Managing for social equity performance has long been a goal without much guidance for public managers. We examine social equity performance in the context of indirect governance through the administration of grant programs and, more specifically, the matching of policy responses (grant funding) to social needs. Grant program managers must allocate funding to match needs while also ensuring accountability, but common administrative models that rely on competition can undermine social equity performance. We develop a unique framework to analyze the relative social equity performance of four models of grant administration in general. These models are defined by whether competitions or formulas are used to select grantees and to allocate funding. We test the implications of the framework in an analysis of funding distributions from the nonentitlement Community Development Block Grant program in four states. Our findings suggest that social equity in grant programs is better served when grantors do not rely solely on competitive grant contracting in the selection and distribution of grant funds, which is typical in grant administration. However, policy makers and managers can design institutional arrangements that utilize competition, but in a manner that does not create a bias against more socially equitable funding decisions.

After decades of debate, there is a delicate consensus that social equity is an important value to pursue in public administration (Cooper 2004; Frederickson 1980, 1990, 1996). The consensus is delicate because social equity is a multifaceted concept with definitional foundations ranging from Rawlsian justice to Frederickson’s “compound theory of social equity” (1990). Yet complexity in defining the term does not completely explain why established managerial techniques, such as performance measurement, are not routinely applied to equity-based outputs and outcomes in public sector programs (Jennings 2005). Nor does definitional complexity fully explain why a variety of public management initiatives do not substantially enhance social equity performance (Levin 1998; Moser and Rubenstein 2002; Rinquist 2005). In short, while most may agree that social equity is important, much less is known about practical ways to manage for improved social equity performance.

In this article, we examine social equity performance in the context of indirect governance generally and the administration of grant programs specifically. We define social equity performance as the problem of matching a policy need (rooted in an underlying social need) with a policy response. This need–response aspect of social equity can create a tension between two imperatives: Allocating grant funding to match the needs of a target population may conflict with the aspiration to ensure accountability over the distribution of program funds. We show here that the common practice of competitive granting, used as a primary mechanism for ensuring accountability, can in fact hinder social equity performance. As governments increasingly contract out or use grants to separate provision and production (defining characteristics of indirect governance), a fundamental challenge for policy makers and public managers is to maintain accountability while at the same time ensuring social equity through the design of institutional arrangements that utilize competitive grant contracting without undermining policy need–policy response matching.

Therefore, in this article we develop a unique framework for identifying and analyzing those factors most relevant to social equity performance. We use this framework to develop testable hypotheses regarding the need–response matching dimension of social equity for outputs in the state government–administered element of the Community Development Block Grant (CDBG) program. Federal administration of the CDBG program has recently
been placed under significant scrutiny, with the chief criticism being that the highest areas of need are not adequately targeted for program funds. In short, the central critique is that there has been a failure in equity-based performance because of inadequate matching of policy need and program response.

The significance of the debate over CDBG program performance goes well beyond specific issues of the program itself. The CDBG program has both an entitlement and a nonentitlement element. The nonentitlement CDBG program relies heavily on a competitive granting process whereby states provide federal funds to local governments, which, in turn, deliver public goods and services to individual constituencies. Governance by granting is fundamental to modern public service delivery at all levels, and competitive granting has strong support (Beam and Conlan 2001; Cooper 2003). The prevalence of this administrative model in contemporary American governance prompts a fundamental question: Does competition for grants result in policy need–policy response matching that enhances social equity performance relative to alternative forms of grant administration? In turn, we translate that question to the specifics of the nonentitlement CDBG program: Do state-administered grant competitions succeed or fail in terms of equity-based performance by targeting funding to those local communities in greatest need of assistance? By addressing this latter question, our study provides direct insight into the former, more general question of the relationship between indirect governance and social equity performance.

Our analysis of nonentitlement CDBG program outputs demonstrates that grant competitions, structured in certain ways, can effectively moderate potential accountability bias against social equity in the allocation of grant funding. Our findings suggest that social equity should not be presumed and that grant programs should be scrutinized for pragmatic ways to improve social equity performance. Further, the framework of analysis we develop here can be applied to other grant programs to support such an assessment of how need–response matching occurs in governance by granting.

Social Equity Management in Grant Administration
Governments have long seen a benefit in separating financing from the delivery of public goods and services through contracting and granting relationships (Beam and Conlan 2001; Cooper 2003). Although federal grants to individuals are most common (American Council on Intergovernmental Relations 2000), there is substantial granting activity among governmental sectors and intersectoral granting between governments and nonprofits at the federal, state, and local levels. Public policies that authorize either governmental or intersectoral granting typically identify populations with objective needs and delegate service delivery to agencies that must match the policy response to underlying needs. Matching means that public managers must select grant recipients and allocate financial resources to organizations that deliver goods and services to a target population.

Yet this long-standing practice of indirect governance generates relatively little discourse about social equity despite the fundamentally allocative nature of grant programs. As granting creates networks of indirect governance across all boundaries of public administration, fairness, equity, and justice do not depreciate in value; instead, they appreciate because the core policy justifications for grant programs are often equity based—compensation for externalities, equalizing fiscal capacity, and promotion of equitable tax systems (Gamkhar 2005). Therefore, the growth of indirect governance through granting is all the more reason to move beyond questions of effectiveness and efficiency to what Frederickson calls the second question: “For whom is this program effective or good?” (2005, 36). Even effective and efficient grant programs may overlook social equity, and so it is not only necessary to ask this second question but also to develop pragmatic answers that improve social equity performance.

The normative challenge of managing for social equity is most evident in the distribution of grant funds. Regens and Rycroft (1986) call this substantive equity because it deals with the empirical distribution of benefits, an output, rather than procedural equity, which deals with how an agency interacts with constituents. A commonly used criterion for social equity in grant administration is a distribution of funding that is not biased for or against some class of potential grantees. Social equity performance is therefore a question of program management, where filtering out requests from applicants who do not serve a target population is a central concern. This basic criterion does not recognize a stronger normative criterion: that social equity entails the objective to equalize some situation by providing unequal outputs (funding) to obtain more equal outcomes (Cooper 2000). Thus, a stronger criterion for social equity suggests that granting decisions should result in a distribution that targets and concentrates funding to grantees that serve those with the greatest needs. This stronger criterion may be embedded in legislative intent, but the delegation of program administration can also afford such discretion to managers as well.

Contracting in Grant Administration
To exercise this delegation or discretion in pursuit of social equity, it is useful to think about grant administration as a contracting out process. Unless the grant is a pure income transfer, grant administration is similar to contracting out and thus presents similar
management challenges (Cooper 2003). Grantors make agreements that specify deliverables, time tables, and exchanges of resources (especially grant funding) and often define and dispute resolution mechanisms with grantees. Such grant contracting suggests that managing for social equity means resolving two critical issues concerning performance accountability and social equity.

One grant contracting issue is performance accountability, which can be compromised by agency problems. Performance accountability means that grantees use public funds efficiently, as intended, and with respect to the rights, safety, and well-being of intended beneficiaries (Dicke 2002). In short, performance accountability captures societal and political concerns about the efficiency and effectiveness of the implementation of grant projects. Information asymmetries entail agency problems in all forms of contracting out, and the same is true for grants (Romzek and Johnston 2005; Williamson 1997). Grantors may select grantees that lack the commitment or the capacity to implement a grant that is consistent with grantor expectations. Grantees may seek funding beyond the true costs of projects, or they may pursue projects other than those promised after they receive funding. Therefore, it is critically important for managers to avoid adverse selection and moral hazard problems by selecting the “right” recipients and monitoring postgrant performance. This possibility of implementation failure makes performance accountability a major and costly concern, as managers must bear significant search, negotiation, and monitoring costs to mitigate agency problems.

At the same time, managers must address social equity issues that arise in the allocation of funding among grant recipients. The allocation process is most commonly governed through formulas or project grants. Formula-based grant contracting allocates funding to all eligible recipients according to need indicators. In contrast, the funding for project grants is generally awarded through a competitive application process in which some eligible candidates will be excluded from funding and there is no mathematical mechanism to match policy need to policy response. If managers believe that these allocative institutions are equity neutral or if political pressures and norms associated with new public administration diminish the value of social equity relative to performance accountability, then we suspect the strong possibility of unintended outputs that undermine the key social equity objectives inherent in most grant programs (Box et al. 2001; Eikenberry and Kluver 2004; Spicer 2004). Such unintended consequences in grant contracting can ultimately be misinterpreted as programmatic failure rather than administrative deficiency, and thus put conceptually well-founded programs under intense budgetary and political scrutiny.

Therefore, it is important to further delineate administrative models of grant contracting with an eye toward managing for social equity performance. We create a typology of grant contracting models based on the selection and allocation decisions by formula and competition. This provides an analytic framework for assessing whether some administrative models are better configured to support social equity performance and to mitigate the unintended bias against need-response matching that can arise in competition-based grant administration.

A Framework for Analyzing Social Equity Management

The typology presented in table 1 demonstrates four modes of grant-contracting administration. Both formulas and competitions can be used for either recipient selection or funding allocation, but the configuration of these arrangements suggests comparative advantages and disadvantages in managing for social equity. The columns show whether managers use formulas or competitions to select grant recipients, and the rows show whether formulas or competitions are used in the allocation of funds. Each quadrant of the typology presents an ideal type of administrative practice that enables us to develop testable propositions about social equity management in light of pressures to use competition in support of performance accountability (again, by which we mean that grantees use program funds efficiently and as intended).

**Table 1 Institutional Arrangements for Grant Contracting**

<table>
<thead>
<tr>
<th>Allocating Funding</th>
<th>Selecting Recipients</th>
<th>Competition</th>
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<tr>
<td>Formula</td>
<td>Formula-Dominated</td>
<td>Competition</td>
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<tr>
<td>Competition</td>
<td>High Social Equity, Low Accountability</td>
<td>Moderate Social Equity, High Accountability</td>
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<td></td>
<td>Adverse Hybrid</td>
<td>Competition-Dominated</td>
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<td>Low Social Equity, Low Accountability</td>
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In formula-dominated grant contracting, grantees use reasonably valid and precise operational definitions of eligibility and of need to construct formulas that are used to select recipients and to allocate grant funding.

A competition-dominated model ostensibly should demonstrate relatively higher levels of performance accountability than formula-dominated models. In theory, market-like competitions with zero transaction costs should force grant contract applicants to reveal information that mitigates agency problems (Coase 1937; Eggertsson 1990; Williamson 1987). Under these conditions, competitors must carefully consider proposed costs because grantees can evaluate costs in a comparative context. Applicants must also credibly commit to fulfilling the objectives of a grantor, which typically entails a demonstration of both the intent and capacity to deliver projects consistent with the grantor objectives. Once again, the competitive context provides a theoretical means of evaluating grantees and screening those unlikely to perform at an acceptable level. Empirical support for this theory is most prevalent in the local government contracting literature (Brown and Potoski 2003a, 2003b, 2003c); yet it is important to note that an arena of competition is not equivalent to high levels of performance accountability (Brown and Potoski 2004; Laverty 1999; Romzek and Johnston 2005; Van Slyke 2003). Smith and Smyth (1996) show evidence that granting from the federal to local governments does not enhance performance accountability because local competition is insufficient to obtain gains in performance or cost savings. Nevertheless, political and professional pressures regarding performance accountability have made competition-dominated contract management a norm (Cooper 2003).

Even if this approach enhances performance accountability, competition-dominated grant contracting very well might produce relatively lower levels of social equity than formula-dominated models. That is because transaction costs on the part of both grantees and applicants in competitive grant contracting (information searches, contract arrangement issues, compliance reporting and monitoring, etc.) are likely to result in allocations strongly influenced by the administrative capacity of competitors rather than need. Potential grantees with greater administrative capacity can credibly propose more complex projects with larger budgets regardless of relative need factors. Such proposals are likely to attract more grant funding, for two reasons. First, grantees can use the professionalism and complexity of proposals as a heuristic to reduce search costs associated with screening out applicants with the highest risk of failure, that is, those that lack the administrative capacity to implement a grant project. Second, grantees have incentives to allocate funding to larger proposals because this reduces monitoring costs by

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reducing the number of grant contracts. As needs are not likely to be commensurate with administrative capacity, need–response matching is likely to be biased against some applicants (Lorenz 1982). For example, Eikenberry and Kluver (2004) show that private sector organizations are able to attract contracts better than nonprofits because of differences in administrative capacity and other factors. Vita and Twombly (2005) also show that donors target funding to larger nonprofits in a manner that skews the fund-raising market. As a result, similar disadvantages also can be expected in grant programs.

**Alternative Models**

Other institutional configurations suggest two models that can adversely affect the pursuit of both social equity and performance accountability or moderate the apparent trade-off between social equity performance and performance accountability. First, the **moderating hybrid** model has characteristics of a formula approach and also takes advantage of the information-rich environment of competitions to enhance performance accountability by mitigating agency problems. Yet social equity performance is expected to be relatively better than that of the competition-dominated model because formulas that target funding to needs at some level should at least constrain any allocative bias toward administrative capacity as theorized to exist in competitive arenas. Examples discussed later include Texas’s and Utah’s administration of the nonentitlement CDBG program. Other examples include the Texas Regional Solid Waste Grants Program, which allocates funding by formula to regional governments, which then conduct competitions to allocate funds to local governments within the region. It should be noted that the role of the regional government in these and most cases is administrative: acting as the state government’s agent in the evaluation of proposals and distribution of funds. Yet there are few, if any, formal mechanisms of accountability between the state and regional governments.

Finally, the **adverse hybrid** is a model that results in relatively low levels of social equity performance and performance accountability. Under this configuration, the relative strengths of formulas and competitions are mismatched. Formula-based selection creates a universe of grant recipients that are entitled to funding. This process lacks mechanisms to screen out potential agency problems and does not induce grantees to reveal information about their commitment or capability to implement grantor objectives. In addition, the theorized allocative bias associated with competitions should result in relatively ineffective targeting of funding and thus lower levels of social equity among a universe of grantees likely to pose agency problems. This model is very unusual for programs that grant funds to organizations but can be seen in student loan subsidies. Financial aid formulas identify the universe of eligible students, and students compete for access to loans, but defaults are a consistent problem.

**Comparative Propositions**

A comparison of the two predominant forms of grant administration suggests a key testable proposition related to managing for social equity: Formula-dominated grant administration should generate relatively higher levels of social equity performance than competition-dominated grant contracting. Formulas that select recipients and allocate funding according to indicators of need should target funding more effectively than competition-dominated administration, which is skewed by administrative capacity considerations related to performance accountability. This comparison suggests that the use of formulas and competitions presents an inherent trade-off between social equity and performance accountability, but we should be cautious in this interpretation.

The additional administrative models suggest that administrative models can use both formulas and competitions to support social equity and performance accountability. The competition-dominant and moderating hybrid models are examples of competition-based grant contracting, but their underlying institutional arrangements should have different effects on social equity performance. In particular, the competition-dominated model should have comparatively lower levels of social equity performance than the moderating hybrid. The moderating hybrid model allows for the use of grant competitions to support accountability but presents an opportunity for enhancing social equity performance relative to a competition-dominated model.  

Therefore, the challenge of promoting social equity performance lies in developing administrative models that support both social equity and performance accountability through a norm of competition-based models. Consequently, sole reliance on formulas or competitions may create the perception of an inherent trade-off between social equity and accountability, but hybrid models suggest alternatives that support social equity performance without forgoing the norm of competitive granting.

We use this framework to derive and to test hypotheses about the state-administered nonentitlement CDBG program. This empirical context enables us to compare the two most theoretically interesting and substantively important models: competition-dominated and moderating hybrids. Only one state even approaches the use of formula-dominated administration in the state government administered CDBG program, which is indicative of the emphasis on competition in indirect governance.
Social Equity in State-Administered CDBG Programs

The history of the CDBG legislation and administration demonstrate the intent to use federal funding for the benefit of low- and moderate-income (LMI) populations by granting federal funds to local governments. The Housing and Community Development Act of 1974 merged seven categorical federal grants into a single block grant, designated the CDBG program, which was originally under the administrative jurisdiction of the Department of Housing and Urban Development (HUD). In the “entitlement” portion of the program, cities and counties with populations of at least 50,000 and 200,000, respectively, receive a formula-allocated grant from HUD each year. Originally, HUD also administered a competition-dominated program for the smaller “nonentitlement” cities and counties, but after the 1981 amendments, almost every state assumed administrative control through a federal block grant. The legislative mandate for the program has always required that all projects meet at least one of the following criteria: benefit LMI persons, prevent or eliminate slums or blight, or meet urgent community needs. These three criteria have been constants, but the LMI criterion has been paramount in practice, although the types of projects have changed under state political pressures (Anonymous 1999; Brown and Daniels 1988; Brown and Felbinger 1989; Dommel 1980a, 1980b; Ervin 1985; Gies, Gabris, and Krane 1980; Hale and Palley 1981; Herzik and Pelissero 1986; Krane 1987; Morgan and England 1984).

A 2005 Government Accountability Office (GAO) report raised questions about social equity performance in HUD’s management of the entitlement portion of the CDBG program (Posner 2005). According to the GAO, there is an expectation that CDBG funds will be allocated to local jurisdictions with greater needs (i.e., a strong criterion for social equity). The George W. Bush administration criticized HUD’s administration of the entitlement program, state program managers rely heavily on competitive grant contracting to manage the nonentitlement program. State agencies essentially use federal funds to contract out the delivery of local public goods and services primarily designed to benefit local LMI populations. Agencies select local governments that implement projects in compliance with federal mandates and allocate funding among grantees. Administrators are concerned about local governments that may be unable or unwilling to deliver the projects specified in the grant contract. Consequently, state managers closely monitor grant contracts to avoid federal penalties for noncompliance.

Prior research does not indicate a high level of social equity performance in state-administered programs. Fossett (1987) concludes that there is no substantial difference between HUD’s original nonentitlement administration and early periods of state administration. This finding makes sense in light of our framework because both pre-1981 HUD and post-1981 state administration use some form of competitive grant contracting. Isserman (1981) found that need was generally ignored in HUD’s administration, and Watson’s (1992, 1993) studies of Oklahoma suggest that state administration may be targeting median income populations to the exclusion of poor communities. These findings are consistent with the proposition that reliance on grant competitions may bias outputs toward greater administrative capacity. In sum, previous literature is consistent with our more general framework for analyzing social equity performance.

The recent debate about the CDBG program suggests a case-specific definition for social equity performance that provides a starting point for a comparative analysis. The need targeted by the “nonentitlement” CDBG program is LMI persons in cities of fewer than 50,000 persons and counties of fewer than 200,000 persons. State administrators have wide discretion in selecting grantees and allocating funding, but socially equitable need–response matching suggests that funding should match variation in need so that jurisdictions with the greatest needs receive funding according to a strong criterion of social equity. Thus, we define need in terms of the concentration of LMI populations within local jurisdictions. Jurisdictions with higher concentrations of LMI populations show greater need relative to jurisdictions with a lower LMI population concentration, which is consistent with the GAO report (Posner 2005). As a baseline, therefore, we can test whether funding to jurisdictions is a positive function of LMI population concentrations, all else being equal. If
so, state-administered CDBG programs are matching funding to needs, and thus managing for social equity performance.

In practice, state managers use either competition-dominated or moderating hybrid models. In the competition-dominated states, local jurisdictions must compete against all other jurisdictions to obtain grants. Other states combine grant competitions with formulas to match funds to populations of need. In constructing moderating hybrid models, state agencies generally define regional arenas of competition and then use need-based formulas to dedicate a portion of the state’s funding to local jurisdictions within the region. Then, states use competition-based grant contracting to allocate funding to specific local jurisdictions within each region. According to our framework, a higher level of social equity performance should exist in states with moderating hybrid models than in states using competition-dominated models. Therefore, the relationship between local concentrations of LMI populations and funding should be contingent on whether states use a moderating hybrid or competition-dominated model. More specifically, we expect that the association between LMI population concentration and per capita funding in moderating hybrid states will be greater than the association in competition-dominated states. A corollary proposition about administrative capacity can also be tested. If states are essentially substituting capacity heuristics for need indicators when using some form of competitive grant contracting, then an increase in administrative capacity should be associated with an increase in per capita funding, all else being equal. This indicates that agencies are attempting to reduce the transaction costs by concentrating funding according to capacity.

Data and Methods
To test the hypotheses derived above, we follow others in this area who use counties as a unit of analysis (Fossett 1987; Warner 2001). Counties in this context describe a local jurisdiction that may include several governments. Therefore, much like the Census Bureau’s aggregation of state and local data, we aggregate data into a single county observation. Particular features of a local government represent a shortcoming of this approach, but consistently accessible and comparable data outweigh these concerns. Using either municipalities only or counties only excludes important information, and so our approach includes both program constituencies in a single unit of analysis.

We collect data about nonentitlement funding and other covariates from all nonfrontier counties in California, Kentucky, Texas, and Utah for the years 1999–2001. These four states vary by population, geography, level of block grant funding, and administrative models. California and Kentucky are best described as states using competition-dominated models because both states use competitions to select and to allocate funding. In contrast, Texas and Utah use moderating hybrid models in which funding is first allocated on a need basis to regional governments and then local jurisdictions compete for that pool of funding. Examining these four states enables us to conduct a comparative analysis of the grant administration models most relevant to the CDBG program and common to other grant programs.

The dependent variable in this analysis is the total nonentitlement funding per 1,000 LMI population within a county across the period 1999–2001. All funding awarded to any general-purpose government within a county is aggregated for this indicator. The number of persons at or below 200 percent of the poverty level according to the 2000 Census constitutes a county’s LMI population. There is no standard definition for LMI populations, but this is a common definition in state and federal programs, and using lower income levels does not capture the “moderate” component in the enabling legislation. We aggregate the funding levels across all three years of the sample to ensure that all localities have an opportunity to participate in grant competitions. It is common for localities to obtain a small planning grant in one year and use that to obtain a larger project grant in the subsequent year. Such fluctuations in funding levels over a short time period would introduce too much noise into a cross-sectional (N = 390 x T ) dominant pooled cross-sectional time-series model with many explanatory variables, such as demographics, that do not vary across time. Consequently, there is not much leverage gained by using yearly observations of funding, and we aggregate across a short time period in a manner consistent with other studies of grant funding (Bickers and Stein 2004).

This dependent variable is normally distributed, which justifies the use of linear estimation model. However, modeling this dependent variable is problematic because we can only observe funding levels for those counties receiving grants. We could include all nonfunded jurisdictions in the analysis, but this makes an unwarranted assumption that the errors associated with the funding and selection process are uncorrelated. Other research suggests that the selection process of a grant competition produces a biased sample (Collins and Gerber 2006). Therefore, it is appropriate to model the selection bias associated with whether governments in a county obtain grants and then use that information to model funding levels. We use a multiple likelihood estimator Heckman selection model to address the complications of selection bias in modeling the level of grant funding (Greene 2000; Heckman 1979). The approach first uses a probit model to estimate the likelihood that a county receives any nonentitlement grant (selection equation) and then uses that information and variation in other
indicators in an allocation equation to estimate grant funding (allocation model). Model specifications differ for theoretical reasons as well as the necessity to avoid identification problems. Because the focus of this article is substantive social equity performance, we will first describe the variables used to explain variance in funding. We summarize variables used to specify the selection equation, but other research contains a more detailed analysis (Collins and Gerber 2006).

**Allocation Equation Variables**

The baseline proposition of interest is whether there is a positive association between LMI population concentration and funding levels. In this case, social equity performance requires states to target more funding to areas with greater need. The primary need indicator for this study is the concentration of LMI persons within a county. We use the number of LMI persons per 1,000 population in a county to indicate need. The number of persons at or below 200 percent of the poverty level is counted as LMI persons. Higher concentrations of LMI populations indicate a greater need for funding, and an increase in LMI concentration should be positively associated with the level of per capita funding. In other words, counties with higher concentrations of LMI populations should receive more funding per LMI person than counties with lower concentrations of LMI populations.

To make the institutional comparison of competition-dominated and moderating hybrid models, we use dummy variables and interactions with LMI concentrations. One component of the interaction term is a dummy variable coded 1 for counties in Texas or Utah, the two states using a moderating hybrid model. California and Kentucky were coded 0 because they use competition-based grant contracting. The other component is the baseline indicator of need, which is the number of LMI persons per 1,000 county population. Once the interaction term is unpacked, we can determine whether the association between LMI concentration and funding is contingent upon the administrative model. Our expectation is that the association between LMI concentration and funding is greater (more positive) in moderating hybrid states than in competition-dominated states.

The hypothesized relationship between administrative capacity and funding is the second proposition to be examined. It is difficult to directly measure administrative capacity, but we use a proxy that is the number of financial administrators and other government administrators for every 1,000 county residents as reported in the 2002 Census of Governments. This proxy measurement taps the core concept of the capacity to compete for and to manage grant contracts, but it does not capture all dimensions of capacity such as available technology. Yet this indicator enables us to use comparable data across almost 400 units in four states. We suggest that an increase in the ratio is a proxy for greater administrative capacity. Therefore, an increase in the ratio should be associated with higher funding levels.

We also include variables to address three potentially confounding factors in the analysis. First, we want to control for wealth effects that could confound the relationship between our explanatory variables and funding. Wealthier jurisdictions are likely to have greater administrative capacity, but they are also likely to have smaller LMI populations. Even if these jurisdictions can leverage their capacity advantage, they simply may not request as much funding as less wealthy jurisdictions with similar LMI populations. Therefore, we aggregate the per capita tax revenues for all governments within a county to control for the demand for grants.

The second factor is the possibility that there are multiple grants simultaneously serving the same LMI populations. In other words, a county government could obtain a grant that serves the LMI population of the entire county, while small municipalities are each seeking and obtaining grants that target subsets of the county’s LMI population. Jurisdictions with multiple projects are likely to be associated with greater per capita funding levels that would not track needs according to our definition. Therefore, we include a variable that is the number of grants awarded to a county as a percentage of grants awarded statewide.

The final set of factors is associated with structural constraints that are designed to target funding toward specific types of projects. For example, HUD has mandated that states set aside funds for significant LMI populations near the border of Mexico. We control for the percentage of the county population that is Hispanic as a proxy to control for these federal provisions, which are likely to affect funding levels in Texas and California. Other state programs target funds toward housing needs, economic development, or infrastructure projects as a means of benefiting LMI populations (Brown and Daniels 1988; Brown and Felbinger 1989; Dommel 1980a; Ervin 1985; Hawkins 1999; Herzik and Pelissero 1986). Therefore, state-administered CDBG programs may be targeted to objectives that fragment the federal block grant into several programs by objective. To control for this structural constraint, we calculate a fragmentation score for each state’s program and assign that score to all counties within each state. The fragmentation score is based on a Herfindahl index, which is normally used to indicate the fragmentation of market share in antitrust cases. In this context, we use the same calculations to determine the extent to which a state has mandated that shares of the nonentitlement program are dedicated to specific programmatic targets. We
calculate this score as the sum of squares of the percentage shares held by each programmatic target in the state’s program. For example, if a state has two programmatic objectives with 70 percent of funding dedicated to infrastructure and 30 percent dedicated to economic development, the score would be 5,800. A more fragmented program with 40 percent dedicated to infrastructure, 30 percent to housing, and 30 percent to economic development would have a score of 2,500. A completely unified program would have a score of 10,000. If state administrators effectively match funding to needs by fragmenting the federal block grant, then a decrease in this score should be associated with increased funding. Table 2 presents summary statistics for variables in the allocation equation.

**Selection Equation Variables**

The specification of a selection equation that models which counties are excluded from grant funding is discussed thoroughly in other research (Collins and Gerber 2006), but we briefly outline key indicators used to model selection bias. There are several variables that overlap the selection and allocation equations. In particular, we include administrative capacity, LMI population per 1,000 county residents, Hispanic population, and tax revenue per capita. We also include the interaction of regional arenas of competition and administrative capacity that improve access to grants for counties with less administrative capacity (Collins and Gerber 2006). Other demographic indicators from the 2000 Census are also included: percentage of home ownership, percentage of African American population, and a dummy variable coded 1 for metropolitan counties. The number of eligible general purpose governments within each county also controls for the possible number of grant applications from a county.

**Findings**

Table 3 provides the findings from three models that correct for selection bias. The baseline model shows the association between LMI populations without other key explanatory variables. The coefficient for LMI population concentrations is positive but not statistically significant. The second model adds the administrative capacity variable, but LMI concentration is not sensitive to this addition. However, an increase in administrative capacity is statistically significant and positively associated with funding as hypothesized. Accordingly, there is preliminary evidence that the states in the sample seem to target funding on the basis of administrative capacity more than need.

However, results from the third model offer support for the contention that states using moderating hybrid administration provide higher levels of social equity performance. This model includes the administrative model dummy variable and its interaction with the LMI population indicator. This specification enables us to determine how the administrative model affects the relationship between LMI and funding. The administrative model variable and interaction term are statistically significant, and the block coefficient test for this specification provides $\chi^2 (df = 3) = 244.65$ with a $p$ value < .001. To more fully explain the substantive import of this specification, we calculate the contingent coefficients and standard errors for the LMI variable (Brambor, Clark, and Golder 2006; Friedrich 1982; Hamman 2004). In states using competition-dominated administration, the coefficient for LMI population is $-22.76$ with a standard error of $35.34$, which means that at conventional standards, we cannot reject the null hypothesis that the LMI coefficient is equal to zero, and thus we find no relationship between LMI and funding in the competition-dominated states. Alternatively, the LMI coefficient is $133.95$ with a standard error of $60.72$ ($p = .03$) for states using the hybrid model, which suggests that hybrid states target more funding to higher concentrations of LMI populations. In sum, the difference in these contingent LMI coefficients suggests that the administrative model strongly influences social equity performance. In the competition-dominated states, there is no statistically significant relationship between the need indicator and funding levels, but moderating hybrid states increase funding as need increases. In addition, administrative capacity still demonstrates a statistically significant positive association with funding, even while controlling for administrative models.

**Discussion**

These findings have limitations, but this analysis of state-administered CDBG programs also suggests important implications about managing for social equity in grant administration more broadly. First, the empirical findings must be considered within their...
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Limitations. This analysis does not include all 50 states, but there is substantively important variance in the size and geography of states in the sample. Moreover, the number and characteristics of counties reflect a wide variety of conditions and circumstances. The comparison of models across the states focused only on moderating-hybrid and competition-based models, which are the most utilized in practice, and so we limit our discussion to these models. It is also important to recognize what these results do not state. States using the competition-dominated model are not failing to allocate funds to benefit LMI populations, but the distribution of those funds across all recipients does not result in a strong social equity criterion because the LMI parameter is not statistically significant in the interaction model. States using a moderating hybrid approach show support for the strong criterion. With these limitations in mind, our findings have three important implications about managing for social equity performance.

First, granting for social equity performance is a managerial challenge even when there are easily measurable indicators of need, such as LMI population or other indicators from education, health care, and other social policy areas. Once administrators move beyond pure formulas and design arenas of competition for grant contracting, social equity performance becomes a distinctly managerial issue. In this case, our analysis suggests that LMI population is not even a factor in funding allocations until we account for the state’s administrative model. Even then, an easily measurable need has no statistically significant impact on funding allocations in states with a competition-dominated management model. The impact of need on funding levels only is observed in states with a moderating hybrid model, and these states demonstrate a relatively higher level of social equity performance. This observation raises more concerns about the role of competition in governance by granting, however.

The second implication of our analysis is that competitive grant contracting creates incentives that may hinder a manager’s pursuit of more socially equitable outcomes, but it does not preclude a more socially equitable matching of funds to needs. Because some form of competition exists in both administrative models in our analysis, it is not surprising that the administrative capacity of local jurisdictions is a consistent driver of funding allocations. Managers who seek to reduce potential agency problems through grant competitions (of any type) have incentives to reward organizations that invest in administration rather than closely matching funding to needs in a socially equitable manner. Consequently, jurisdictions with great needs but little capacity are likely to suffer funding disadvantages.

This dilemma highlights the necessity of having effective controls on competition-based models of grant administration in any issue area or form (federal block grants, state block grants, etc.).
grant, intergovernmental, nonprofit). As a practical matter, the use of competition in grant programs will continue for both political and administrative reasons, and so the critical question is whether competition be managed to enhance social equity performance. As a theoretical proposition, all competitions or markets are human artifacts with rules, norms, and other institutional foundations. Managers can use their discretion to create mechanisms that mitigate unintended bias against social equity. In our analysis, the moderating hybrid model is an example. Competition in grant programs does not necessarily entail the entire forfeiture of social equity. The hybrid LMI allocation equation in table 2 show results that states who use formulas to target funding at needs before inducing competition among potential grantees are able to improve social equity outputs relative to competition-dominated states. This model is by no means the only approach to designing competitions, but it is instructive.

Other issue areas and types of granting relationships should and can be explored using our framework, but it is important to remember that there are many tools such as performance measurement or even user fees that can be used to manage for social equity (Bailey 1994; Jennings 2005). And, fundamental changes in values that can be actualized through more representative bureaucracy (Andrews, Boyne, and Meier 2005; Meier, Wrinkle, and Polinard 1999) and more open-ended, participatory governance (Frederickson 1996; Regens and Rycroft 1986; White and Gates 1974) are needed.

Conclusion
We conclude that governance by granting must recognize that the institutional design of grant contracting and competitions affects social equity performance. Practitioners and scholars are increasingly focused on the challenges of managing complex networks of organizations that provide and produce public goods and services, but such challenges rarely include explicit consideration of social equity performance. We have highlighted that the institutional arrangements governing grant competitions can support or hinder social equity performance. Competition undoubtedly has benefits in many contexts, but our findings suggest that grant contracting is problematic when social equity performance is a salient administrative or policy goal. Flaws are not fatal, however. Managers can design institutional arrangements that balance social equity performance and accountability in state-administered CDBG programs and many other grant programs that underscore our increasing reliance on indirect governance.

Notes
1. The George W. Bush administration’s 2006 budget request criticized the Department of Housing and Urban Development for ineffectively targeting high-need local jurisdictions when distributing CDBG program funds. That criticism has been echoed by the Government Accountability Office, which found that the CDBG program fails to allocate funding to local jurisdictions with the greatest need (Posner 2005). Questioning how equitably CDBG funds are targeted is not an esoteric exercise: The Bush administration proposal essentially eliminates the program by collapsing 18 federal grant programs, including the CDBG program, into a single block grant administered through the Department of Commerce.
2. Social equity outputs could also be considered under the rubric of accountability, but we are focusing more on the actual delivery of services, with particular attention to the efficiency and effectiveness of implementing projects funded by grants. Our concern with social equity is thus more about the overall grant program rather than about specific projects that could be funded by a grant program.
3. This is not to say that formula-dominated or competition-dominated grant contracting does not have accountability controls. There are numerous methods of accountability that can be combined with each of these ideal types. These include stewardship theories (Dicke 2002) to performance measurement (Moynhan and Ingraham 2003) to legal and political theories (Kearns 1994; Klingner, Nalbandian, and Romzek 2002; Mayer and Khademian 1996; Romzek and Dubnick 1987). However, the dominant approaches are formulas and competitions, and managers have little discretion over legal and judicial accountability constraints. Thus, we limit our analysis to these two areas in which managerial discretion is mostly likely to be efficacious.
4. Social equity performance in the adverse hybrid should be comparably lower than formula-dominated or the moderating hybrid, but this model would not be preferable to the competition-dominated model because of performance accountability concerns.
5. Frontier counties are excluded because the extremely low population density there suggests that the demand for public goods and services is so low that they are simply not comparable to typical counties. Observations are from Texas (n = 191), Kentucky (n = 120), California (n = 51), and Utah (n = 28). About 10 percent of the Texas funding is excluded from the analysis because it is administered as a competition-dominated program through a cooperative agreement between two state agencies. A full discussion of the Texas administrative model explains this arrangement in detail (Collins and Gerber 2002). There were
References


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ASPA's 2009 Annual Conference will be held March 20-24 in Miami, Florida at the Hyatt Regency Miami. The conference will explore and develop innovative practices for public administration to address the growing diversity of communities around the country.

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