis, 2012). Whereas local governments integrate services into their multipurpose portfolio, the social insurances are run by single-purpose bodies with a considerable degree of autonomy from the federal bureaucracy. The administrative architecture thus represents two basic types of administrative organization: The multipurpose model implies a horizontal form of administrative organization in the territorial jurisdiction of a local government body, whereas the single-purpose model is geared toward a vertical, functionally specific type of administrative organization (Hooghe & Marks, 2003; Kuhlmann & Wollmann, 2011).¹

This architecture reflects fundamental historic legacies: Long before the establishment of the centrally controlled welfare state, local governments were the providers of services such as relief for the poor—cooperating but also competing with churches. During the 19th century, this basic social policy function was expanded to include the areas of public health, child welfare, and housing. With the establishment of national social security institutions in the 1880s, these local policies were supplemented, not replaced. From this time onward, the duality of welfare provision has become increasingly institutionalized. A corporatist mode of governance has emerged at the local level, with a division of labor developing between local governments and nonprofit organizations organized in the so-called *Wohlfahrtsverbände* (welfare associations).² However, the administration of national welfare tasks was transferred to social insurances, which are semi-autonomous institutions of functional self-administration, separated from ministerial bureaucracies and governed by boards of stakeholders including employers and employees (Haarmann, Klenk, & Weyrauch, 2010). This dual character of welfare production in the social service fields of old-age care, health, youth welfare, and so on was firmly established after World War II.

Until recently, social services at the local level were marked by a specific type of local corporatism, representing a certain type of hybridity that was stabilized by a governance mode with a fixed mixture of the logics of hierarchy, market, and community (see column 1 in Table 1). At the field level, this was characterized by a division of labor between public bodies and the nonprofit organizations within the welfare associations. At the governance level, these nonprofit organizations had privileged access to both welfare provision³ and political decision-making bodies (through functional representation in local committees). Services were subsidized by local governments according to the principle of cost coverage, and local governments generally refrained from introducing standardized measures of quality control. These formal rules of the game were supported by informal rules (see column 2 in Table 1) that

Table I. The Transformation of the Institutional Set of Local Welfare Arrangements.

	Formal Rules of the Old Corporatist Regime	Informal Rules	Formal Rules of the Quasimarket Regime Since the Mid-1990s
Rules of position and access	<ul style="list-style-type: none"> • Functional representation of welfare associations (e.g., §71 SGB VIII) 	<ul style="list-style-type: none"> • Strong linkages between welfare associations and welfare administrations • Party-political intertwining between associations and political parties (AWO-SPD, DCV-CDU, DPWV-Grüne) • Exclusion of clients • De-facto allocation by parity of associations 	<ul style="list-style-type: none"> • Unbundling of politics and administration (NPM) • Strengthening of clients' rights (e.g., §5 SGB VIII)
Rules of payoff	<ul style="list-style-type: none"> • Conditional priority of welfare associations over public, civic, or private service providers (e.g., §10 BSHG) • Financing oriented on cost coverage (<i>Zuwendungsprinzip</i>) 		<ul style="list-style-type: none"> • Abolition of conditional priority and equalization of nonorganized providers (e.g., §3, §78a-g SGB VIII) • Introduction of service contracts (e.g., §93 BSHG, §78a-g SGB VIII) • Prospective prices and lump sums • Contractualization
Rules of information	<ul style="list-style-type: none"> • No standardized quality control; only usage lists 	<ul style="list-style-type: none"> • (Quality) management by rumor 	<ul style="list-style-type: none"> • Output controls by quality management and quality contracts (e.g., §93 BSHG, §78a-g ff. SGB VIII)

Source. Grohs (2010, p. 126).

Note. NPM = new public management.

stabilized them, creating considerable path dependencies (Mahoney, 2000; Pierson, 2000). Parts of these informal rules involved close ties between welfare associations and local politicians—often along party lines—as well as between these associations and welfare administrations. The allocation of resources took place according to the principle of parity between associations and the logic of give and take. “Management by rumor” took precedence over quality management; this system relied on personal knowledge and everyday gossip about how organizations were being run. These governance principles created a stable form of hybridity for the organizational fields and for the organizations themselves. Far from being mere substitutes for state activity,

they combined a role of advocacy with the mobilization of their memberships and volunteers (i.e., a blending of the logics of hierarchy and community). In addition to relieving pressures on public bodies, one of the main motivations behind this arrangement was the incorporation of the specific (and diverse) value orientations of the associations and the additional resources provided by their memberships. This has often led to a “co-evolution” of public and private bodies, but the organizations retained their distinct identities and were also able to adapt to changing economic environments (Heinze, Schmid, & Strünck, 1997).

These established arrangements came under stress in the 1990s. For at least the past 30 years, the financing of social services has been controversial, especially because increasing expenditures have occurred simultaneously with stagnating public revenues. Predictions based on demographics and social challenges indicate that this situation will be aggravated in the years to come. There is a consensus that the demand for social services will rise, although scholars disagree on the precise amount (Evers, Heinze, & Olk, 2011). With a growing number of elderly people out of work and an increase in life expectancy, demographic changes in Germany will balloon expenses in the areas of health care and old-age care. In addition, certain social changes (such as the rising number of single-person households and increases in divorce and female employment) will have an effect on the ability of families to provide self-administered care. Overall, demand will rise as the capacity for self-help falls (Schneiders, 2010).

On the opposite end of the age spectrum, child care and youth welfare systems face different challenges. Decreasing birth rates have resulted in the underutilization of infrastructure. This has been balanced in part by the expansion of facilities for children younger than 3 years as well as by the increase in female employment. The former East Germany, which features a particularly low birth rate, exhibits an especially high degree of oversupply. Since the introduction of the Child and Youth Care Act in 1993, nominal expenses in this area have doubled. Changing family structures, including increasing numbers of single parents and so-called “patchwork families,” have resulted in a wide heterogeneity in juvenile needs. This, in turn, has led to a rise in the demand for family support, stressing the budgets of the responsible municipalities.

One political response to these pressures has been the implementation of managerial reform measures and the introduction of quasimarket principles. These reform measures were modeled after the international paradigm of new public management (Kuhlmann, Bogumil, & Grohs, 2008; Pollitt & Bouckaert, 2011) and were often subsumed under the headings of managerialism or marketization (Evers & Heinze, 2008). These strategies were not primarily targeted at the reduction of services but rather at the more efficient and effective allocation of resources. In this context, the activation of competition has played an important role, with private for-profit actors sometimes serving as competitors with the established system. These developments have even induced the introduction of managerial instruments and logics within the established social-service providers, which were traditionally outside the scope of market mechanisms (Heinze & Strünck, 2000).

Owing to the dual-structure legacy of welfare production (i.e., public providers and nonprofit organizations), the managerial discourse since the early 1990s has been of

two different types. In the realm of public providers, the new steering model (NSM) was the predominant blueprint for managerial reforms (cf. Kuhlmann et al., 2008). For nonprofits, a social management movement embraced similar ideas of modernization. With the introduction of formal contracting, a purchaser-provider split was created, linking the two arenas. The establishment of competition between providers went hand in hand with the replacement of the traditional principle of cost coverage by fixed prices, as well as the abolishment of the privileges of charities. The abandonment of the old corporatist model of welfare production was brought about by similar provisions in all of the relevant welfare acts (the Old-age Care Act of 1995, the Social Assistance Act of 1993, and the Child and Youth Care Act of 1996).

To facilitate an understanding of the institutional logic of these reforms, Table 1 summarizes their basic (formal and informal) institutional features.

The discussion of quality and impact measurement in the field of social services has been extensive, but the comprehensive implementation of established and acknowledged standards is still a long way off. In some areas, such as old-age care, a series of control measures to increase transparency in the sector (quality records, care grades) has been undertaken in recent years. Due to the specifics of care, regulations are significantly complex, especially because of the special mode of financing: Payments do not transpire in the context of market processes between customers and producers (services for money) but instead in a triangular relationship between public purchasers, customers, and providers (purchaser-provider split). Since the introduction of care insurance, the reform of employment services, the decentralization of aid for disabled people, and so on in the mid-1990s, there has been a further differentiation on the part of public payers, increasing the confusion for both beneficiaries and providers.

In the following section, I will compare the effects of these different governance arrangements on the introduction of quasimarket principles in two subfields with very different governance architectures: youth welfare and old-age care. Most social services in the area of youth welfare (social assistance, youth welfare, child care) have remained the responsibility of local governments; in contrast, in the field of old-age care, the introduction of care insurance in 1995 centralized the governance arrangements. Instead of a system of decentralized bargaining between local governments and local providers, negotiations in the area of old-age care are now conducted at the regional level, implementing binding tariffs and fixed prices. Whereas quality measures have been implemented to a varying extent and manner in the local government-controlled field of youth welfare, quality assurance for old-age care has been centralized, standardized, and expanded, culminating in standardized “care scores” (*Pflegenoten*) in 2008. I will examine the effect first on the meso-level of the ensemble of service providers (field hybridity), second on the steering of welfare production (governance hybridity), and finally on the providing organizations (organizational hybridity).

Field Hybridity: The Transformation of the Playing Field

The conditions of social service production outlined above have significantly contributed to the fact that until the 1990s, the vast majority of services were provided by

nonprofit organizations, mainly those belonging to the big welfare associations (*Wohlfahrtsverbände*), through their own establishments.⁴ Outside of these organizations, public provision was common in the fields of both old-age care and youth welfare; only for old-age care did private-sector providers have a significant share of the market. From the perspective of field hybridity, the fields were marked by a mixture of a hierarchical logic of public provision and a logic of community-based provision according to the principle of subsidiarity. The market logic was replaced by an understanding of partnership between public subsidizing bodies and nonprofit organizations under the umbrella of the big welfare associations. This changed considerably with the introduction of quasimarket principles in both fields. However, the governance architecture in the two fields induced rather different outcomes with regard to the fields' provider structures.

Old-Age Care

Following the introduction of long-term care insurance in the mid-1990s, there has been a significant change in the provider structure for old-age care. With the abolishment of privileges for charity providers, private-sector organizations have become active in this newly established market for care. Drawing on data from the federal statistics on care from 2009 (Statistisches Bundesamt, 2011), it is evident that the majority of stationary care facilities (approximately 55%) are still in the hands of charities (cf. Table 2). Private-sector providers represent about 40% of facilities, and 5% are under public provision. Taking into account the total number of places provided, the continued importance of charity-provided places is clear. Of the 845,005 places total, 58% are charity provided, 36% are provided by the private sector, and 6% are publicly provided. In comparison, in 1999, charities held a market share of 63%, the private sector 26%, and the public sector 11% of care places.

The data show a considerable dynamism in the care sector, especially since the introduction of care insurance in 1995. Specifically, they demonstrate a shift toward private-sector provision in stationary care. Private-sector providers can be categorized according to size. There are many small providers; however, there is also a small number of corporate-like large enterprises that oversee several nursing homes and are sometimes even listed as corporations. This growth is even larger in the sector of outpatient old-age care. Here, we can observe an expansion of private-sector providers by 55%. Despite a growing clientele (up to 20%), charities have stagnated in this sector (up only 2.2%) (Schneiders, 2010).

Youth Welfare

The principal tasks in this welfare field are the operation of child care facilities (*Kindergarten*) and ambulant and stationary services assisting young people. Although there have been measures enacted to promote greater pluralism and market coordination in this sector as well, the actual effects on real-world welfare provision have been marginal. Measures such as the introduction of prospective service contracts and

Table 2. Types of Provider Between 1998 and 2010.

	Private Sector			Nonprofit Sector			Public Sector		
	1999	2005	2009	1999	2005	2009	1999	2005	2009
Care									
At nursing homes	34.9%	38.1%	39.9%	56.6%	55.1%	54.8%	8.5%	6.7%	5.4%
At home	35.6%	43.1%	47.0%	62.5%	55.1%	51.2%	1.9%	1.8%	1.8%
Youth welfare									
Youth services	3.0%	2.1%	2.7%	71.6%	72.8%	73.5%	25.3%	25.2%	23.8%
Child daycare centers	0.5%	1.0%	1.8%	54.7%	63.2%	64.4%	44.8%	35.8%	33.8%

Source. Statistisches Bundesamt Fachserie 13, Reihe 6.3, Einrichtungen und tätige Personen in der Jugendhilfe. Jg. 1998, 2, 2006, 2010; Statistisches Bundesamt, Pflegestatistik, Jg. 2001, 2007, 2011.

Note. Slight differences in reference periods are due to the availability of data.

service charges, the introduction of quality and service contracts in social law (§§78a-g SGB VIII), and the abolishment of privileges for charities have not changed the structures of service provision in any significant way (Grohs, 2010). An examination of the structures of provision in publicly financed measures reveals a surprising continuity over time, at least in western Germany (cf. Table 2).

Both in the domain of child care and in youth welfare, only marginal shifts in the share of the respective types of provision are observable. Despite important displacements in the portfolio of tasks (e.g., the expansion of services for children younger than 3 years and the substitution of stationary measures with outpatient measures), the old networks of charity-based providers have succeeded in maintaining traditional governance modes. A minor exception can be found in the relatively new segment of small-scale establishments for inpatient youth welfare, in which a number of private-sector providers have emerged (with a share of around 30% in 2006). Overall, we can observe only incremental change over the past 15 years. On the margins, welfare production has become more ambiguous, and new kinds of relationships have developed in certain regions, although these changes are far from being continuous shifts or representing a new paradigm. On the contrary, eastern Germany, where one might expect to find greater potential for substantial changes, is increasingly adapting its provision structures to western German standards, with even more of a “civic” mixture.

In contrast to old-age care and also to health care, actors from the private sector and social entrepreneurs play only a marginal role in the field of youth welfare, in which responsibility is still relatively localized. It is puzzling that this difference has arisen despite the implementation of formally similar instruments (see section 4) and changing orientations in the organizations themselves (see section 5). Real transformations in the welfare sector—as observed in old-age care and health care—seem to be possible only under external pressure and hierarchical implementation structures. The

established social infrastructure, at least in youth welfare and children's services, has not been contested by the local actors involved in the system. Alternatives are often lacking, and the informal rules governing entry and positions in the field remain in force: The corporatist intertwining between the welfare associations and the welfare administration remains strong (Grohs, 2010). Here, innovative strategies providing impetus for qualitative improvements clash with a system that often lacks clear quality standards. Public purchasers regard new players with considerable suspicion. Instead of pursuing an active quality policy, they often adhere to a kind of quality management by rumor, indicating a general orientation toward the reputation of the operating facilities rather than standardized instruments of quality management. Although several corporatist residua have been removed by law—for example, local approval has been abolished as a prerequisite for public allowances for care facilities—several discriminating provisions for private providers in other bodies of law (e.g., in the Child and Youth Care Act [SGB VIII]) still exist, regulating market entry and participation rights. In contrast, even though some corporatist remnants can still be found in the care sector (e.g., local care conferences with a dominant share of welfare associations), there has been a clear development toward a more market-driven mode of governance.

Governance Hybridity: The Transformation (or Adaption) of Steering Mechanisms

How can we explain the incomplete adoption of the new governance modes? To resolve this puzzle, one must more closely examine the governance mechanisms in the various fields. In old-age care, the care insurance system was able to implement relatively standardized mechanisms and enable the opening of the market; the contrasting findings in the area of youth welfare require further explanation.⁵ Service contracts are usually perceived as market instruments (Smith, 2005); however, the incremental adaptation in the field of youth welfare cannot be explained by the nonimplementation of these quasimarket instruments. According to a survey of local German youth departments, contracts are a fairly common instrument, with more than 67% of youth authorities working with contracts at least in some areas of service provision (Grohs, 2010). However, the effect of this contractualization has been the opposite of marketization, namely, the strengthening of the established welfare associations (see Figure 1). It is clear that contract management has been used to stabilize and further strengthen corporatist arrangements.⁶

Provider Structure

The use of service contracts according to market logic would imply a strengthening of competition and market mechanisms via tenders and comparisons by price and quality. A survey of local German governments, however, reported the use of "some" comparisons by price or quality in less than 50% of cases with applied contracts (Grohs, 2010, p. 192). For the most part, service contracts seem to be a simulation of market logic; the underlying principles are those of hierarchical administrative decision making and community-based reliance on trust.

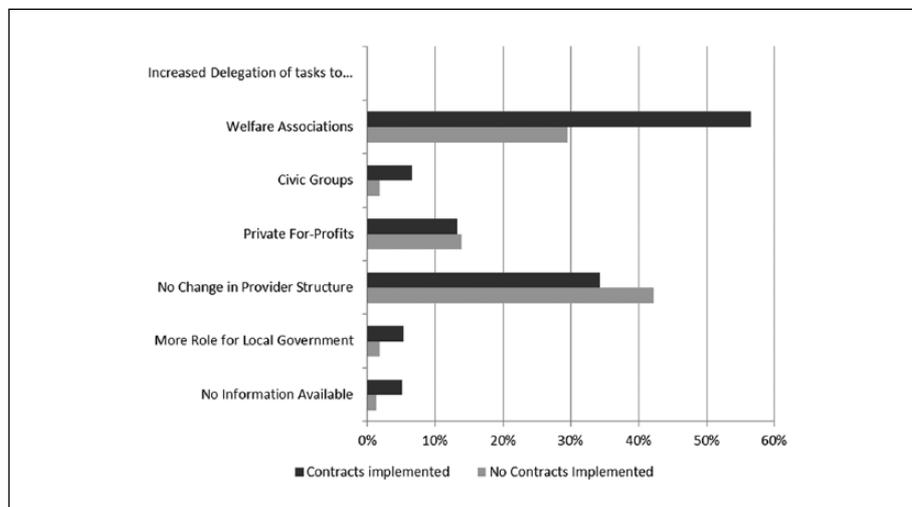


Figure 1. Delegation after contractualization.

Source. HBS-Project "10 Jahre NSM," Survey of Youth Authorities; $n = 241$, for details see Grohs 2010.

Summing up these findings for youth welfare, we find widespread implementation of new governance instruments such as NPM-inspired contract management and service contracts (in accordance with §§78a-g SGB VIII). Against policy makers' expectations and the evidence from the field of old-age care, though, the empirical effects run contrary to the underlying market logic: In the vast majority of local welfare arrangements, there has been no change on the side of providers and no introduction of market logic into the usage of contracts. Although we find evidence of the establishment of new rules of the game, the players and the actual game remain the same (cf. Grohs, 2010; Merchel, 2006; Zimmer, 2007).

From a hybridity perspective, the market logic here is subverted by the logics of hierarchy and especially trust. There is a considerable variance between local welfare systems in the application of these strategies. In case studies, four principal logics can be identified: adaptation, coping, subversion, and maintaining (Grohs, 2010). Without going into detail, three main variables can explain these different paths. First, the pressure from key local government actors (*zentrale Steuerungspolitiker*) (Banner, 1984) urging professionals in youth departments (*Fachbruderschaften*) to fill contracts using market logic varies according to their *will*. Second, whether these actors succeed in this ambition depends on their steering capacities (or *skill*). When they encounter strong corporatist structures, devolved authority (due to NPM reforms), or an executive officer strongly entangled with professionals at the street level, this steering capacity diminishes. Third, the degree of *professionalization* of street-level bureaucrats and the strength of their ties to local providers (usually to welfare associations or civic groups) can undermine the marketization effects of the reforms. If we compare these local

governance structures to the more effective (in the sense of marketization) reforms in old-age care or health care, the importance of the governance architecture for the degree of governance hybridity and the relevance of the respective governance modes becomes clear. The more centralized governance arrangements are and the more remote decision making is from local personal ties and networks, the more easily market logic can permeate the governance arrangements in quasimarkets. In addition, the social insurance programs in the areas of old-age care and health care are closely intertwined, and thus a “mimetic” transfer of governance ideas related to a care market was more readily accomplished. In the next section, I will explore some of the consequences of these shifts for the individual organizations.

Organizational Hybridity: The Transformation of Organizations

The empirical mapping of field hybridity in German welfare production and the reconstruction of the underlying mechanisms of hybrid governance would be incomplete without addressing the question of the consequences for the individual organizations. Due to their dominance in welfare production and their special relevance for the discussion of hybridity, the focus here will be on the welfare associations and their member organizations. These have been described as classical models of hybrids that combine a more or less community-based value orientation (“mission”), a state-oriented advocacy function, and a market-oriented logic of service provision, while also functioning as catalysts of civic engagement (Heinze & Schneiders, 2013).⁷ These multiple functions and rationalities have been incorporated into internal governance structures built around powerful voluntary governing bodies with lay decision makers and a professional management with limited discretion—often criticized for inefficiencies and organizational failure (Seibel, 1996). Even if the advancements in their field and in governance arrangements remained ambivalent, these organizations would face pressures to change resulting from external (quasimarket reforms) and internal (organizational failure) developments.

The hesitant move toward quasimarkets has driven these organizations to implement reforms that can be described as dehybridization, resulting in a clearer separation of their distinct roles, a strengthening of management in relation to their boards, and even the partitioning of organizations according to tasks, market segments, and profitability. This last development can be interpreted as an attempt to perpetuate the hybridity of the umbrella organizations by reducing the degree of hybridity of its parts. One important example is the social-democratic association Arbeiterwohlfahrt, whose recent reforms have almost completely separated the market-oriented part of the association from the voluntary part. Taking a closer look, we can find entrepreneurial and market-driven strategies in the voluntary sector of welfare associations as well as in the public sector.⁸ Increasing numbers of voluntary providers also have subsidiaries in private form, generally with the intent to circumvent the wage agreements of the welfare associations. However, not all private commercial providers are solely profit oriented. Especially among small and medium-size enterprises, we can find evidence of

many organizations that work on the basis of cost coverage. Thus, the legal form of an organization is becoming an empty signifier for its actual orientation and mode of action. The status as a voluntary (*frei-gemeinnützig*) organization no longer necessarily indicates an orientation toward the common good or any other goals with similarly positive connotations (cf. the contributions in Bundesarbeitsgemeinschaft der Freien Wohlfahrtspflege, 2010; Hopt, von Hippel, & Walz, 2005; and Wendt, 2010). Two examples are the CBT Cologne, a Catholic hybrid that describes itself as a social enterprise and includes numerous entrepreneurial elements, and the Stiftung Liebenau in Baden-Württemberg, a Catholic charity that also features corporate-like structures (Schmitz & Scheuerle, 2012).

These processes of fragmentation and dehybridization have some problematic consequences. For cross-cutting services that transcend established structures and processes (and that are codified by social law), such as new fields of action (niches), it is difficult to adequately construct structures of financing, since a high level of regulation exists along the pillars of the social legislation that is often congruent with the established structures of welfare production. Some of these obstacles had been overcome by cross-subsidies in the old framework. This possibility is no longer an option in the new fragmented configuration. There is frequently no clear public financing agency responsible for these new services; consequently, innovators are forced to lobby for funding. In addition, by focusing on the role of service provider, traditional roles as advocates and as “seismographs” of social change are diminished. Especially in value-driven organizations such as the Catholic “Caritas,” conflicts between boards, parent institutions (e.g., the Catholic church), and the newly professionalized management can arise, potentially culminating in discussions about secession from the larger association, as seen in the case of the Stiftung Liebenau.

Whether these tensions can be borne by the organizations remains an open question. As long as the welfare associations as umbrella organizations are able to provide incentives to their members, serve their economic interests, and provide additional legitimization (in their role as one of the “good guys”), this model can still be successful; this may explain why the degree of organizational hybridity of the umbrella organizations by far exceeds that of their member organizations. The evolution of this strategy of perpetuating hybridity in the welfare associations by means of the dehybridization of their member organizations is more advanced in fields such as old-age care, where the old hybrid mix of value orientation, political support, and professional service provision has seen a significant shift toward a market logic, weakening the other rationales. In the more highly decentralized arrangements of youth welfare, we find more heterogeneous patterns and organizational forms, depending heavily on local governance arrangements.

Conclusion

After almost 20 years of quasimarket reforms in the German social services, no clear-cut conclusions regarding their consequences for the character of the organizational field, its governance mechanisms, or its constituent organizations can be drawn.

Rather, we find heterogeneous patterns in the welfare mix, governance mechanisms, and organizational developments. In examining the fields of old-age care and youth services, two focal social services with very different governance architectures were analyzed. Both sectors have a strong tradition of third sector involvement in the provision of personal social services, and both sectors face rising numbers of clients and increasing costs. Resources in both fields remain stably provided by the public sector; the main difference can be seen in the regulation and governance structure of these services. Whereas the area of youth welfare is highly decentralized, old-age care has seen the centralization of governance mechanisms.

We find a plurality of service providers and relatively performance-driven management in old-age care, resulting in a considerable degree of dehybridization of organizations in this field. The trajectories in youth welfare remain rather heterogeneous, representing for the most part the continuity of corporatist arrangements in welfare production and the subversive undermining of market-creating governance instruments. Nevertheless, the organizations in this field also exhibit a tendency toward more market-oriented logics. One major reason for the differences between these sectors can be found in their divergent governance arrangements.

We are faced with the apparent paradox that both a strong hierarchical mode of governance and the clear separation of roles between purchasers and providers foster the development of quasimarkets. The growing market orientation clashes with service providers' traditional roles as advocates and promoters of voluntary action. This results in a certain dehybridization of member organizations, as they tend to (over)emphasize one specific logic and neglect other logics that were previously integrated into hybrid orientations. In more decentralized arrangements, this integration (or amalgamation) of the logics of market, hierarchy, and community continues to prevail. Whereas the welfare associations follow a strategy to maintain their hybridity (or multiple self) as mission-based actors, advocates, service providers, and catalysts of civic engagement by means of internal differentiation, member organizations in less market-driven sectors such as youth welfare are also urged to follow a strategy of dehybridization, that is, a shift toward a purer logic as market-oriented providers. Whether the resulting tension will foster a fragmentation of the sector is still unclear, as in-depth research on such organizations in Germany has yet to be conducted (for exceptions, see Dahme et al., 2005; Heinze & Schneiders, 2013; and Liebig, 2005).

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Notes

1. Both of these administrative architectures have specific advantages and disadvantages that are important for the effect of governance arrangements. The multipurpose model favors the coordination of specialized departments and the creation of uniform decision-making processes in administrations. There is also a widespread belief that the multipurpose model reinforces democratic control, since the shaping of a broad spectrum of policy functions can be influenced and controlled directly by citizens or their council representatives. More negatively, the multipurpose model is assumed to provide little scope for the development of specialized expertise within local administrations, and it can consequently lead to shortcomings in efficiency and effectiveness. The effects of the single-purpose model are believed to possess the inverse characteristics (see Ebinger, Grohs, & Reiter, 2011; Kuhlmann & Wollmann, 2011).
2. These welfare associations are the Catholic “Caritas,” the Protestant “Diakonisches Werk,” the Jewish “Zentralwohlfahrtsstelle der Juden in Deutschland,” the social-democratic “Arbeiterwohlfahrt,” the German Red Cross, and the secular “Paritätische Wohlfahrtsverband.” They are organized hierarchically, resembling the basic architecture of the German federal state. Together, their subsidiary organizations and institutions represent one of the largest employers in Germany, with almost 4 million employees and more than 100,000 establishments in the fields of social services and education (Bundesarbeitsgemeinschaft der Freien Wohlfahrtspflege, 2009).
3. According to the subsidiarity principle enshrined in all major social security acts, public bodies must refrain from providing services if there is a nonprofit organization performing the same function.
4. The argumentation in this paragraph draws on Grohs, Schneiders, and Heinze (2013), where more data are available.
5. This paragraph draws on Grohs (2010). The data originate from a research project on local government reform in Germany (*Zehn Jahre Neues Steuerungsmodell*) financed by the Hans Boeckler Foundation (Germany) and jointly conducted by the Universities of Konstanz and Bochum (Jörg Bogumil, Stephan Grohs, Anna K. Ohm, Sabine Kuhlmann; cf. Kuhlmann, Bogumil, & Grohs, 2008).
6. This finding corresponds with other German research (Heinze & Strünck, 2000; Zimmer, 2007) as well as international experiences, for example, in Switzerland (Rufin, 2006) and the United States (Beinecke, Goodman, & Lockhart, 1997; Johnson, Jenkinson, Kendall, Bradshaw, & Blackmore, 1998; Van Slyke, 2003). Rufin reports on Switzerland that contracts rely on established relations, trust, and stability, not on market-driven elements such as price, quality, and quantity (Rufin, 2006). Even in the market-friendly Anglo-Saxon world, privatization and contracting often occur without competition (Van Slyke, 2003): “There are several consistent findings across the empirical studies. . . . These include a lack of competition, administrative capacity on the part of both actors—public and nonprofit and performance measures” (p. 298).
7. For a more comprehensive analysis of diverse providers, see Grohs, Schneiders, and Heinze (2013).
8. The transformation of public bodies and the varying degrees of hybridity that can be found after two decades of new public management-inspired reforms cannot be addressed here. For empirical evidence and a discussion of the neo-Weberian state as a hybrid form of administrative governance, see Kuhlmann, Bogumil, and Grohs (2008).

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